# Interim Report

Six months ended
31 December 2019

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Mercer Group Limited (MGL) delivers on its strategy of automation-led growth.

# MERCER GROUP

OVERVIEW FOR THE SIX MONTHS
TO 31 DECEMBER 2019

**Highlights of the six-month period to 31 December 2019 included:**

55%
$27,900,000

55% increase in Group revenue to $27.9m compared to the comparative six month period.

76%
Automation revenue

Automation revenue was 76% of Group revenue, in line with the stated strategy to grow that side of the business.

EBITDA increased 82% to $1.1m, compared with the comparative six month period.

82%
$1,100,000

176%
$447,000

Net profit increased 176% to $447,000.

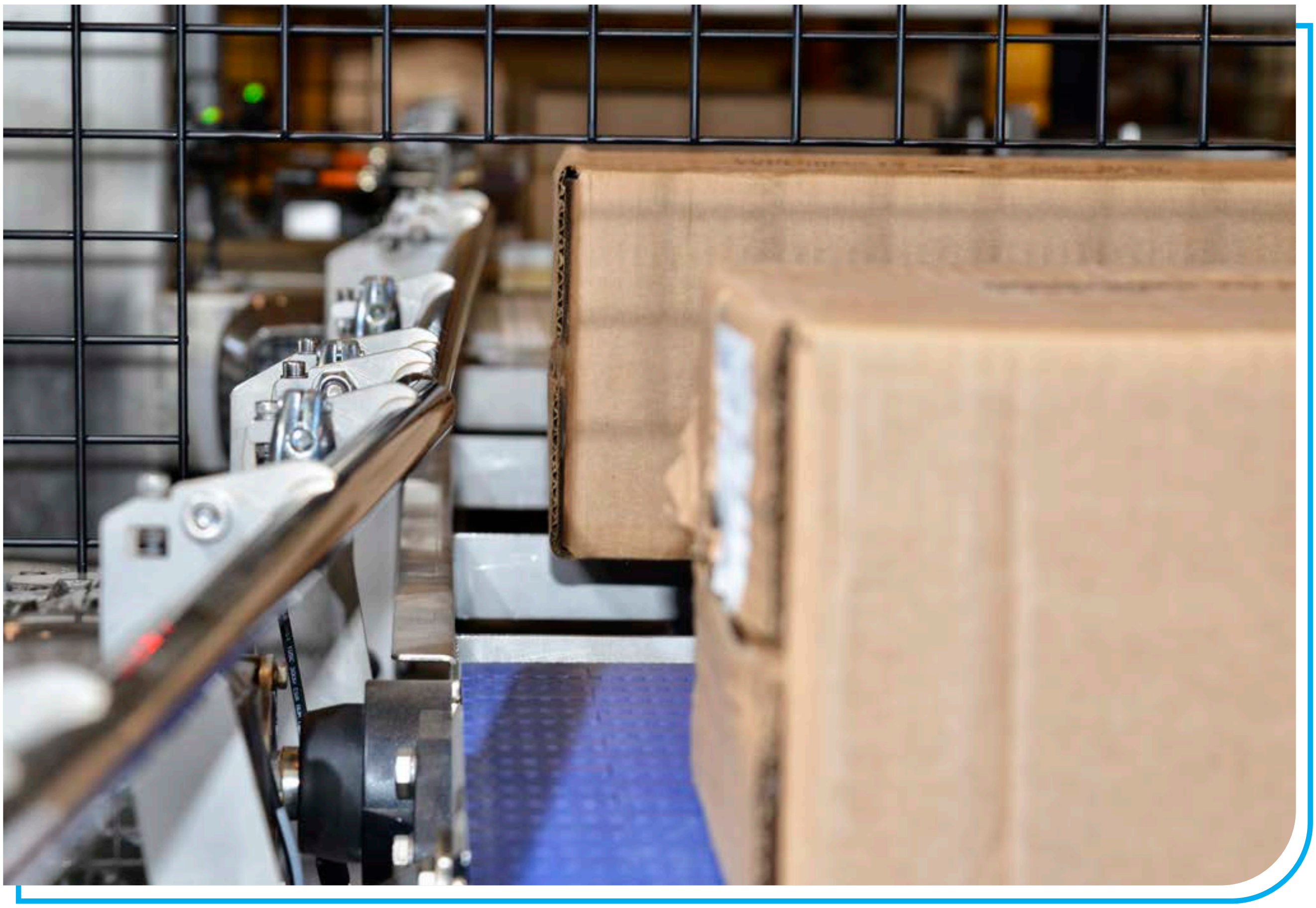
$467,000

Net debt reduced by $467,000 from 30 June 2019, due to a strong cash position.

NEW CHAIRMAN

Appointment of new Chairman Trevor Burt.

| In Thousands of New Zealand Dollars | 31 Dec 2019 | 31 Dec 2018 | % |
|---|---|---|---|
| **Automation** | | | |
| H&C | 10,482 | 9,339 | 12 |
| Milmeq | 10,761 | - | - |
| **Total Income Revenue** | **21,243** | **9,339** | **127** |
| Fabrication | 6,603 | 8,667 | -24 |
| **Group Revenue** | **27,864** | **18,025** | **55** |
| **Group EBITDA** | **1,087** | **596** | **82** |
| Net surplus before tax and finance costs | 951 | 419 | 127 |
| **Group after tax profit** | **447** | **162** | **176** |
| Net debt (comparative period 30 June 2019) | 2215 | 2682 | 17 |
| Finance costs (secured loans) | 162 | 203 | 20 |



# FINANCIAL PERFORMANCE

MERCER GROUP GENERATED REVENUES OF $27.9 MILLION FOR THE SIX MONTHS TO 31 DECEMBER 2019.

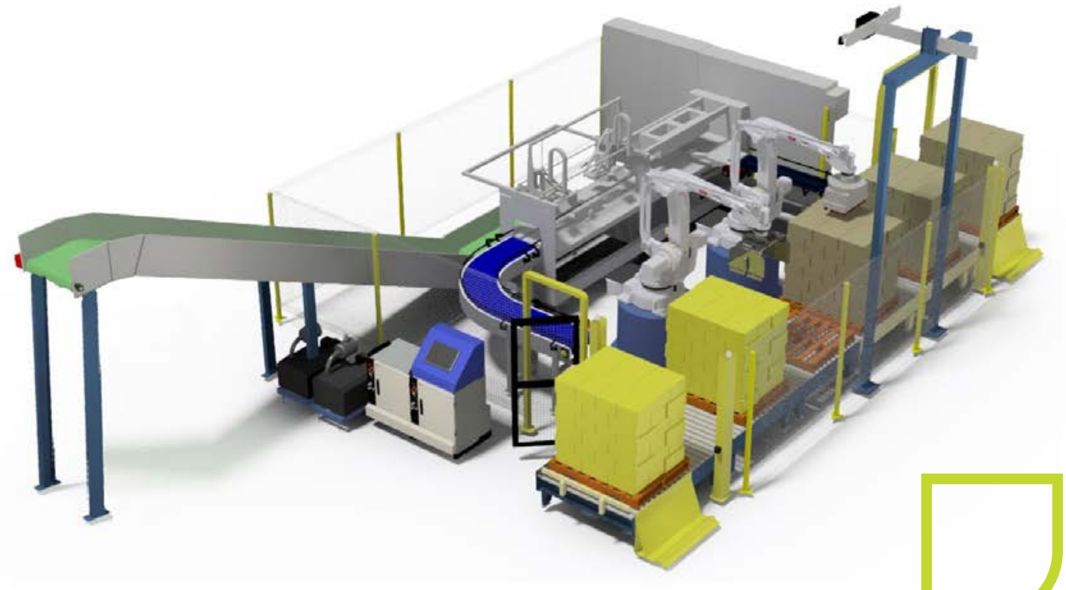
This was driven by the performance from the automation side of the business on two fronts. The H&C Automated Solutions business increased revenues 12% to $10.5m, while the newly acquired Milmeq business generated $10.8m in revenue. It has been the stated strategy of the Group to transition into an automation-led future. We are pleased that our automation businesses have generated 76% of the Group's revenue.

Mercer Stainless revenues reduced to $6.6m on decreased dairy sector investment. We note, however, that this does not include fabrication the business did for Milmeq internally, which was another benefit of the acquisition, that assisted Mercer Stainless and kept margin within the Group.

Group EBITDA was $1.1m for the half year, an increase of 82% on the prior year period. Both the automation business ($1.0m) and Mercer Stainless ($344,000) generated positive EBITDA. The consolidated result was reduced with corporate costs of $231,000 and S-Clave costs of $34,000.

Net profit was $447,000, which includes a $296,000 tax expense (noting that given the Group's tax losses, this is a non-cash expense).

Cash flow from operations remained strong at $2.6m inflow from the six months, based on the stronger workflows. This resulted in net debt reducing to $2.2m at 31st December 2019, down from $2.7m at 30 June 2019.



# H&C Automated Solutions

H&C Automated Solutions consists of the H&C business and Milmeq. While the two businesses have been operating separately from an accounting perspective, they are working closely together from a sales and engineering perspective.

Automation revenue increased 127% over the prior six month period to $21.2m. This was the first full six months for the Milmeq business, which generated $10.8m revenue, while the core H&C business increased sales by 12% to $10.5m. EBITDA was $1m for the six months, which was a significant increase from the prior year.

H&C revenues were driven by sales of four cheese debox/debag systems into the USA. Some of these were to repeat customers while one system was sold to a new customer. Additionally, the AiCo product line of carton erecting equipment continued to perform well with a strong sales performance in the Australian red meat sector.

The Milmeq business has exceeded our expectations. Since we acquired the business in February 2019 we have secured over $35m of orders, including one large order for four plate freezers for $15.4m. This sales performance is a result of investment by the Australian red meat sector. As previously reported, we finalised the purchase price for the business in December 2019 at $50,000 and the repayment of the $1m interest free working capital funding provided by the vendor (this was repaid on 31 January 2020). Clearly we are pleased with this outcome given the performance of the Milmeq product line to date and the opportunities it gives us for growth that is aligned with our automation led strategy.

H&C has a number of R&D/product development projects that are entering the market now. In February 2020 we will install and test the first deboxing system into a top tier red meat company in Texas, USA. This system can open boxes of any size and represents a significant opportunity for us in the red meat sector and in other markets such as online fulfilment. We are also working with a leading New Zealand horticulture company on an automated system for its packhouse, which also represents an opportunity to provide an automated solution into an industry struggling for human resource.

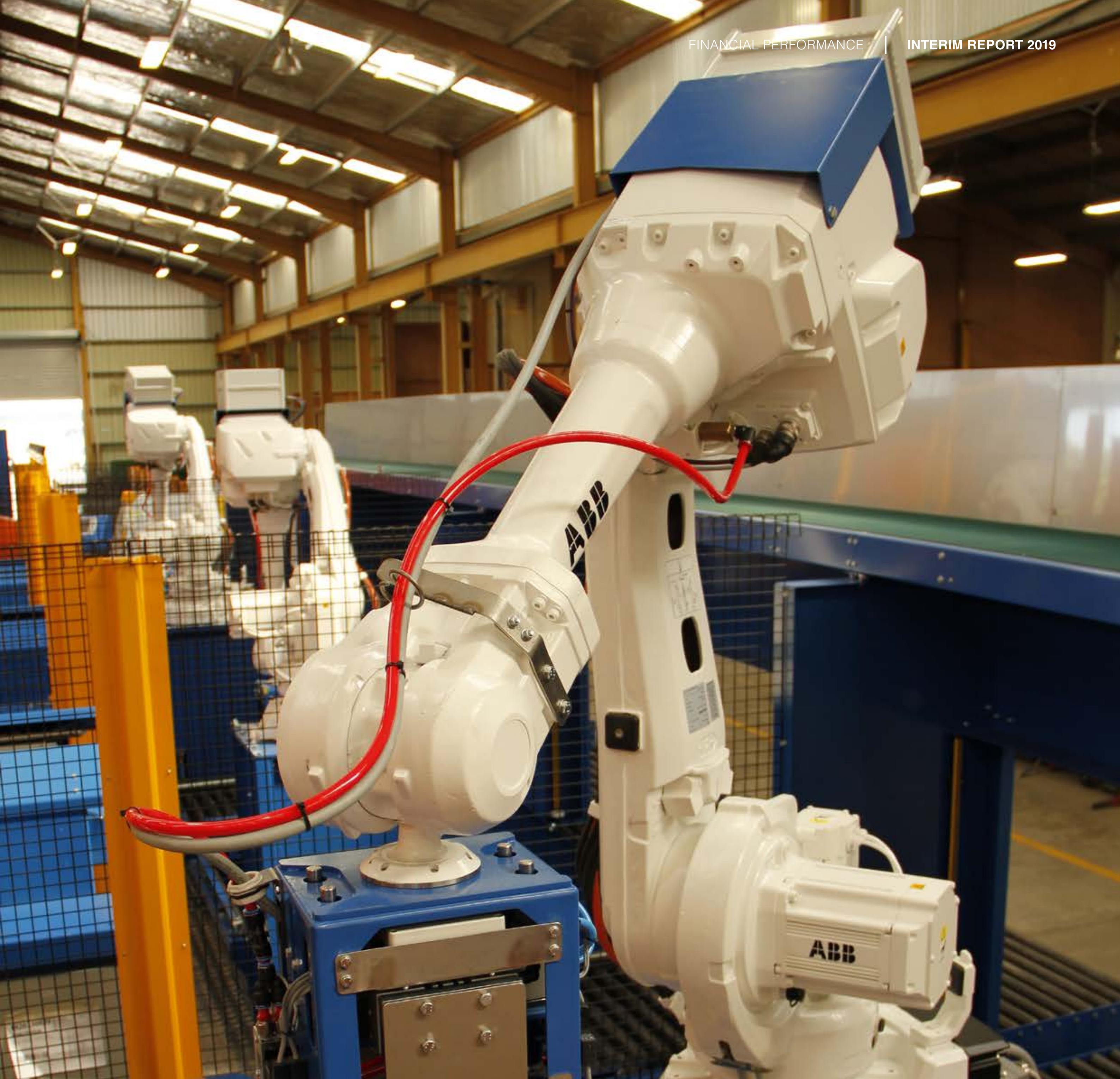
## Mercer Stainless Division

Mercer Stainless generated $6.6m of external revenue for the period, down 24% on the previous year. Despite this decline, the business still generated positive EBITDA at $378,000. It is worth noting that the business undertook $1.4m of work for Milmeq, which has the benefit of keeping margin within the Group, but gets excluded from the Mercer Stainless revenue and EBITDA upon consolidation.

Mercer Stainless continues to operate in a highly competitive environment. Dairy sector spending has been down but the wine sector remains very competitive. As noted above, Mercer Stainless (and the Group) benefited by undertaking stainless fabrication work for Milmeq. This was another benefit of the Milmeq acquisition. We are now considering options for Mercer Stainless undertaking more work for the automation businesses where it has the right skill sets to do so and can undertake the work competitively.

## Sclave

The S-Clave project continues to develop, albeit with continued frustrating delays. We remain confident of the market opportunity for the S-Clave and will be undertaking further testing in the second half of the financial year. The delays are related to the film for the lid of the S-Clave container. While we believe we have the solution, access to the film itself is taking time as it is made specifically for the S-Clave.




# OUTLOOK

We are pleased with the progress we continue to make, transitioning the Mercer Group towards an automation and technology-led future. The acquisition of Milmeq chilling and freezing business provided us with further diversification and scale. This is beginning to come through in the financial results.

The H&C business has good workflows through to the end of the financial year, with baseload work in the Milmeq product line through the full calendar year. The pipeline for new work is appropriate for our scale, but does need to be converted, noting that capital equipment sales can be lumpy. Mercer Stainless continues to operate in a difficult period in the dairy investment cycle, but the medium term outlook is adequate.

We are continuing to seek to diversify for the businesses to ensure we are not too exposed to any one sector or market. All of our business units have suffered in the past from too-narrow focus, and therefore we remain committed to opening new markets and entering new geographies with our core product set. We are making good progress in this regard.

We are confident that we will retain the momentum we currently have through this financial year, with increased EBITDA and net profit.

**Richard Rookes**
**CEO**

**Trevor Burt,**
**Chairman**

# CONDENSED GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

| In Thousands of New Zealand Dollars | Note | Unaudited<br>Six months to December 2019 | Unaudited<br>Six months to December 2018 | Audited<br>12 months to June 2019 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Sale of goods and contract revenue | 5 | 27,846 | 18,006 | 38,090 |
| Other income | | 18 | 19 | 37 |
| **Total Income Expenses** | | **27,864** | **18,025** | **38,127** |
| Changes in inventories of finished goods and work in progress | | (17,992) | (10,935) | (23,311) |
| Salaries and wages | | (6,145) | (4,471) | (9,712) |
| Rental and operating leases | | (36) | (230) | (466) |
| Other expenses | | (2,603) | (1,785) | (3,828) |
| Depreciation | | (388) | (147) | (313) |
| Amortisation | | (9) | (30) | (88) |
| Restructuring costs | | - | (8) | - |
| Acquisition adjustment | | 260 | - | - |
| Abnormal expense | | - | - | (1,111) |
| **Income (deficit) from operations before finance costs and taxation** | | **951** | **419** | **(702)** |
| Finance costs | | (208) | (203) | (319) |
| **Income (deficit) from operations after finance costs and before taxation** | | **743** | **216** | **(1,021)** |
| Income tax credit (expense) | | (296) | (54) | (13) |
| **Income (deficit) from operations after finance costs and taxation** | | **447** | **162** | **(1,034)** |
| **Other comprehensive income (deficit)** | | | | |
| Items that may be subsequently charged or credited to profit and loss | | | | |
| Currency translation differences on overseas subsidiaries | | 7 | 65 | 5 |
| **Other comprehensive income (deficit) for the period, net of tax** | | **7** | **65** | **5** |
| **Total comprehensive Income (deficit) for the period** | | **454** | **227** | **(1,029)** |
| Attributable to: | | 454 | 227 | (1,029) |
| -Owners of the parent | | 545 | 227 | (1,029) |
| **Total** | | **454** | **227** | **(1,029)** |
| Basic earnings per share: | 10 | | | |
| Earnings (deficit) per share attributable to shareholders of the company (cents) | | 0.69 | 0.26 | (1.60) |
| Fully diluted earnings per share: | 10 | | | |
| Earnings (deficit) per share attributable to shareholders of the company (cents) | | 0.69 | 0.26 | (1.60) |

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

# CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

| In Thousands of New Zealand Dollars | Note | 31 December 2019 (Unaudited) | 31 December 2018 (Unaudited) | 30 June 2019 (Audited) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and bank balances | | 3,130 | 3,537 | 3,688 |
| Accounts receivable | | 5,800 | 5,379 | 5,143 |
| Other debtors and prepayments | | 840 | 387 | 703 |
| Finance lease receivable | | - | 14 | 11 |
| Inventories | | 2,353 | 2,534 | 2,490 |
| **Total current assets** | | **12,123** | **11,851** | **12,035** |
| **Non current assets** | | | | |
| Other debtors and prepayments | | - | 285 | - |
| Property, plant and equipment | | 7,594 | 6,332 | 6,330 |
| Intangible assets | | 5,374 | 4,312 | 4,922 |
| Finance lease receivable | | 297 | 296 | 293 |
| Deferred tax asset | | 249 | 491 | 545 |
| **Total non current assets** | | **13.514** | **11,716** | **12,090** |
| **Total assets** | | **25,637** | **23,567** | **24,125** |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Bank overdraft | | - | - | 15 |
| Net contract liabilities | | 8,422 | 8,714 | 5,325 |
| Derivative financial instruments | | 8 | 35 | 8 |
| Trade and other payables | | 6,984 | 4,722 | 7,758 |
| Employee entitlements | | 1,075 | 940 | 1,249 |
| Borrowings | | 1,842 | 370 | 6,355 |
| **Total current liabilities** | | **18,331** | **14,781** | **20,710** |
| **Non current liabilities** | | | | |
| Borrowings | | 3,503 | 4,115 | - |
| **Total liabilities** | | **21,834** | **18,896** | **20,710** |
| **Net assets** | | **3,803** | **4,671** | **3,415** |
| **EQUITY** | | | | |
| Share capital | 11 | 44,366 | 44,366 | 44,366 |
| Other reserves | | 3,012 | 3,065 | 3,005 |
| Accumulated losses | | (43,575) | (42,760) | (43,956) |
| **Total equity** | 11 | **3,803** | **4,671** | **3,415** |

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

# CONDENSED GROUP STATEMENT OF MOVEMENTS IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2019

**Attributable to the owners of the Group**

| In Thousands of New Zealand Dollars | Share capital | Accumulated losses | Share based payments reserve | Foreign currency translation reserve | Asset revaluation reserve | Total equity |
|---|---|---|---|---|---|---|
| **Audited balance at 1 July 2018** | **44,366** | **(42,922)** | **211** | **(82)** | **2,871** | **4,444** |
| Foreign currency translation reserve movement | - | - | - | 65 | - | 65 |
| Income for the half year | - | 162 | - | - | - | 162 |
| **Total comprehensive income for the half year** | **-** | **162** | **-** | **65** | **-** | **227** |
| **Unaudited balance at 31 December 2018** | **44,366** | **(42,760)** | **211** | **(17)** | **2,871** | **4,671** |
| **Audited balance at 1 July 2019** | **44,366** | **(43,956)** | **211** | **(77)** | **2,871** | **3,415** |
| Foreign currency translation reserve movement | - | - | - | 7 | - | 7 |
| IFRS16 prior year restatement | - | (66) | - | - | - | (66) |
| Income for the half year | - | 447 | - | - | - | 447 |
| **Total comprehensive income for the half year** | **-** | **381** | **-** | **7** | **-** | **388** |
| **Unaudited balance at 31 December 2019** | **44,366** | **(43,575)** | **211** | **(70)** | **2,871** | **3,803** |

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

# GROUP STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 30 JUNE 2019

**In Thousands of New Zealand Dollars**

| OPERATING ACTIVITIES | 31 December 2019 | 31 December 2018 | 30 June 2019 |
|---|---|---|---|
| Income (deficit) after tax | 447 | 162 | (1,034) |
| Income tax recognised in Condensed Group Statement of Comprehensive Income | 296 | 54 | 13 |
| Tax paid | - | - | (13) |
| Finance costs | 208 | 203 | 319 |
| Depreciation and amortisation | 161 | 177 | 401 |
| IFRS16 depreciation on capitalised leases | 236 | - | - |
| Change in inventory provision | 97 | (237) | (344) |
| Change in expected credit loss | 35 | - | (26) |
| Gain (loss) on sale of plant & equipment | - | (1) | 2 |
| Derivative financial instruments | - | 8 | (19) |
| Changes in working capital | 1,358 | 5,537 | 5,924 |
| **Net cash in flow before finance costs** | **2,838** | **5,223** | **5,223** |
| Interest paid | (162) | (319) | (319) |
| IFRS16 effect on interest | (46) | - | - |
| **Net cash in flow from operating activities** | **2,630** | **5,700** | **4,904** |

| INVESTING ACTIVITIES | | | |
|---|---|---|---|
| Cash was provided from (to) : | | | |
| Purchase of property, plant and equipment | (57) | (120) | (281) |
| Purchase of patents and development activities | (460) | (99) | (769) |
| Purchase of Milmeq | - | - | (50) |
| Finance lease | 7 | 7 | 12 |
| Proceeds from disposal of property, plant and equipment | 4 | 61 | 59 |
| **Net cash from (to) investing activities** | **(506)** | **(151)** | **(1,029)** |

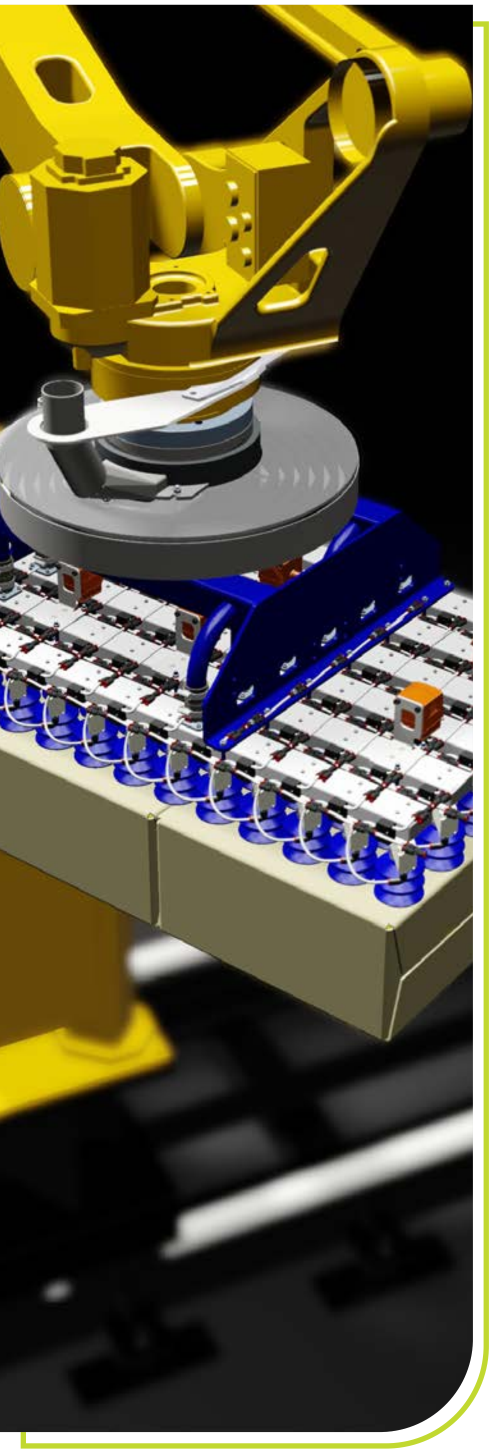
| FINANCING ACTIVITIES | | | |
|---|---|---|---|
| Cash was provided from (to): | | | |
| Drawdown of borrowings | 400 | 132 | 1,036 |
| Repayment of borrowings | (3,074) | (1,933) | (967) |
| **Net cash inflow from financing activities** | **(2,674)** | **(1,801)** | **69** |

| | | | |
|---|---|---|---|
| **Net increase in cash held** | **(550)** | **3,748** | **3,944** |
| Cash (overdraft) at beginning of the year | 3,673 | (276) | (276) |
| Effect of exchange rate changes | 7 | 65 | 5 |
| **Cash (overdraft) at the end of the year** | **3,130** | **3,537** | **3,673** |

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

# NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 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 Rd, Sockburn, Christchurch. It is registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013.

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

The Group comprises Mercer Group Limited and its wholly owned subsidiaries. The core activities of Mercer Group are:

**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 Milmeq product ranges.

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 complements H&C's existing service and spares business. There is significant customer crossover between H&C and Milmeq. This will allow the combined business to provide further automated products and solutions to its customer base, leveraging the complementary 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 is Australia largest supplier of medical equipment.

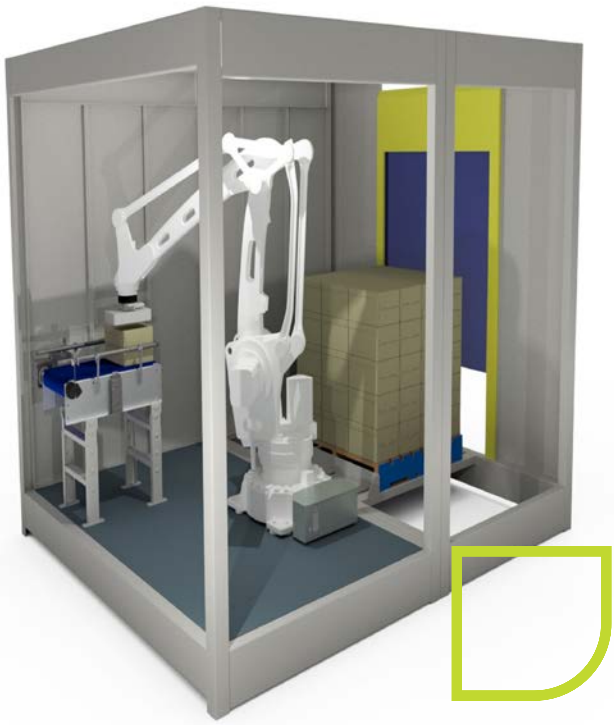
The Group is designated as a profit-oriented entity for financial reporting purposes.
The condensed financial statements have been approved for issue by the Board of Directors on 13 February 2020, and have been reviewed, not audited.


## 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.

These condensed consolidated interim financial statements comply with NZ IAS34 but do not include all the notes of the type normally included in the annual financial statements. Accordingly the condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2019, which were prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). They also comply with International Financial Reporting Standards (IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.



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

One new standard became applicable for the current reporting period and Mercer Group has had to change its accounting policies as a result of adopting the following standard:

- IFRS 16 Leases


The impact on the Condensed Statement of Comprehensive Income for the period ended 31 December 2019 across the following line items is as follows:

**In Thousands of New Zealand Dollars**

| | |
|---|---|
| Decrease in operating lease expense recognised within rental and operating leases | (271) |
| Increase in depreciation and amortisation expense | 236 |
| Increase in finance costs (recognised as interest expense) | 46 |
| (Decrease) in profit before taxation | **11** |

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

The comparitive results for prior periods have not been restated for IFRS16.

No change is required for the accounting for finance leases.

## (C) CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 on Mercer Group's consolidated interim financial statements and also discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

### IFRS 16 Leases – impact of adoption

IFRS 16 Leases was issued in January 2016. All leases are now 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 has implemented the simplified transition approach as defined in the standard.

Management has developed a model to implement 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 impact of IFRS 16 based on the current lease arrangements across the Group. The impact across the following line items in the Condensed Group Statement of Financial Position is below:

| In Thousands of New Zealand Dollars | Prior year | Current period |
|---|---|---|
| Recognition of a right-of-use asset | 1,036 | 326 |
| Recognition of a lease liability | (1,102) | (337) |
| Decrease in current period retained earnings | 11 | 66 |
| Decrease in opening retained earnings | - | - |

# 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. 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 have recognised a deferred tax asset, a component of which relates to New Zealand tax losses available for offset against future taxable profits. 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 was tested for impairment using a value in use model in June 2019. 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.

### 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 Annual Financial Statements for the year ended 30 June 2019.

### Cash flow forecasts and capital adequacy considerations

The financial statements have been prepared using the going concern assumption. For the half year ended 31 December 2019, the Group recorded net income after finance costs and taxation of $447,000.

The Group has renegotiated its banking facilities, which include covenants which are applicable as at 31 December 2019. The Group maintains two term facilities with limits of $5m and $720,410. Both these facilities mature on 30 September 2020. The Group also had a total of $1m overdraft facilities with $1m available limit at the balance date. The Group also had cash balances of $3,130,000 on hand as at 31 December 2019. As at the balance date, the available limit and cash provided Group liquidity of $5,944,410.

During the previous year and current period, a strategy to broaden H&C Automated Solutions' sales focus from cheese handling equipment to other protein sectors – poultry and red meat – was implemented. 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 ageing analysis for credit risk.

The Board provides a framework for overall risk management which identifies and evaluates financial risks in close cooperation 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.

# 5 SEGMENT INFORMATION

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

**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. 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 complements H&C's already existing service and spares business.

**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 assets (EBITDA) by segment.

| | 31 December 2019 Unaudited | | | 31 December 2018 Unaudited | | | 30 June 2019 Audited | | |
|---|---|---|---|---|---|---|---|---|---|
| **In Thousands of New Zealand Dollars** | **Total sales of goods and contract revenue** | **Segment result (EBITDA)** | **Segment assets** | **Total sales of goods and contract revenue** | **Segment result (EBITDA)** | **Segment assets** | **Total sales of goods and contract revenue** | **Segment result (EBITDA)** | **Segment assets** |
| Stainless Fabrication | 8,027 | 344 | 1,460 | 8,901 | 656 | 1,716 | 16,083 | 780 | 1,494 |
| H&C Automated Solutions | 30,989 | 1,009 | 10,019 | 9,339 | 157 | 6,025 | 26,650 | 471 | 6,827 |
| Mercer Technologies | - | (34) | 5,177 | - | (2) | 4,044 | - | (3) | 5,040 |
| Corporate | - | (231) | 8,981 | - | (215) | 11,782 | - | (438) | 10,764 |
| Intersegment eliminations | (11,170) | - | - | (234) | - | - | (4,643) | - | - |
| **Sales, EBITDA, Assets** | **27,846** | **1,088** | **25,637** | **18,006** | **596** | **23,567** | **38,090** | **810** | **24,125** |
| Depreciation and amortisation | - | (397) | | - | (177) | - | - | (401) | - |
| Finance costs | - | (208) | | - | (203) | - | - | (319) | - |
| Acquisition adjustment | - | 260 | | - | - | - | - | - | - |
| Abnormal expenses | - | - | | - | - | - | - | (1,111) | - |
| Income tax credit (charge) | - | (296) | | - | (54) | - | - | (13) | - |
| **Total sales, income (deficit) after tax, assets** | **27,846** | **447** | **25,637** | **18,006** | **162** | **23,567** | **38,090** | **(1,034)** | **24,125** |

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

# 6 CONTINGENT LIABILITIES

| In Thousands of New Zealand Dollars | Unaudited 31 December 2019 | Unaudited 31 December 2018 | Audited 30 June 2019 |
|---|---|---|---|
| Guarantee to bankers for credit card facilities up to a limit of | 156 | 149 | 130 |
| Guarantees to bankers for bank guarantees issued to third parties from which it is anticipated that no material liabilities will arise | 7,735 | 3,755 | 2,825 |
| **Total Income Expenses** | **7,891** | **3,904** | **2,955** |

# 7 COMMITMENTS

| In Thousands of New Zealand Dollars | Unaudited 31 December 2019 | Unaudited 31 December 2018 | Audited 30 June 2019 |
|---|---|---|---|
| **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 | - | 77 | - |
| | **-** | **7** | **-** |

| | | | |
|---|---|---|---|
| **Operating lease commitments** | | | |
| Non-cancellable | | | |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows | | | |
| Within one year | 556 | 378 | 494 |
| Later than one year but not later than five years | 1,033 | 929 | 1,351 |
| | **1,589** | **1,307** | **1,845** |

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.

# 8 DIVIDENDS

No dividend was paid or declared (December 2018: Nil).

# 9 RELATED PARTY TRANSACTIONS

## (A) DIRECTORS

The names of persons who were directors of the company at any time during the six months to 31 Decmeber 2019 are as follows: J F Dennehy, R Rookes, G Rolleston, P Smart and T Burt.

## (B) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation for the half year ended 31 December and the year ended 30 June 2019 are 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 | Unaudited 31 December 2019 | Unaudited 31 December 2018 | Audited 30 June 2019 |
|---|---|---|---|
| Short term benefits | 593 | 457 | 942 |
| Long term benefits | 44 | 15 | 62 |
| Directors' fees total | 77 | 51 | 127 |
| **Total** | **714** | **523** | **1,131** |

## (C) EQUITY INSTRUMENTS

All share options have expired worthless.

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

| | 31 December 2019 Unaudited | | 31 December 2018 Unaudited | | 30 June 2019 Audited | |
|---|---|---|---|---|---|---|
| | **Average exercise price in cents per share option** | **Options ('000)** | **Average exercise price in cents per share option** | **Options ('000)** | **Average exercise price in cents per share option** | **Options ('000)** |
| At beginning of period | 45.00 | 889 | 38.00 | 2,514 | 38.00 | 2,514 |
| Issued | | - | | - | | - |
| Expired | 45.00 | (889) | 38.00 | (1,625) | 38.00 | (1,625) |
| **At end of period** | | **-** | 45.00 | **889** | 45.00 | **889** |

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

| | | 31 December 2019 Unaudited | | 31 December 2018 Unaudited | | 30 June 2019 Audited | |
|---|---|---|---|---|---|---|---|
| **Grant-date** | **Vesting expiry date** | **Average exercise price in cents per share option** | **Options ('000)** | **Average exercise price in cents per share option** | **Options ('000)** | **Average exercise price in cents per share option** | **Options ('000)** |
| November 2017 | August 2019 | | - | 45.00 | 889 | 45.00 | 889 |
| | | | **-** | | **889** | | **889** |

# 10 EARNINGS PER SHARE

### Basic and diluted

Basic earnings per share are calculated by dividing the profit (loss) attributed to equity holders of the Group by the weighted average number of ordinary shares in issue during period.

Diluted earnings per share are calculated by dividing the profit (loss) attributable to the equity holders of the Group 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.

| Number of shares | Unaudited 31 December 2019 | Unaudited 31 December 2018 | Audited 30 June 2019 |
|---|---|---|---|
| **Weighted average number of ordinary shares in issue:** | | | |
| Basic | 64,520,706 | 62,257,810 | 64,520,706 |
| **Total** | **64,520,706** | **62,257,810** | **64,520,706** |
| Income (deficit) attributable to the shareholders of the Company ($000) | 447 | 162 | (1,034) |
| Basic earnings per share | 0.69 cents | 0.26 cents | (1.60) cents |
| Diluted earnings per share | 0.69 cents | 0.26 cents | (1.60) cents |

Given the deficit in 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.

# 11 SHARE CAPITAL

| | Number of Shares | | | In Thousands of New Zealand Dollars | | |
|---|---|---|---|---|---|---|
| Group | Unaudited 31 December 2019 | Unaudited 31 December 2018 | Audited 30 June 2019 | Unaudited 31 December 2019 | Unaudited 31 December 2018 | Audited 30 June 2019 |
| Issued and fully paid up capital | 64,520,706 | 64,520,706 | 64,520,706 | 44,366 | 44,366 | 44,366 |
| Balance at beginning of the period | 64,520,706 | 64,520,706 | 64,520,706 | 44,366 | 44,366 | 44,366 |
| **Balance at the end of the period** | **64,520,706** | **64,520,706** | **64,520,706** | **44,366** | **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.


## 12 ACQUISITION

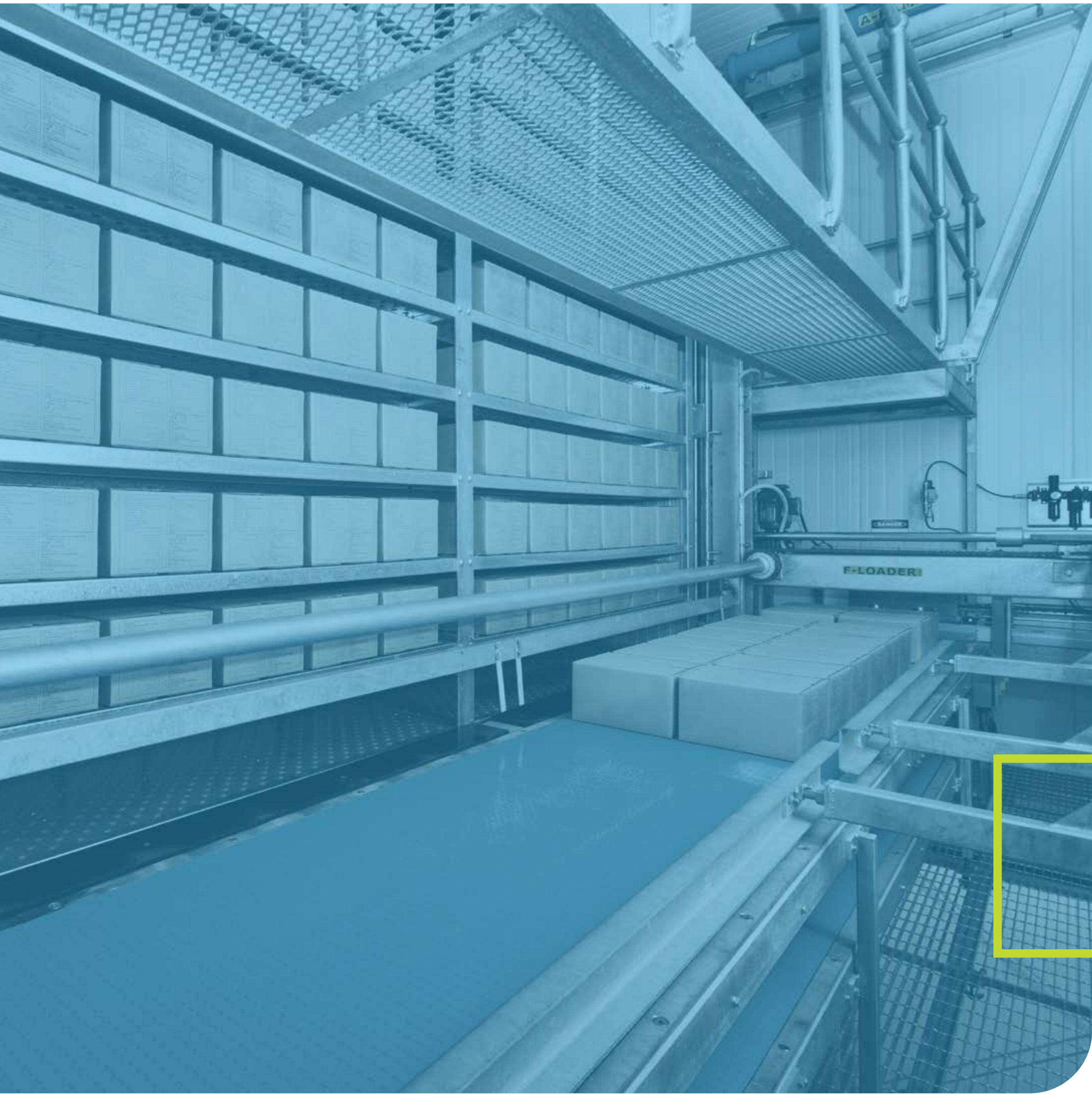
On 28 February 2019 the company acquired the net assets of Milmeq Limited's chilling and freezing business. This business designs, manufactures and installs automated chilling and freezing tunnels and plate freezing systems into the meat, poultry, dairy and seafood industries globally. In addition to its core product offering, Milmeq has a growing asset management business that provides service, spare parts and support to its customers.

### Impact of acquisition on the result of the Group

From the date of acquisition Milmeq has contributed $13,97,900 of revenue and income from operations after finance costs and taxation of $135,000. For the six-month period to 31 December 2019 revenue was $10,761,000 and income after finance costs and taxation of $264,000.

## 12 SUBSEQUENT EVENTS

The transaction completed on the 31st of January 2020, with the repayment of a interest-free $1m working capital advance.

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