Mercer group Ltd

# Annual Report

2020

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CAUTION

# FROM THE CHAIRMAN

"The evolution continues," is how I would describe my first year as Chairman of Mercer Group. The company continues to evolve at a fast pace as it embraces a technology-led strategy and a greater focus on automation. Mercer Group is now firmly positioned as a technology focused organisation.

In the last year, revenue from automation accounted for 81% of total Group revenue, whereas in 2016 it was less than 10%. The acquisition of the H&C Automated Solutions and Milmeq businesses has fundamentally changed the shape of Mercer Group.

Whilst the shape of the business is changing, so is the performance and I am delighted to report continued growth in earnings with operating EBITDA profit growing from $810,000 to $2.4m. In addition, NPAT of $934,000 was the best result for the Group in many years. Financial performance has improved and so has our underlying Health and Safety performance with TRIFR improving from 54.5 to 14.8.

Our management of the challenges faced from the COVID-19 pandemic was exceptional. All businesses in the Group were impacted during the lockdown, with workshops closed and employees who could, working from home. Despite the challenges our business responded well and this is a credit to all our management and staff. We were able to limit the impact of the lockdown on our business. The future impacts of COVID-19 on global economies is uncertain and will make execution of our strategies in parts of Australia and the US more challenging, however, we are positioning well to tackle this especially in the US with our new distribution agreement with Scan American Corporation.

We have seen changes in our shareholding with interests associated with Humphry Rolleston selling down shares from 52% to 32%. The purchaser was Colin Neal who now owns 19.8% of Mercer Group and who (subject to shareholder approval at the Annual Meeting (AM)) joins the board.

We are implementing a new organisation structure for the company that will better support the execution of our technology-led strategy and bring together, in a more coordinated way, the three previously separate parts of the business.

Also, at our AM this year, we will be announcing a new brand strategy for the company that will include the launch of a new identity for the business. This change will better position the company as a technology business and reflect the commitment and strategy around provision of automation solutions to our targeted customers.

Our leadership through these changes is spearheaded by CEO Richard Rookes, who continues to effectively lead a talented, capable, and committed team. I want to recognise the contribution of all our employees in achieving the results we have.

The longer term outlook for the company is very promising. The COVID-19 pandemic is creating a greater focus on automation in the global food processing sector and we are well positioned to provide automated solutions that our customers are seeking.

Trevor Burt
Chairman

# CEO REPORT

Mercer Group CEO Richard Rookes

**HIGHLIGHTS**

- Revenue of $51.6m, an increase of 35% over the prior year
- Automation 81% of Group sales revenue vs 61% for the prior year
- Automation revenue increased 79%
- EBITDA $2.4m a 199% increase on the prior year's EBITDA of $0.8m
- After tax profit was $0.9m, an increase of $1.9m on the prior year
- Milmeq acquisition completed for a value of $50,000 and the repayment of the $1m interest free vendor financing

## Overview

The 2020 financial year was a positive year for Mercer Group, with increased revenue, a more diversified business and a return to profitability. The acquisition of the Milmeq chilling and freezing business has been a real success. It has not only performed very well with strong sales and profitability, but it has also given the Group access to the Australian red meat sector for the H&C automation capability and put more volume through the Mercer Stainless workshops.

We have continued to progress our strategy of transitioning Mercer Group towards a technology and automation led future. The majority of our business today is the design and supply of automated systems to the food sector globally. This has seen our business grow by 79% in the past two years and return to profitability. While this is satisfying, there is still much work to be done. We remain subscale for the areas we are in and therefore need to continue to grow and diversify. We now have the platform to do this driven by:

1. The global push for automation is a mega trend that continues to gain momentum
2. The food sector continues to move towards automated solutions due to increasing food safety regulations, labour issues and health and safety (COVID-19 is part of this)
3. The products we design and deliver are world class and generally in the top three globally within the niche they operate
4. We have a great team of people who are hardworking, innovative and focused on the growth of the Group.

The COVID-19 situation caused us some issues during the second half of the financial year. The Christchurch and New Plymouth workshops were closed for the period of the Level 4 lockdown, while the H&C workshop in Hastings did continue as an essential service, albeit on a reduced basis. The New Zealand Government's wage subsidy programme was helpful through this period as it allowed the time to understand the situation and make informed decisions on the future.

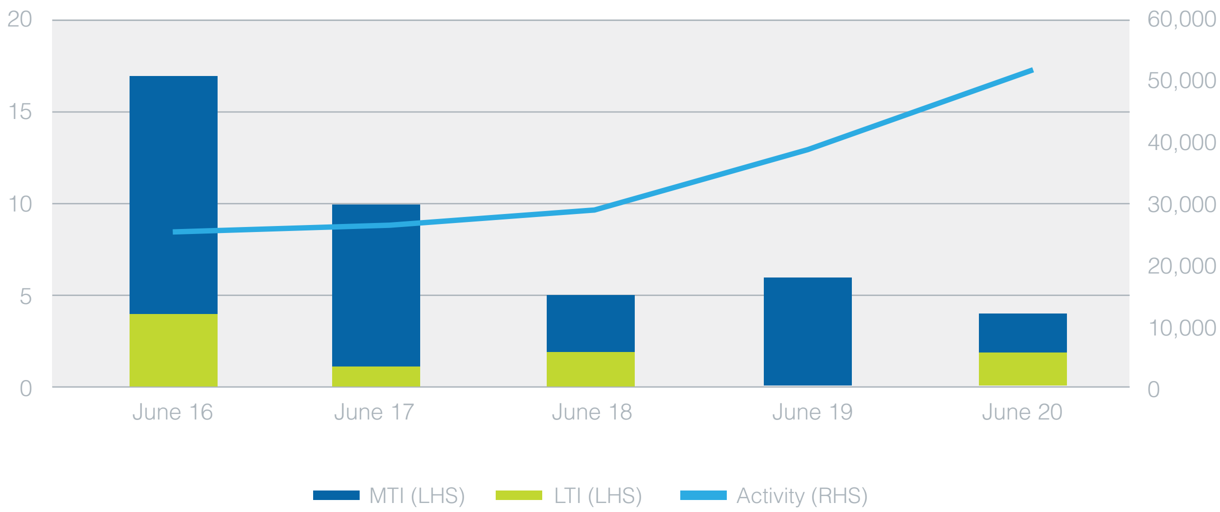
# Health and Safety

Mercer Group continued to prioritise the health and safety of our employees during the year and progressed several key areas from mental wellbeing to general health and safety at the workplace. With the growing complexity and scale of our businesses, we are implementing common systems and platforms. As a part of this we are currently working toward ISO:45001 certification across all business units. The new certification will further cement single Group policy and align each of the delivery teams with industry best practice.

We are focusing on a risk based approach to health and safety, ensuring that all stakeholders are involved and engaged in H&S process, while ensuring that lagging indicators continue a downward trend in total recordable incidents.

The company is always ensuring that all staff working both domestically and overseas have the tools at hand to safeguard health and general wellbeing. The total number of injuries decreased for the year, noting that the two injuries classified as LTI were minor finger injuries that required the individuals to be off for a matter of days.

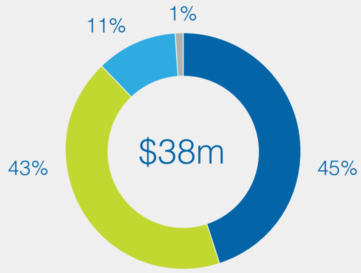
## Group injuries vs activity



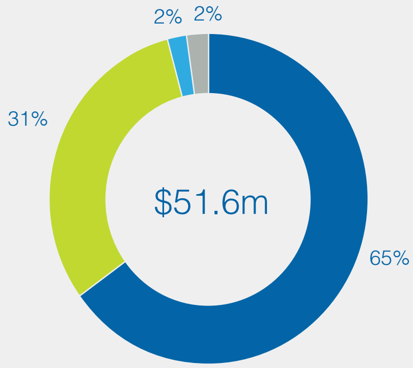

LTI and MTI are lagging measures the Group uses to record the severity of injuries, among other measures. LTI is the most severe injury and would see an employee away from work until fully recovered. MTI is less severe. Activity is simply sales revenue which directly correlates with manufacturing activity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

## Contracted sales by region

- ANZ
- North America
- Europe and UK
- Other




**FINANCIAL YEAR 2019**




**FINANCIAL YEAR 2020**

# Financial Performance

The net revenue growth of 35% to $51.6m was driven by a $18.5m increase in the Automation business. The Automation business reported revenue of $41.8m, which was 81% of total group revenue.

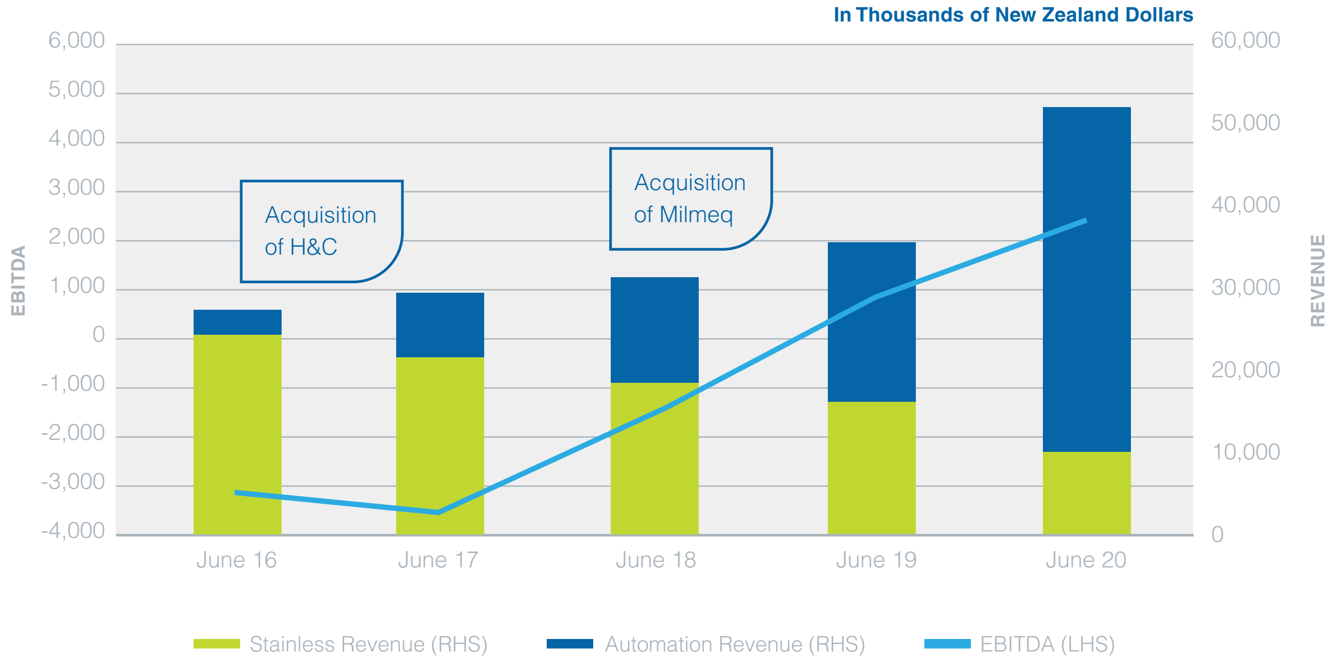
The full year contribution of Milmeq products was a key driver to the year-on-year growth, which aligns with our stated strategy of being an automation-led business. This also changed our revenue profile to be more Australasian domiciled. This increasing diversification of products and markets is another strategic goal that we continue to work on. The Group becomes stronger with more diversification of capability, product set, customer sector and geography.

The Stainless business had a difficult year with several customers delaying investment decisions due to the uncertainty from the pandemic, and revenue reduced by $5m.

EBITDA of $2.4m, after the adoption of NZ IFRS16, was a $1.6m improvement on the prior year with a strong contribution from the Automation business. We continue to drive initiatives to improve EBITDA margins, which will be a focus over the next period.

Nonrecurring abnormal items of $0.6m included restructuring costs, the issue of shares to management and the gain on acquiring Milmeq. During the year the Group adopted

## Segment revenue and EBITDA profile



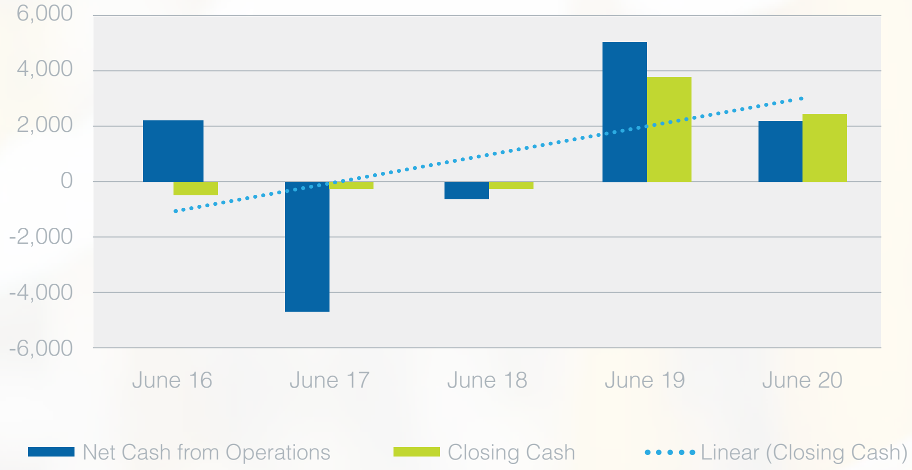

NZ IFRS16, which had a minor impact on the pre-tax profit, increasing depreciation and finance costs (this is explained in the notes to the financial statements).

Finance costs excluding finance costs for leases were $287,000, down from $319,000, which continues the trend in lower average drawn debt levels and the positive cash flows from operations.

The net profit after tax for the year was $0.93m, which was an improvement of the prior year's $1m loss.

## Net cashflow from operations vs closing cash

In Thousands of New Zealand Dollars

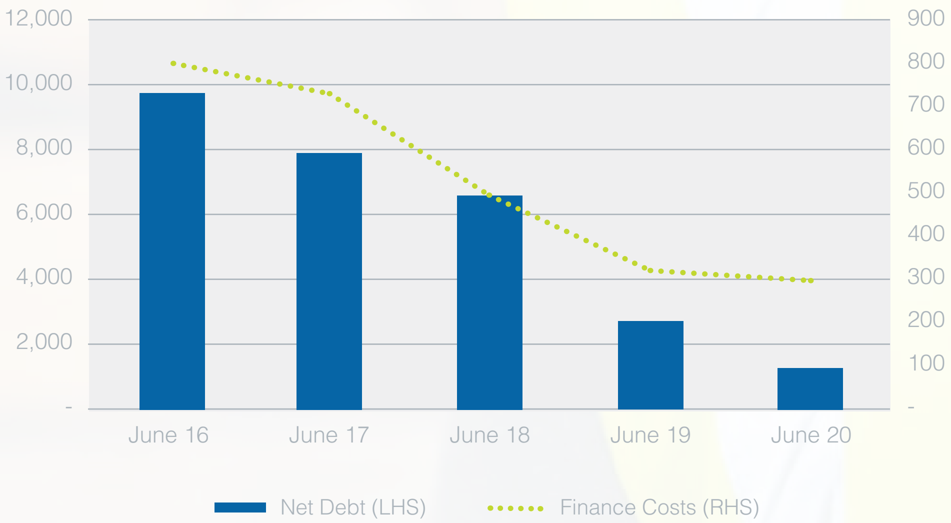



Closing net debt (excluding lease liabilities) was $1.27m, which continues the trend of lower average drawn debt for the year. The closing net debt reflects the repayment of the Milmeq vendor financing advance of $1m during the year.

Our banking facilities have been renewed, and in line with our improving performance, the facilities have been extended for two years to September 2022.

## Net debt vs interest expense

In Thousands of New Zealand Dollars



# H&C Automated Solutions

**HIGHLIGHTS:**

1. Revenue from our Automation business equated to 81% of Group revenue.
2. EBITDA for the Automation business was $2.5m.
3. $46m of new work secured across the H&C and Milmeq brands.
4. Growth in demand for the new SSO plate freezer design, with seven projects secured during the year.
5. Three plate freezer projects successfully completed on time, in budget and with satisfied customers.
6. Four cheese converting projects secured in the USA.
7. The successful development of a robotic apple tube filling system for Rockit apples in New Zealand.
8. Commercialisation of new automated equipment in a world leading New Zealand apple packhouse.
9. The development of a universal box cutting machine for the secondary meat processing sector in partnership with a leading USA meat processor.

## H&C design and deliver world-leading automated systems to the dairy, meat and horticulture sectors globally. Our business has offices in Hastings, Auckland and Brisbane, with a workshop in Hastings. We also have salespeople based in Green Bay Wisconsin.

During the year, we merged the operations of H&C and Milmeq together under the one brand. This has been largely successful, with a cross-pollination of skill set and further diversification in markets and capability.

The Automation business growth was driven by a strong order book of Milmeq plate freezers in the red meat industry in Australia, and the sale of several H&C cheese converting systems into the US. The Milmeq business has outperformed our expectations since we acquired it in February 2019. We were pleased to finalise the purchase price for the business in December 2019 at $50,000 and the repayment of the $1m interest-free vendor financing. The scale and diversification provided, coupled with the strong revenue and profitability, has made Milmeq a highly successful acquisition to date. In addition to this, the operating performance of the Milmeq product set has been exceptional, with projects delivered on time and on specification. This is the result of increasing standardisation of the products and an experienced and committed team. We look forward to retaining the momentum of the business.

From the H&C product lines, we sold and delivered several cheese reverse packaging systems to our US cheese converting customer base, building on the strong reputation and track record H&C has in that market. Building on the reverse packaging expertise we have developed, we also successfully tested the newly developed universal box cutting machine with a leading US meat processor. Our expectation is that this technology will be rolled out further in the coming months and years, and continues to offer us a growth opportunity through access to new sectors and a more flexible offering to customers.

With an increased focus on automation in the New Zealand horticulture sector, we were pleased to be involved in two significant projects:

1. The design and supply of a fully automated system to a newly built apple packhouse, comprising a new design case erector, automated case closing machines and associated automation.
2. We designed and built a robotic tube filling system for Rockit Apples.

The 2020 year was a very good year for our H&C Automated Solutions business. We are seeing the benefit of diversification of the business and the Milmeq acquisition. We have a great team that is committed, experienced and innovative, which coupled with increasing demand of automation, positions this area of the Group well for the future.

## Mercer Stainless Division

Mercer Stainless is one of New Zealand's leading stainless steel fabricators, with workshops 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.

The Mercer Stainless business had a more difficult year in 2020, with revenue down 20% to $12.7m. This was due to lower dairy investment, lower sales into the viticulture sector and the impacts of COVID-19. Both the Christchurch and New Plymouth operations were closed during the Level 4 lockdown period in New Zealand, although the impact was somewhat offset by the wage subsidy scheme.

The business continues to operate in a highly competitive environment, with aggressive competition from other fabricators in New Zealand and increasing imports of smaller stainless storage equipment.

Despite this, the Mercer Stainless business began undertaking some fabrication for the Milmeq products, which was another benefit of the acquisition. In addition to this, the business secured the contract to design and build two 500m$^3$ silos for Fonterra at their Edendale site, and a large contract for a leading New Zealand wine company to strengthen their wine tanks.

## Sclave

The S-Clave is a patented system for the sterilisation of medical equipment in a non-porous container system. Mercer has been working on commercialising this technology for a number of years.

The 2020 financial year was frustrating for the S-Clave. The project continues to develop in a positive direction, but we faced issues securing a film that can reliably perform. The COVID-19 pandemic has exacerbated the delays, as the films that we are seeking to secure and test are manufactured in Italy.

Despite this, we have made positive progress. We have tested several alternative films during the year, which has taught us a lot about the process and the final solution. In addition, working with our Australian partner Athertons, we have shown the technology to a number of hospitals in Australia. The market feedback continues to be positive, which retains our confidence in the market opportunity for the S-Clave.

We have recently engaged a leading industrial design company in Melbourne to undertake a design review of the S-Clave to investigate alternative ways to approach the design that may get us to market more rapidly.

We remain committed to the S-Clave. The product is revolutionary for the sterilisation market with the following key attributes:

1. Reduces sterilisation time from 60-80 minutes to under 20 minutes.
2. Undertaken in a non-porous container or pouch making it safer and allowing for proof of sterility.
3. Longer shelf life and more transportable.
4. Better from a health and safety perspective for the operator.

We continue to drive the project forward with a target of having hospital trials undertaken in the 2021 financial year.

# Outlook

**A PERIOD OF CONSOLIDATION AND PERFORMANCE**

Having nearly doubled the Group's size in the past two years, for the 2021 financial year we are looking to consolidate and position the Group for the next phase of our growth.

The short-to-medium-term outlook for the Group will be influenced by the global COVID-19 situation. We saw some impacts during the 2020 financial year, but these were offset to an extent by the New Zealand wage subsidy scheme, which cushioned the blow of the lockdown period and allowed us to make sensible decisions. While we have good workflows today across the Milmeq and Mercer Stainless businesses, we are having to adjust the ways in which we deliver and sell our solutions offshore. This is being done through increasing the technology involvement in the sale process, as well as the appointment of a sales agent in the US. In this regard, we have appointed Scan American Corporation (Scan AM) to represent us in the North American meat processing and pharmaceutical sectors. Scan AM have over 40 years' experience in selling solutions into these sectors and will allow us to retain and grow the momentum we have in these new industries. We will continue to sell into the cheese sector directly.

We are confident that growth in automation in the sectors we target will continue. There is increasing demand for innovative automated solutions in the food processing industry that allow businesses to be more efficient in the delivery of their products. This is what we aim to do through the design and delivery of products that increase food safety, improve health and safety and meet return hurdles. COVID-19 has changed the conversation in a positive way as businesses are seeing the value in automated systems that can continue to operate in such environments.

# New Brand: MHM Automation

We are pleased with the progress of our transition to a technology-led automation business. This will continue to be the focus for us going forward. As such, we have reviewed the name and brand of the Group and concluded that Mercer Group is no longer representative of who we are and what we do. We are therefore rebranding the Group to MHM Automation. This name ensures that we respect and understand where we have come from (Mercer, H&C and Milmeq), but pulls us all together under one brand to move forward.

As part of this, some of the key developments will be:

1. We will be operating as one company, which will allow for better cross-selling of capability to customers.
2. We will have a simplified management structure that will see greater focus on sales and advancing operational excellence.
3. We have established a new R&D and innovation team that will report directly to the CEO to help drive improved solutions for our customers.
4. There will be greater ability to cross-pollinate resource in the sales, engineering and delivery teams.
5. We will remove internal siloed businesses, which will allow for better cultural alignment.
6. For all stakeholders the name of the business will better reflect who we are.

Over the past three years we have pulled together three of New Zealand's most respected engineering brands. Bringing them under one brand is exciting and allows our platform to grow. We are focused on the expansion of our products that are in the top three within the niche they operate in. This will come organically as we continue to cross-sell our capability into our existing customer base, and through a greater focus on R&D and innovation.

We look forward as MHM Automation with a great team, a great global customer base and a great, world-leading product set to consolidate and grow.

Richard Rookes
Chief Executive Officer


MHM
AUTOMATION

# PROFILES

## Board of Directors

### TREVOR BURT
**Chairman**

A Chartered Fellow of the NZ Institute of Directors, Trevor is an experienced director of large scale companies and is currently Chairman of New Zealand Lamb Company Ltd, Chairman of Rua Bioscience Ltd and a director of Market Gardeners Ltd and Landpower NZ Ltd. He was a previous Chairman of Ngai Tahu Holdings Corporation Ltd and Lyttelton Port Ltd and former Deputy Chairman of PGG Wrightson Ltd. Trevor's executive career was with the global companies Linde Group and the BOC Group and he led businesses in Australia, China, USA, and Germany, retiring from the Executive Board of the Linde Group in 2007. Since moving back to New Zealand, Trevor has had a very successful career in governance of companies in a wide range of sectors including energy, retail, distribution, and food.

### RICHARD ROOKES
**CEO**

Richard was appointed CEO in July 2015. Since that time, he has driven the strategic changes across the business with a view to transition the Group towards a technology-led future.

Prior to joining Mercer Group, Richard was an investment banker in New Zealand and the 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 Chartered Accountant and a long-standing member of the Institute of Directors. He also holds a BBS (Finance).

As an executive, Paul has served as CFO of New Zealand's largest energy company, Meridian Energy, and prior to that, founding CFO of Sky Television.

As a professional director Paul has acted as a director, audit and finance chair and board chair for a range of companies from listed to large private companies. He is currently a non-executive director of ArborGen Holdings, Geo40, Argus Fire Systems Service and SolarCity.

### COLIN NEAL
**Director**

Colin founded Big Chill, a significant refrigerated trucking company in New Zealand. Colin brings a wealth of experience in supply chain logistics and procurement with an extensive network of local and international contacts.

Colin has several other business interests, both public and private. In addition to Colin's investment in Mercer Group he has most recently acquired Smiths City. His private investments include supplying meal products to supermarket chains and food related industries.

### 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 a 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.

# Executive Team

**MIKE LEE**

**H&C General Manager**

Mike is currently the general manager for the H&C Automated Solutions business that includes the Milmeq chilling and freezing products. Mike was previously leading the Milmeq sales, business development and after sales teams. He has extensive experience growing internationally focused 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 past 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 seven 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 CFO**

Ian joined Mercer Group in 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. He holds a Bachelor of Business Studies and is a CPA.

**ROSS COPPARD**

**Stainless General Manager**

Ross has been with Mercer Group 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.

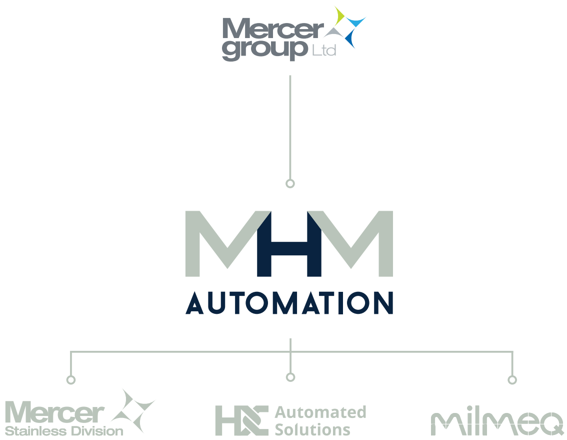
# THE FUTURE LOOKS DIFFERENT


# OUR NEW BRAND

During the past five years, we have been transitioning to a technology-led future. This has seen significant change, with some business units divested and two new acquisitions. The Mercer Group brand no longer reflects who we are or where we are going. What is important, though, is that we continue to honour where we have come from – the merging of three of New Zealand's oldest and most trusted engineering companies – together focused on providing world leading automated solutions globally.

We have opted to use initialism to represent our companies; no longer as a group but as a single, credible and trusted entity.

It shows pride in each organisation whilst crafting an entire new story for the company, MHM Automation (Mercer, Haden & Custance and Milmeq).




# OUR STORY

### ONE COMPANY, ONE TEAM, ONE GOAL.

Our story began in 1884 in Christchurch, in the South Island of New Zealand. Today, we have evolved into a global, technology and automation led business, designing and delivering systems to many of the leading food processing companies around the world.

> A company founded on invention; from the very beginning, we sought to go beyond what had already been mastered.

Our New Zealand story is one of elite primary production. As a small country, our arable lands and agricultural prowess proved viable as the close of the industrial revolution marked the beginning of global expansion.

Today, little has changed; New Zealand's export industry is still concentrated on products from the primary sector.

Our company's history spans 135 years and sits alongside the story of New Zealand's development. MHM Automation exists to design and supply world-leading, innovative food processing and packaging equipment globally.

MHM and our legacy brands have helped shape the New Zealand engineering and manufacturing sectors. Years of acquisitions, growth, milestones, and perseverance have seen the original Mercer Group of businesses move to a single focused organisation. MHM Automation. One company, one team, one goal; to design and supply innovative food processing and packaging systems to the world.

# OUR VALUES

## WE ARE BOLD

**We solve problems, we are hardworking, courageous and straight forward.**

An expectation of behaviour: hard work, resilient, solution focused, get the job done

## WE ARE ASPIRATIONAL

**We innovate, we think differently, we can do better.**

An expectation of behaviour: we ask questions, we are confident and we solve problems.

## WE ARE IN IT TOGETHER

**We are one team; for our workmates, clients and shareholders. We are proud of our diversity and our people. We do what we can to support and encourage a great work environment and excellent outcomes.**

An expectation of behaviour: stringent health and safety standards, team work and support, honest and respectful behaviour.

## WE STAND BY IT

**Integrity is key to everything we do. We are honest and proud of our work.**

An expectation of behaviour: attention to detail, always accountable and responsible, we own our behaviour.

# DIRECTORS' REPORT

In the opinion of the directors of Mercer Group Limited, the financial statements and the notes, on pages 23 to 62:

- 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 2020 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 2020.

The Annual Financial Statements presented are signed for and on behalf of the Board, and were authorised for issue on 24 August 2020.

Trevor Burt, Chairman

Paul Smart, Independent Director

# GROUP STATEMENT OF PROFIT OR LOSS

## And other comprehensive income

FOR THE YEAR ENDED 30 JUNE 2020

| In Thousands of New Zealand Dollars | Notes | 2020 | 2019 |
|---|---|---|---|
| **Revenue** | | | |
| Sale of goods and contract revenue | 6 | 51,577 | 38,090 |
| Other income | | 1,063 | 37 |
| **Total income** | | **52,640** | **38,127** |
| **Expenses** | | | |
| Changes in inventories of finished goods and work in progress | | (97) | 78 |
| Raw materials and consumables used | | (33,496) | (23,389) |
| Salaries and wages | 9 | (11,689) | (9,712) |
| Other expenses | 8 | (5,531) | (4,294) |
| Depreciation | 15/16 | (816) | (313) |
| Amortisation | 17 | (54) | (88) |
| Fonterra settlement | 5 | - | (1,111) |
| **Income (loss) from operations before finance costs and taxation** | | **957** | **(702)** |
| Bank facilities | | (287) | (319) |
| Lease interest | 16 | (46) | - |
| Total finance costs | | (333) | (319) |
| **Income (loss) from operations after finance costs and before taxation** | | **624** | **(1,021)** |
| Income tax credit (expense) | 10 | 310 | (13) |
| **Income (loss) from operations after finance costs and taxation** | | **934** | **(1,034)** |
| **Other comprehensive income (loss)** | | | |
| *Items that may be subsequently charged or credited to profit or loss* | | | |
| Currency translation differences on overseas subsidiaries | | (68) | 5 |
| **Other comprehensive income (loss) for the period, net of tax** | | **(68)** | **5** |
| **Total comprehensive income (loss) for the period** | | **866** | **(1,029)** |
| Basic earnings per share: | | | |
| Earnings (loss) per share attributable to shareholders of the company (cents) | 24 | 1.42 | (1.60) |
| Fully diluted earnings per share: | | | |
| Earnings (loss) per share attributable to shareholders of the company (cents) | 24 | 1.42 | (1.60) |

The above Group Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# GROUP STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

| In Thousands of New Zealand Dollars | Notes | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and bank balances | 11 | 2,323 | 3,688 |
| Accounts receivable | 12 | 4,861 | 5,143 |
| Other debtors and prepayments | 12 | 238 | 703 |
| Finance lease receivable | 13 | 11 | 11 |
| Inventories | 14 | 2,393 | 2,490 |
| **Total current assets** | | **9,826** | **12,035** |
| **Non current assets** | | | |
| Property, plant and equipment | 15 | 6,174 | 6,330 |
| Right-of-use assets | 16 | 1,260 | - |
| Intangible assets | 17 | 5,180 | 4,922 |
| Finance lease receivable | 13 | 279 | 293 |
| Deferred tax asset | 18 | 873 | 545 |
| **Total non current assets** | | **13,766** | **12,090** |
| **Total assets** | | **23,592** | **24,125** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Bank overdraft | 11 | - | 15 |
| Contract liabilities | 7 | 6,508 | 5,325 |
| Derivative financial instruments | | 35 | 8 |
| Trade and other payables | 20 | 5,897 | 7,758 |
| Warranty provision | | 333 | - |
| Employee entitlements | | 1,375 | 1,249 |
| Loans and borrowings | 21 | 437 | 6,355 |
| Lease liabilities | 16 | 499 | - |
| **Total current liabilities** | | **15,084** | **20,710** |
| **Non current liabilities** | | | |
| Loans and borrowings | 21 | 3,162 | - |
| Lease liabilities | 16 | 845 | - |
| **Total liabilities** | | **19,091** | **20,710** |
| **Net assets** | | **4,501** | **3,415** |

The above Group Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.


| In Thousands of New Zealand Dollars | Notes | 2020 | 2019 |
|---|---|---|---|
| EQUITY | | | |
| Share capital | 22 | 44,634 | 44,366 |
| Other reserves | 22 | 2,937 | 3,005 |
| Accumulated losses | | (43,070) | (43,956) |
| **Total equity** | | **4,501** | **3,415** |

The above Group Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# GROUP STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

### Attributable to the owners of the Group

| In Thousands of New Zealand Dollars | Notes | Share capital | Accumulated losses | Share based payments reserve | Foreign currency translation reserve | Asset revaluation reserve | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 30 June 2018** | | **44,366** | **(42,922)** | **211** | **(82)** | **2,871** | **4,444** |
| Foreign currency translation reserve movement | | - | - | - | 5 | - | 5 |
| Loss for the year | | - | (1,034) | - | - | - | (1,034) |
| **Total comprehensive income (loss) for the year** | | **-** | **(1,034)** | **-** | **5** | **-** | **(1,029)** |
| **Balance at 30 June 2019** | | **44,366** | **(43,956)** | **211** | **(77)** | **2,871** | **3,415** |
| Effect of adoption of NZ IFRS 16 | 2 (b) | - | (48) | - | - | - | (48) |
| **1 July 2019 as restated** | | **44,366** | **(44,004)** | **211** | **(77)** | **2,871** | **3,367** |
| Foreign currency translation reserve movement | | - | - | - | (68) | - | (68) |
| Income for the year | | - | 934 | - | - | - | 934 |
| **Total comprehensive income (loss) for the year** | | **-** | **934** | **-** | **(68)** | **-** | **866** |
| Issue of new shares | 22/27 | 268 | - | - | - | - | 268 |
| **Balance at 30 June 2020** | | **44,634** | **(43,070)** | **211** | **(145)** | **2,871** | **4,501** |

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 2020

| In Thousands of New Zealand Dollars | Notes | 2020 | 2019 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Income (loss) after tax | | 934 | (1,034) |
| Income tax recognised in profit or loss | 10 | (310) | 13 |
| Tax paid | | - | (13) |
| Finance costs | | 333 | 319 |
| Depreciation and amortisation | 15,17 | 387 | 401 |
| Amortisation of right-to-use assets | 16 | 483 | - |
| Change in inventory provision | 25 | (1,662) | (344) |
| Change in expected credit loss | 25 | 43 | (26) |
| Change in warranty provision | | 333 | - |
| (Gain) loss on sale of plant and equipment | | (3) | 2 |
| Non-cash component of shares issued under employee share scheme | 27 | 268 | - |
| Derivative financial instruments | | 27 | (19) |
| Changes in working capital | 25 | 1,911 | 5,924 |
| Interest paid | | (287) | (319) |
| **Net cash in flow from operating activities** | | **2,457** | **4,904** |
| **INVESTING ACTIVITIES** | | | |
| Cash was provided (to) from: | | | |
| Purchase of property, plant and equipment | 15 | (180) | (281) |
| Purchase of patents and development activities | 17 | (312) | (769) |
| Purchase of Milmeq | 28 | - | (50) |
| Finance lease | 13 | 14 | 12 |
| Proceeds from disposal of property, plant and equipment | 15 | 6 | 59 |
| **Net cash to investing activities** | | **(472)** | **(1,029)** |
| **FINANCING ACTIVITIES** | | | |
| Cash was provided from (to): | | | |
| Lease payments | 16 | (511) | - |
| Drawdown of borrowings | 21 | 2,900 | - |
| Repayment of borrowings | 21 | (5,656) | 69 |
| **Net cash inflow from (to) financing activities** | | **(3,267)** | **69** |
| **Net increase (decrease) in cash held** | | **(1,282)** | **3,944** |
| Cash (overdraft) at beginning of the year | | 3,673 | (276) |
| Effect of exchange rate changes | | (68) | 5 |
| **Cash at the end of the period** | **11** | **2,323** | **3,673** |

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

# NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

# 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 listed with the New Zealand Stock Exchange (NZX).

The Group comprises Mercer Group Limited and its wholly owned subsidiaries as disclosed in Note 19. The core activities of Mercer Group are:

**Automation:** 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 Automated Solutions markets and sells its core cheese systems brand as well as providing automated solutions to other sectors. It also operates the Group's other brands which include Aico, Beta 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 which complements H&C's already existing service and spares business. There is significant customer crossover between H&C and Milmeq, as we continue to integrate and improve our automation offering.

**Stainless Fabrication:** This division includes workshops in Christchurch and New Plymouth that design and manufacture proprietary equipment mainly for dairy and wine sectors.

**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 a world leader in sterilisation equipment and infection control products for the hospital, medical and scientific industries.

For the purposes of complying with generally accepted accounting practice in New Zealand ("NZ GAAP"), the Group is a for-profit entity. The financial statements have been approved for issue by the Board of Directors on 24 August 2020.

# 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 through other comprehensive income 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. 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).

### 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

The Group adopted NZ IFRS 16 with a transition date of 1 July 2019. The Group has chosen not to restate comparatives on adoption, and therefore, the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 July 2019) and recognised in the opening equity balances. Details of the impact this standard has had are given below.

IFRIC 23 Uncertainty over Income Tax Treatments also came into effect from 1 July 2019 with no impact on the financial statements.

NZ IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. NZ IFRS 16 substantially carries forward the lessor accounting in NZ IAS 17, with the distinction between operating leases and finance leases being retained. The Group does not have significant leasing activities acting as a lessor.

### Transition Method and Practical Expedients Utilised

The Group adopted NZ IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 July 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under NZ IAS 17 and NZ IFRIC 4 were not reassessed. The definition of a lease under NZ IFRS 16 was applied only to contracts entered into or changed on or after 1 July 2019.

NZ IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying NZ IFRS 16 to leases previously classified as operating leases under NZ IAS 17:

a. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;

b. Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if NZ IFRS 16 had been applied since the commencement date;

c. Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under NZ IAS 36 as at the date of initial application; and

d. Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under NZ IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

| Classification under NZ IAS 17 | Right-of-use assets | Lease liabilities |
|---|---|---|
| Operating leases | Office space: right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.<br>All other: the carrying value that would have resulted from NZ IFRS 16 being applied from the commencement date of the leases, subject to the practical expedients noted above. | Measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 July 2019.<br>The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted average rate applied was 5.61% |
| Finance leases | Measured based on the carrying values for the lease assets and liabilities immediately before the date of initial application (i.e. carrying values brought forward, unadjusted). | |

The following table presents the impact of adopting NZ IFRS 16 on the statement of financial position as at 1 July 2019:

| In Thousands of New Zealand Dollars | Adjustments | 30 June 2019 as originally presented | NZ IFRS 16 | 1 July 2019 |
|---|---|---|---|---|
| **Assets** | | | | |
| Right-of-use assets | | - | 1,658 | 1,658 |
| Deferred tax assets | (a) | | 18 | 18 |
| **Liabilities** | | | | |
| Lease liabilities | (b) | - | (1,724) | (1,724) |
| **Equity** | | | | |
| Retained earnings | (c) | - | (48) | (48) |

## Adjustments

a. Deferred tax assets were adjusted to reflect the tax effect of the other adjustments recorded.

b. The following table reconciles the minimum lease commitments disclosed in the Group's 30 June 2019 annual financial statements to the amount of lease liabilities recognised on 1 July 2019 (see table, right).

c. Retained earnings were adjusted to record the net effect of the adjustments noted.

| In Thousands of New Zealand Dollars | 30 June 2019 |
|---|---|
| Minimum operating lease commitment at 30 June 2019 | 1,845 |
| **Undiscounted lease payments** | **1,845** |
| Less: effect of discounting using the incremental borrowing rate as at the date of initial application | (121) |
| **Lease liability as at 1 July 2019** | **1,724** |

## (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.

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 profit or loss and other 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.

## (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 Chief Executive Officer who reviews the Group's internal reporting in order to assess performance and to allocate funding and resources. Management has determined the operating segments based on these reports.

## (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 the Group expects to be entitled in exchange for those goods or services. The 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 common 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 systems 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-complete 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-complete method and the milestone payment is always less than one year.

Some contracts sold by the Group include warranties which require the group to rectify the defect during the warranty period if the goods fail to comply with agreed-upon specifications. In accordance with NZ IFRS 15, such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the potential warranty claim in accordance with NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

### iii. 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.

### iv. Royalty income

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

## (G) OTHER INCOME

### 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.

The Group received the COVID-19 wage subsidy during the year.

## (H) 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.

When there is uncertainty concerning the Group's filing position regarding the tax bases of assets or liabilities, the taxability of certain transactions or other tax-related assumptions, then the Group:

- Considers whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- Determines if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

## (I) 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.

## (J) 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

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

NZ IFRS16 was adopted 1 July 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 July 2019, see note 2(b). The following policies apply subsequent to the date of the initial application, 1 July 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- In all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount
- If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

## (K) IMPAIRMENT OF NON-FINANCIAL ASSETS

Tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life and intangible assets not ready for use are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

## (L) 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.

## (M) FINANCIAL ASSETS AT AMORTISED COST

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables). They are initially recognised at the transaction cost.

Impairment provisions for trade receivables are recognised based on the simplified approach within NZ IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected credit loss arising from default to determine the lifetime expected credit loss for the trade receivables.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the consolidated statement of comprehensive income (operating profit).

The expected loss rates are based on the Group's historical credit losses experienced over the three year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

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.

## (N) INVENTORIES

### 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.

## (O) INVESTMENTS AND OTHER FINANCIAL ASSETS

### Financial assets at fair value through profit or 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.

## (P) DERIVATIVES

The Group enters into foreign exchange forward contracts. 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.

## (Q) 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 reporting 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.

## (R) PROPERTY, PLANT AND EQUIPMENT

Land and buildings are initially recognised at cost and then re-measured at fair value, less subsequent depreciation and impairment losses. Valuations are completed by independent external valuers with sufficient regularity to ensure carrying value does not differ from fair value. 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.

## (S) INTANGIBLE ASSETS

### i. Goodwill

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

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

### ii. Research and development

Expenditure on research activities, net of any grants receivable, is recognised in the profit or loss as an expense when it is incurred.  No grants have been received this year.

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

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

Directly attributable costs capitalised as part of the product would include employee costs and an appropriate portion of relevant overheads. Other intellectual property expenditures that do not meet these criteria are recognised as an expense

as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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

**iii. Patents, trademarks and licences**

Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of patents, trademarks and licences over their estimated useful lives, not exceeding 20 years.

## (T) 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 plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

## (U) 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.

## (V) 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.

## (W) 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.

## (X) 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 wholly 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.

## (Y) DIVIDENDS

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

## (Z) 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.

## (AA) 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 using the average of the last five business days share price as listed on the NZX. 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. 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-complete 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 has 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 18. 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 17.

S-Clave technology is being developed and the ongoing costs are capitalised to intangible assets. The asset is tested annually for impairment using a value in use model. A number of assumptions including sales volumes, future growth and discount rates have been made to determine the value in use.

### 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 2020 the Group recorded net income after finance costs and taxation of $934,000.

The Company has renegotiated its banking facilities, which include covenants which are applicable as at 30 June 2020. The Company maintains two term facilities with limits of $5,000,000 and $622,220. Both these facilities mature on 30 September 2022. The Company also had a total of $1,000,000 overdraft facilities with $1,000,000 available limit at balance date, the Group also had cash balances of $2,323,000 on hand as at 30 June 2020. As at reporting date the available limit and cash provided Group liquidity of $5,423,000.

Over the course of the prior year and current year 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 a solid order book for the year ahead 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 2021. 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 the factors above, and an improved operating cashflow, will support the business in the future. Therefore the Directors believe that it continues to be appropriate to prepare financial statements on a going concern basis.

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

### COVID-19 pandemic

In December 2019, a new virus, COVID-19 was detected in Wuhan, China. The virus was soon common in other countries and on 11 March 2020 the World Health Organisation declared that the outbreak should be considered a pandemic.

The result of this pandemic has been a substantial reduction in economic activity throughout the world, as governments have introduced measures (such as the closure of national borders, the closure of non-essential businesses, the cancellation of public events and the imposition of restrictions on individuals) in an attempt to reduce transmission of the virus.

In March 2020, the New Zealand Government ordered a four-week lockdown, during which non-essential businesses and organisations were not allowed to operate and individuals (other than essential workers or those undertaking essential business) were required to stay at home. As stated in Note 29, in late April 2020, the lockdown period ended and the New Zealand Government started gradually easing the restrictions that had been placed on businesses, organisations and individuals.

Some segments of the Group experienced a decline in revenue, with customers delaying investment decisions due to uncertainty and softening business confidence, while other segments were impacted to a lesser degree as most of the live contracts were in Australasia to essential food processors. The Group obtained travel insurance which allowed staff to return to the US to complete installations. The Group expects to deliver all the US contracts in full but over longer timeframes.

To date the Company has undertaken the following steps to reduce the impact of COVID-19 on its operations:

- reduced expenditure in non-critical business areas
- commenced restructuring of workshops
- taken advantage of wage subsidies and other business support measures made available by the New Zealand Government.

Although the Group has been impacted by COVID-19, the directors have concluded that the Group will be able to continue operating for at least 12 months from the date of signing these financial statements. That conclusion has been reached because:

- the Automation business has good forward orders of its products
- the Company can further reduce expenditure if it becomes necessary to do so
- the Company has available liquidity.

## 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 economically 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.

**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 or loss | Financial liabilities at fair value through profit or loss | Financial liabilities held at amortised cost |
|---|---|---|---|---|
| GROUP 2020 | | | | |
| Cash and cash equivalents | 2,323 | - | - | - |
| Trade receivables | 4,861 | - | - | - |
| Receivable from other debtors | 86 | - | - | - |
| Finance lease receivables | 290 | - | - | - |
| Trade and other payables | - | - | - | (5,897) |
| Derivative financial instruments | - | - | (35) | - |
| Borrowings and overdraft | - | - | - | (3,599) |
| | **7,560** | **-** | **(35)** | **(9,496)** |
| 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** | **-** | **(8)** | **(14,128)** |

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings. Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates their fair value.

## (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 2020 the Group had $2,590,000 (2019: $2,806,000) of foreign exchange risk.

The following table shows the sensitivity of the Group's after tax profit and equity to a movement in the exchange rate of +/-5% based on actual data to date (+/-10% last year) with all other variables held constant, which the directors consider reasonably possible.

| | | +5% and $000 | | -5% 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 2020 | 2,590 | (130) | (130) | 130 | 130 |
| 30 June 2019 | 2,806 | (281) | (281) | 281 | 281 |

## Concentrations of foreign currency exposure

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

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| **Cash** | | |
| Australian dollar | 1,543 | 2,640 |
| United States dollar | 22 | 29 |
| **Trade receivables** | | |
| UK Pound | 4 | 2 |
| Australian dollar | 1,203 | 254 |
| United States dollar | 1,709 | 562 |
| Euro | 17 | 2 |
| **Trade payables** | | |
| UK Pound | - | (9) |
| Australian dollar | (961) | (466) |
| United States dollar | (604) | (186) |
| Euro | (308) | (14) |
| **Derivative financial** | | |
| United States dollar | (35) | (8) |
| | **2,590** | **2,806** |

### 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 (2019: nil).

The following table shows the sensitivity of the Group's after tax profit and equity to a movement in interest rates of +/-1 percentage point (pp) which the directors consider reasonably possible. The total amount of interest bearing debt at balance date of the Group on which interest is not fixed is $3,522,000 (2019: $6,370,000).

GROUP

| In Thousands of New Zealand Dollars<br>Financial Liabilities | Carrying amount | +1 pp<br>Post tax profit | +1 pp<br>Equity | -1 pp<br>Post tax profit | -1 pp<br>Equity |
|---|---|---|---|---|---|
| 30 June 2020 | 3,522 | (25) | (25) | 25 | 25 |
| 30 June 2019 | 6,370 | (45) | (45) | 45 | 45 |

## (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 2020 the Group had exposure to significant debtors greater than 10% of net equity of $2,753,000 (2019: $2,053,000 exposure). These amounts arise from progress billing of four significant projects.

## (C) LIQUIDITY RISK

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

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.

Financial liabilities due in less than 12 months are liabilities associated with:

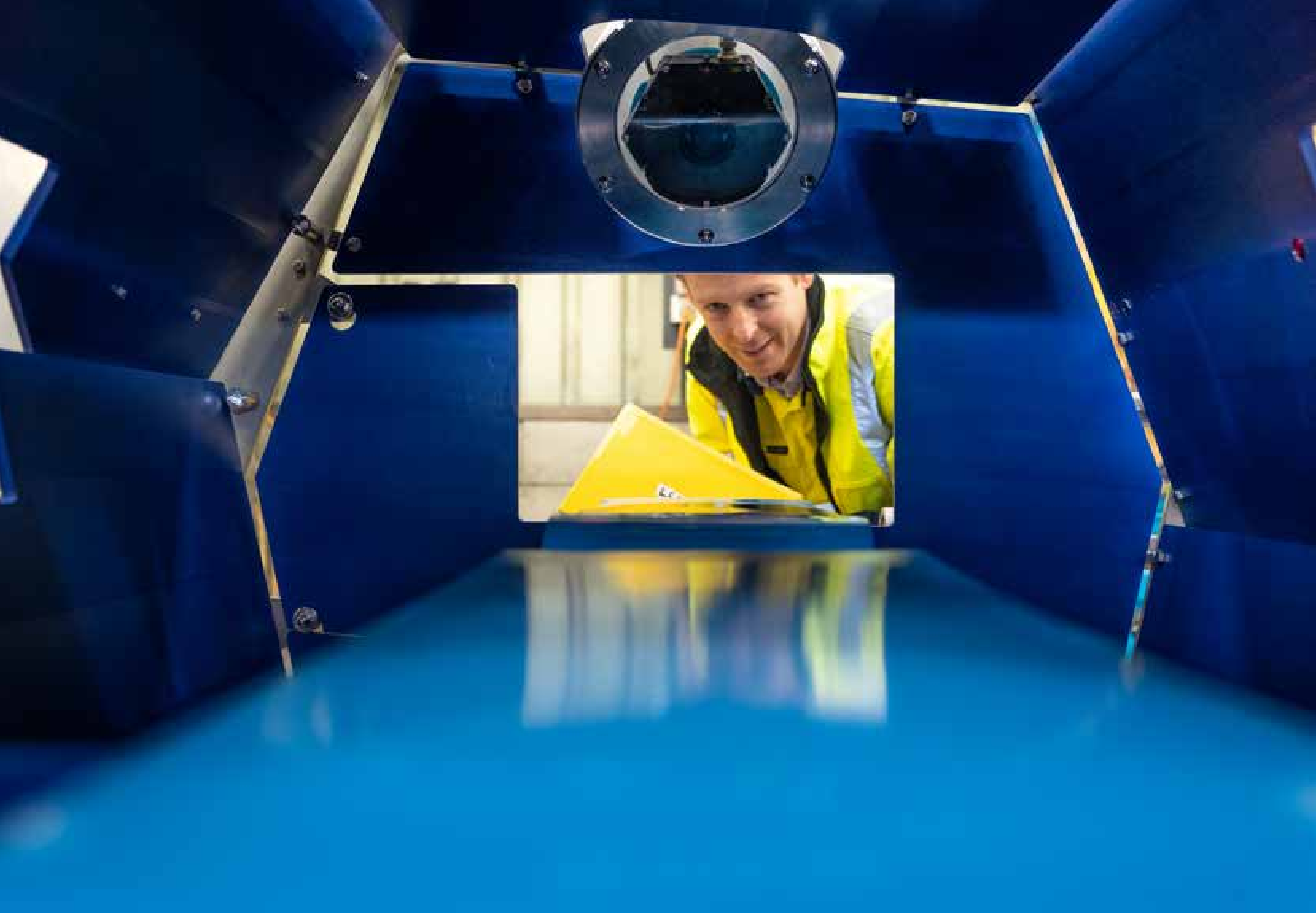
- BNZ bank loans. $500,000 (including interest and principal) are due within 12 months. The principal balance due in 12 months is $360,000 (2019: $5,319,000). See Note 21.

Contingent liabilities disclosed in Note 26 amount to $7,558,000 (2019: $2,955,000). 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.

| In Thousands of New Zealand Dollars 2020 | Carrying amount at balance date | < 3 months | 3-12 months | 1-2 years | 2-5 years | Total cashflow |
|---|---|---|---|---|---|---|
| Bank loans and overdrafts | 3,522 | 101 | 399 | 398 | 2,935 | 3,833 |
| Lease obligations | 1,344 | 146 | 411 | 805 | 71 | 1,433 |
| Other loans | 77 | 77 | - | - | - | 77 |
| Trade and other payables | 5,897 | 5,439 | 458 | - | - | 5,897 |
| **Total** | **10,840** | **5,762** | **1,269** | **1,203** | **3,006** | **11,240** |
| **2019** | | | | | | |
| Bank loans and overdrafts | 5,334 | 168 | 5,363 | - | - | 5,531 |
| Other loans | 1,036 | 36 | 1,000 | - | - | 1,036 |
| Trade and other payables | 7,758 | 6,889 | 869 | - | - | 7,758 |
| **Total** | **14,128** | **7,093** | **7,232** | **-** | **-** | **14,325** |

The Group was compliant with banking covenants at 30 June 2020 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 | 2020 | 2019 |
|---|---|---|
| Equity | 4,501 | 3,415 |
| Total assets | 23,592 | 24,125 |
| **Equity ratio** | **19.1%** | **14.2%** |

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, derivatives, 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:

**Automation:** 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 Automated Solutions markets and sells its core cheese systems brand as well as providing automated solutions to other sectors. It also operates the Group's other brands which include Aico, Beta 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 which complements H&C's already existing service and spares business. There is significant customer crossover between H&C and Milmeq, as we continue to integrate and improve our automation offering.

**Stainless Fabrication:** This division includes workshops in Christchurch and New Plymouth that design and manufacture proprietary equipment mainly for dairy and wine sectors.

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

**Corporate:** This division incorporates the head office activities of the Group and includes rental received from the other segments in respect of properties they occupy.

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

| In Thousands of New Zealand Dollars | 2020 Total sales of goods and contract revenue | 2020 Segment result (operating EBITDA) | 2020 Segment assets | 2019 Total sales of goods and contract revenue | 2019 Segment result (operating EBITDA) | 2019 Segment assets |
|---|---|---|---|---|---|---|
| Stainless Fabrication | 12,741 | 30 | 1,351 | 16,083 | 780 | 1,494 |
| Automation | 64,440 | 2,516 | 8,043 | 26,650 | 471 | 6,827 |
| Mercer Technologies | - | (35) | 5,290 | - | (3) | 5,040 |
| Corporate | - | (88) | 8,908 | - | (438) | 10,764 |
| Intersegment eliminations | (25,604) | - | - | (4,643) | - | - |
| **Sales, operating EBITDA, assets** | **51,577** | **2,423** | **23,592** | **38,090** | **810** | **24,125** |
| Non-recurring items | - | (596) | - | - | (1,111) | - |
| Depreciation and amortisation | - | (870) | - | - | (410) | - |
| Finance costs | - | (333) | - | - | (319) | - |
| Income tax credit (charge) | - | 310 | - | - | (13) | - |
| **Total sales, income (loss) after tax, assets** | **51,577** | **934** | **23,592** | **38,090** | **(1,034)** | **24,125** |

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

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| Income (loss) from operations before finance costs and taxation | 957 | (702) |
| Add back depreciation and amortisation | 870 | 401 |
| Add back non-recurring items | 596 | 1,111 |
| **Operating EBITDA** | **2,423** | **810** |


| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| Customers larger than 10% of total group revenue in accordance with NZ IFRS 8.34 | 8,449 | - |

Depreciation and amortisation analysed by segment was:

| | | |
|---|---|---|
| Stainless Fabrication | 207 | 213 |
| Automation | 556 | 81 |
| Mercer Technologies | 30 | 97 |
| Corporate | 77 | 10 |
| **Total** | **870** | **401** |

Liabilities analysed by segment were:

| | | |
|---|---|---|
| Stainless Fabrication | (767) | (415) |
| Automation | 11,530 | 9,980 |
| Mercer Technologies | (10) | (10) |
| Corporate | 8,338 | 11,155 |
| **Total** | **19,091** | **20,710** |

Liabilities analysed by geographical location were:

| | | |
|---|---|---|
| New Zealand | 15,029 | 15,940 |
| Australia and USA | 4,062 | 4,770 |
| **Total** | **19,091** | **20,710** |

## 6 Sale of goods and contract revenue

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| **Sale of goods (point in time)** | | |
| Australia | 390 | 714 |
| USA | 85 | 1,272 |
| New Zealand | 4,566 | 5,840 |
| Other | 89 | 694 |
| **Contracting service (over time)** | | |
| Australia | 19,772 | 9,059 |
| USA | 14,358 | 4,569 |
| New Zealand | 10,321 | 15,021 |
| Other | 1,996 | 921 |
| **Total** | **51,577** | **38,090** |

For further breakdown of revenue, see note 5.


# 7 Contract revenue movements

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| Revenue recognised included in contract liability at the beginning of the period | (5,325) | 1,781 |
| **Construction contracts** | | |
| Contract assets | 2,949 | 2,927 |
| Contract liabilities | (9,457) | (8,252) |
| **Net contract liabilities** | **(6,508)** | **(5,325)** |

# 8 Other expenses

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

| In Thousand of New Zealand Dollars | Notes | 2020 | 2019 |
|---|---|---|---|
| Foreign exchange (gains)/losses | | (158) | (39) |
| Advertising | | 87 | 88 |
| Movement in expected credit loss | 12 | 42 | (25) |
| Bad debts written off (recovered) | | 10 | 71 |
| Employee on-costs | | | |
| Superannuation | | 310 | 214 |
| Accident compensation premiums | | 149 | 105 |
| Directors fees | 27 | 168 | 127 |
| Rentals and low value operating leases | | 98 | 466 |
| Research and development | | - | 1 |
| Fees paid to auditors | | | |
| Other assurance services | | - | 2 |
| Audit of financial statements - relating to prior year | | 22 | 25 |
| Audit of financial statements - relating to current year | | 94 | 136 |

# 9 Salaries and wages

Salaries and wages exclude the following amounts that have been capitalised into labour for internally generated development assets $147,901 (2019: $151,611).

## 10 Income tax

### (A) INCOME TAX (CREDIT) CHARGE

| In Thousands of New Zealand Dollars | Notes | 2020 | 2019 |
|---|---|---|---|
| Current tax | | - | 13 |
| Deferred tax | 18 | (310) | - |
| **Income tax (credit) charge** | | **(310)** | **13** |

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

| | | | |
|---|---|---|---|
| **Income (loss) before tax expense** | | **624** | **(1,021)** |
| Tax at the New Zealand rate of 28% | | 175 | (286) |
| Prior year tax adjustment | | - | 7 |
| Expenses not deductible for tax purposes | | 41 | 34 |
| Revenue not assessible for tax purposes | | (66) | - |
| Timing differences | 18 | (460) | - |
| Prior year tax losses in Australia and (profit) USA not recognised | | - | 8 |
| Tax losses not recognised | | - | 228 |
| Other | | - | 22 |
| **Income tax (credit) charge** | | **(310)** | **13** |
| **Total Income tax (credit) charge** | | **(310)** | **13** |

### (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.

At 30 June 2020 there were $13,529,019 (2019: $13,177,932) of unrecognised Australian tax losses, representing a tax benefit of $4,059,000 (2019: $3,953,000).

At 30 June 2020 there were $21,399,000 (2019: $20,222,000) of unrecognised New Zealand tax losses, representing a tax benefit of $5,992,000 (2019: $5,662,000).

### (D) IMPUTATION CREDIT ACCOUNT

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| 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 | 2020 | 2019 |
|---|---|---|
| Cash at bank and in hand | 2,323 | 3,688 |
| Less bank overdraft | - | (15) |
| **Cash and cash equivalents per cash flow statement** | **2,323** | **3,673** |

## 12 Accounts receivable, other debtors and prepayments

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| Trade receivables | 4,947 | 5,187 |
| Less expected credit loss | (86) | (44) |
| **Total accounts receivable** | **4,861** | **5,143** |
| **Impairment provision** | | |
| Expected credit loss at 1 July | (44) | (69) |
| Decrease (increase) in provision | (42) | 25 |
| **Provision for expected credit loss at 30 June** | **(86)** | **(44)** |
| **Past due and impaired receivables** | | |
| 1 to 3 months | - | - |
| Over 3 months | 86 | 44 |
| | **86** | **44** |
| **Past due but not impaired receivables** | | |
| 1 to 3 months | 1,812 | 2,087 |
| Over 3 months | - | - |
| | **1,812** | 2,087 |

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

### Other debtors and prepayments

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| Other debtors | 86 | 539 |
| Prepayments | 152 | 164 |
| **Total other debtors and prepayments** | **238** | **703** |

### The expected credit loss allowance was determined as follows for trade receivables:

In Thousands of New Zealand Dollars

| AS AT 1 JULY 2020 | Current | 30-59 Days | 60-89 Days | 90 Days and Later | Total |
|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | |
| Balance outstanding | 4,499 | 223 | 138 | 87 | 4,947 |
| Total expected credit loss rate | 0.4% | 3.1% | 16.7% | 41.2% | 1.7% |
| **Expected credit loss allowance** | **20** | **7** | **23** | **36** | **86** |

| AS AT 1 JULY 2019 | Current | 30-59 Days | 60-89 Days | 90 Days and Later | Total |
|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | |
| Balance outstanding | 4,429 | 615 | 137 | 6 | 5,187 |
| Total expected credit loss rate | 0.3% | 3.1% | 6.6% | 33.3% | 0.8% |
| **Expected credit loss allowance** | **14** | **19** | **9** | **2** | **44** |

## 13 Finance lease receivable

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| Current finance lease receivable | 11 | 11 |
| Non current finance lease receivable | 279 | 293 |
| | **290** | **304** |

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 | 2020 | 2019 |
|---|---|---|
| **Other Inventory** | | |
| Raw materials and components | 475 | 581 |
| Finished goods | 1,918 | 1,909 |
| **Total inventories** | **2,393** | **2,490** |

The provision relating to inventories which have been written down to estimated net realisable value amounted to $517,000 (2019: $2,179,000).

## 15 Property, plant and equipment

| In Thousands of New Zealand Dollars | Freehold land | Buildings | Plant and equipment | TOTAL |
|---|---|---|---|---|
| **At 1 July 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** |
| **Year ended 30 June 2020** | | | | |
| Opening net book value | 2,654 | 2,581 | 1,095 | 6,330 |
| Additions | - | - | 180 | 180 |
| Depreciation | - | (91) | (242) | (333) |
| Disposals | - | - | (3) | (3) |
| **Closing net book value** | **2,654** | **2,490** | **1,030** | **6,174** |
| **At 30 June 2020** | | | | |
| Cost/valuation | 2,654 | 2,837 | 9,291 | 14,782 |
| Accumulated depreciation | - | (347) | (8,261) | (8,608) |
| **Net book value** | **2,654** | **2,490** | **1,030** | **6,174** |


Land and buildings at 53 Lunns Road, Christchurch were revalued to $4,250,000, less $857,000 worth of estimated earthquake repair costs on 30 June 2016. Land and buildings at Corbett Rd, Bell Block were revalued to $2,100,000 on 30 June 2016.

The values were determined by independent registered valuers, CBRE (Christchurch) Limited and Telfer Young (Taranaki) Limited, on the basis of open market value for the highest and best use for the properties. The primary approach used by the valuers was the investment approach, which involves capitalising the net market income at an appropriate market derived rate of return to reflect the use, demand and risk associated with the properties and includes comparison with rental and sales evidence of other similar properties.

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. A valuation, not prepared for financial reporting purposes, was carried out by CBRE (Christchurch) in October 2019 which indicated no impairment was required. Therefore, the Directors consider that the carrying amounts of land and buildings are not significantly different from their fair value at 30 June 2020.

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 | 2020 | 2019 |
|---|---|---|
| Cost | 3,026 | 3,026 |
| Accumulated depreciation | (1,353) | (1,262) |
| **Net book value** | **1,673** | **1,764** |

## 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.

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 $m^2$ | 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 Leases

The Group leases a number of properties in the jurisdictions from which it operates. In some jurisdictions it is customary for lease contracts to provide for payments to increase each year by inflation or and in others to be reset periodically to market rental rates.  In some jurisdictions property leases the periodic rent is fixed over the lease term.

The Group also leases certain items of plant and equipment and vehicles. These leases comprise only fixed payments over the lease terms.

The percentages in the table below reflect the current proportions of lease payments that are either fixed or variable. The sensitivity reflects the impact on the carrying amount of lease liabilities and right-of-use assets if there was an uplift of 5% on the balance sheet date to lease payments that are variable.

| 30 June 2020 | Lease contracts number | Fixed Payments % | Variable Payments % | Sensitivity $000 |
|---|---|---|---|---|
| Property leases with fixed uplifts | 1 | - | 17 | +/- 24 |
| Property leases with periodic uplifts to market rentals and inflation | 2 | - | 63 | +/- 35 |
| Leases of plant and equipment | 8 | 9 | - | - |
| Vehicle leases | 7 | 11 | - | - |
| | **18** | **20** | **80** | **+/- 59** |

## RIGHT-OF-USE ASSETS

| In Thousands of New Zealand Dollars | Notes | Buildings | Plant and equipment and motor vehicles | Total |
|---|---|---|---|---|
| **At 1 July 2019** | | | | |
| Adoption of NZ IFRS 16 | Note 2(b) | 1,487 | 171 | 1,658 |
| Additions | | - | 85 | 85 |
| Amortisation | | (380) | (103) | (483) |
| **At 30 June 2020** | | **1,107** | **153** | **1,260** |

## LEASE LIABILITIES

| | | | | |
|---|---|---|---|---|
| **At 1 July 2019** | | | | |
| Adoption of NZ IFRS 16 | Note 2(b) | 1,549 | 175 | 1,724 |
| Additions | | - | 85 | 85 |
| Interest expense | | 33 | 13 | 46 |
| Lease payments | | (397) | (114) | (511) |
| **At 30 June 2020** | | **1,184** | **160** | **1,344** |

| | |
|---|---|
| Due within one year or less | 499 |
| Due after more than one year | 845 |
| | **1,344** |

# 17 Intangible assets

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| **Goodwill** | | |
| Cost | 356 | 356 |
| Impairment | - | - |
| **Net book value** | **356** | **356** |
| Opening balance | 356 | 356 |
| Impairment | - | - |
| **Closing balance** | **356** | **356** |
| **Acquired patents, trademarks and licences** | | |
| Cost | 711 | 734 |
| Accumulated amortisation and impairment charges | (270) | (293) |
| **Net book value** | **441** | **441** |
| Opening balance | 441 | 421 |
| Additions | - | 38 |
| Impairment | - | - |
| Amortisation | - | (18) |
| **Closing balance** | **441** | **441** |
| **Intellectual property** | | |
| Cost* | 4,627 | 4,431 |
| Accumulated amortisation and impairment charges | (244) | (306) |
| **Net book value** | **4,383** | **4,125** |
| Opening balance | 4,125 | 3,464 |
| Acquisitions | - | 250 |
| Additions | 312 | 481 |
| Impairment | - | - |
| Amortisation | (54) | (70) |
| **Closing balance** | **4,383** | **4,125** |
| **Total intangible assets** | **5,180** | **4,922** |

*$4,087,000 relates to the S-Clave project (2019: $3,792,000)

In 2019 the Group purchased the Milmeq brand. This is being amortised over 10 years.

The Group also has a number of prototype machines that have been constructed to test before releasing commercially. These will be amortised over their expected useful lives which varies from three to five years.

All other fixed life intangibles are being amortised over a period of not more than 10 years.


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 here.

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| Automation | 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 2020. 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 2.7%. The terminal growth rate was 3.5% and the cash flows were discounted at a discount rate of 13.25%. 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 $4,087,000 of intellectual property, was not yet available for use as at 30 June 2020 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 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 2021 financial year. Movement in the above discount rate by 5% or if estimated cashflows were to reduce by 22% there would be no impairment.

## 18 Deferred tax asset

| In Thousands of New Zealand Dollars | Buildings | Other temporary differences | Tax losses (profits) | Total |
|---|---|---|---|---|
| **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** |
| Effect of adopting NZ IFRS 16 recognised in retained earnings (note 2 (b)) | - | 18 | - | 18 |
| **Balance at 1 July 2019 as restated** | **(265)** | **549** | **279** | **563** |
| Amounts charged (credited) to profit and loss | - | 460 | (150) | 310 |
| **Balance at 30 June 2020** | **(265)** | **1,009** | **129** | **873** |

Other temporary differences arise from the impact of NZ IFRS 16 on leases and provisions for working capital and plant and equipment.

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 2020 there were $5,992,000 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 2021. The budget indicates that there will be sufficient future taxable profits available for the Group to utilise the tax assets recognised.

## 19 Investment in subsidiaries and associates

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

| Subsidiaries | Activities | Location | 2020 % Ownership | 2019 % 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% | 100% |
| Milmeq 2018 Pty Limited | Designs and manufactures chilling and freezing systems to the food industry | Australia | 100% | 100% |
| Mercer Equipment Finance Limited | Non-trading subsidiary | New Zealand | 100% | 100% |

## 20 Trade and other payables

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| Trade creditors | 4,461 | 5,333 |
| Fonterra settlement | 583 | 869 |
| Sundry creditors and accruals | 853 | 1,556 |
| Total creditors and accruals | **5,897** | **7,758** |

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

## 21 Borrowings

| In Thousands of New Zealand Dollars | 2020 | 2019 |
|---|---|---|
| Bank loans | 3,522 | 5,319 |
| Other loans | 77 | 1,036 |
| **Total borrowings** | **3,599** | **6,355** |
| **Contractual maturity** | | |
| Within one year | 437 | 6,355 |
| Later than one year | 3,162 | - |
| | **3,599** | **6,355** |

Bank loans and overdrafts are secured by a composite debenture over the Group's assets, supported by a registered first charge over all the properties in Note 15.

Both bank loans were renegotiated during the year and expire on 30 September 2022. They are subject to floating interest rates.

### Reconciliation to financing activities in the cashflow:

| In Thousands of New Zealand Dollars | Current loans | Non current loans | Lease liabilities (Note 16) | Total |
|---|---|---|---|---|
| **At 1 July 2018** | **370** | **5,916** | **-** | **6,286** |
| Cashflows | 69 | - | - | 69 |
| Non-cashflows | | | | |
| - Loans classified as non-current at 30 June 2018 becoming current in 2019 | 5,916 | (5,916) | - | - |
| **At 30 June 2019** | **6,355** | **-** | **-** | **6,355** |
| Cashflows | (1,331) | (1,425) | (511) | (3,267) |
| Non-cashflows | | | | |
| - Loans classified as non-current at 30 June 2019 becoming current in 2020 | (4,587) | 4,587 | - | - |
| - Lease adjustments (note 16) | - | - | 1,855 | 1,855 |
| **At 30 June 2020** | **437** | **3,162** | **1,344** | **4,943** |

## 22 Share capital and reserves

| GROUP | Number of shares 2020 | Number of shares 2019 |
|---|---|---|
| Issued and fully paid up capital | **65,619,067** | **64,520,706** |
| Balance at beginning of the year | 64,520,706 | 64,520,706 |
| Shares issued during the year | 1,098,361 | - |
| Balance at end of the year | **65,619,067** | **64,520,706** |

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

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 (2019: 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 2020 | 2019 |
| --- | --- | --- |
| Basic | 64,520,706 | 64,520,706 |
| Equity based remuneration | 1,098,361 | - |
| **Total** | **65,619,067** | **64,520,706** |
| **Income (loss) attributable to the shareholders of the Company ($000)** | **934** | **(1,034)** |
| **Basic earnings per share** | **1.42 cents** | **(1.60) cents** |
| **Diluted earnings per share** | **1.42 cents** | **(1.60) cents** |

## 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** | **2020** | **2019** |
| --- | --- | --- |
| Trade creditors and employee entitlements | (1,735) | 3,136 |
| Trade debtors and prepayments | 747 | (1,048) |
| Inventories | 97 | (78) |
| Contract liabilities | 1,183 | 3,544 |
| Total | **292** | **5,554** |
| Change in inventory provision | 1,662 | 344 |
| Change in expected credit loss | (43) | 26 |
| Net movement in Statement of Cashflows | **1,911** | **5,924** |

## 26 Contingent liabilities

| **In Thousands of New Zealand Dollars** | **2020** | **2019** |
| --- | --- | --- |
| Guarantee to bankers for credit card facilities up to a limit of $221,000 | 221 | 130 |
| Guarantees to bankers for bank guarantees issued to third parties for work completed from which it is anticipated that no material liabilities will arise | 7,337 | 2,825 |
| | **7,558** | **2,955** |

## 27 | 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:

T Burt, J F Dennehy, C Neal, G Rolleston, R Rookes and P Smart.

### (B) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation for the year ended 30 June 2020 and the year ended 30 June 2019 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 | 2020 | 2019 |
|---|---|---|
| Short term benefits | 1,081 | 942 |
| Long term benefits | 38 | 62 |
| Share based payments | 400 | - |
| Directors' fees | 168 | 127 |
| Total | **1,687** | **1,131** |

### (C) EQUITY INSTRUMENTS

#### i. Share options

All share options have expired worthless.

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Average exercise price in cents per share option** | **Options ('000)** | **Average exercise price in cents per share option** | **Options ('000)** |
| At beginning of the year | 45.00 | 889 | 38.00 | 2,514 |
| Expired | 45.00 | (889) | 38.00 | (1,625) |
| **At end of the year** | | **-** | **45.00** | **889** |

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 | 2020 Shares ('000) | 2019 Shares ('000) |
|---|---|---|---|---|
| November 2017 | August 2019 | 45.00 | - | 889 |
| | | | **-** | **889** |

### ii. Share based payments

On 21 February 2020, R Rookes was issued 1,098,361 shares at a value of $268,000 as consideration for his services as chief executive of the Company.

The fair value of the shares was determined using the Volume Weighted Average Price (VWAP) listed on the NZX of the last 5 business days before issue.

In addition to the above, the company made an additional payment of $132,000 to the employee in cash to cover the employee's tax obligation in relation to the Share Based Payment transaction.

## 28 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. The transaction completed on 31 January 2020, with the repayment of an interest free $1m working capital advance.

The contingent consideration for the purchase of Milmeq was renegotiated during the year and was not required to be repaid. The gain of $261,000 arising from the derecognition of this liability is reflected in other income in the statement of comprehensive income.

## 29 Subsequent events

### COVID-19 pandemic

During the four-week lockdown in April 2020 our H&C business was classified as an essential service and operated under those restrictions, albeit on a reduced basis. Our Mercer Stainless business was not classified as an essential service and therefore the workshops in Christchurch and New Plymouth were closed during that period. This did result in revenue falling below forecast levels.

The ongoing situation with COVID-19 continues to adversely impact the Stainless business, particularly the New Plymouth workshop. At balance date as a precautionary measure for further uncertainty due to COVID-19 the Company raised a restructuring provision which was recognised in Employee Entitlements. Post balance date the Company commenced a consultation process for its New Plymouth workshop which is ongoing, the outcome of this process is not yet certain.

During August the COVID-19 Wage Subsidy Extension was applied for the Christchurch workshop employees, as it had experienced a 40% reduction in revenue for the comparative period.

# 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 (together, "the Group"), which comprise the consolidated statement of financial position as at 30 June 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

## Basis for Opinion

We conducted our audit in accordance with 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 are independent of the Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company or any of its subsidiaries.

## Key Audit Matters

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

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| **Capital adequacy and cashflow forecasts** | |
| The Group has reported losses, negative working capital and net cash outflows from operating activities in recent years.<br><br>For the year ended 30 June 2020, the Group incurred a profit from operations after finance costs and taxation of $934,000 (2019: loss of $1,034,000) and net cash inflows from operating activities was $2,457,000 (2019: inflows $4,904,000).<br><br>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.<br><br>The forecast includes key assumptions as to revenue growth, available debt facilities, operating expenditure requirements, capital expenditure requirements and expected funding arrangements.<br><br>Note 3 to the consolidated financial statements discloses the key assumptions relating to the Group's going concern assessment.<br><br>The going concern assessment involves significant management judgement and achievement of these assumptions is critical to the ongoing business viability.<br><br>For these reasons, we have included this as a key audit matter. | We assessed the current funding arrangements in place for the Group by:<br>• obtaining relevant loan documentation and confirming the outstanding loan balances;<br>• assessing whether there were any applicable covenant requirements; and<br>• identifying any scheduled repayments or maturity of borrowings impacting the Group's cash outlays including funds facilities renewed subsequent to balance date.<br><br>We evaluated the appropriateness of the going concern assessment prepared by the Group by:<br>• challenging the reasonableness of the underlying assumptions used by the Group in preparing its forecasts;<br>• performing sensitivity analysis to determine the robustness of the forecasts and the impact of changing key assumptions;<br>• evaluating the support for the Group's forecast sales and ability to fulfil customer orders; and<br>• determining whether the forecasted cash flow and profitability was sufficient to meet the requirements of the funding arrangements.<br><br>We also assessed the adequacy of the disclosures made by the Group in the financial statements. |

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| **Valuation of intangible assets** | |
| At 30 June 2020, the Group has intellectual property of $4,087,000 (2019: $ 3,792,000) relating to its Mercer Technologies businesses (S-Clave) which is still in development. Refer to Note 17 of the financial statements.<br><br>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.<br><br>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:<br>• 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;<br>• performing sensitivity analysis to determine the robustness of the valuation models and the impact of changing key assumptions; and<br>• utilising our internal valuation specialists to assess the Group's estimates used in the valuation models.<br><br>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. |
| **Revenue recognition** | |
| The majority of the Group's revenue from contracts with customers is recognised over time, in relation to the percentage of completion of those projects.<br><br>The percentage of completion is subject to estimation by management, and incorrect revenue recognition could result in a misstatement in the amounts recognised through profit or loss as revenue, or balances in the statement of financial position recorded as contract assets or contract liabilities.<br><br>The Group's accounting policy in relation to revenue recognition is included as accounting policy (F), significant estimates and judgements related to contract revenue is included in Note 3, and revenue is disclosed in Note 6.<br><br>We focused on this area as a key audit matter due to the risk of incorrect timing of revenue recognition and estimation, and resulting impact this could have on profit or loss for the year, and the balances recorded as contract assets or liabilities at the reporting date. | To address the risk of material misstatement relating to revenue recognition, our audit procedures included, amongst others:<br>• assessing the compliance of the Group's revenue recognition policies with applicable accounting standards;<br>• assessing the revenue recognition processes and practices;<br>• obtaining a sample of revenue contracts to assess whether the method for recognition of revenue was in accordance with the requirements of NZ IFRS 15;<br>• testing the accuracy of cut off with substantive procedures;<br>• assessing management's estimates applied to determine percentage of completion;<br>• obtaining and understanding of the design and implementation of controls in relation to revenue recognition; and<br>• assessing the adequacy of the Group's disclosures related to revenue recognition. |

## Other Information

The Directors are responsible for the other information. The other information comprises the Statutory Information, the Chairman's Report, the Financial Performance Summary Report and the Highlights Report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, 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 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 (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 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 at the External Reporting Board's website at:

**https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/.**

This description forms part of our auditor's report.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which 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 and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Michael Rondel.

BDO Christchurch.

**BDO Christchurch**
Christchurch, New Zealand
24 August 2020

This audit report relates to the consolidated financial statements of Mercer Group Limited (the 'Group') for the year ended 30 June 2020 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 24 August 2020 to confirm the information included in the audited consolidated financial statements presented on this website.

# STATUTORY INFORMATION

**FOR THE YEAR ENDED 30 JUNE 2020**

# Mercer Group Board of Directors

## Principal activity

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

In accordance with the constitution, all Directors will continue in Office, until the 2020 Annual 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:

| Directors Holding Office | Remuneration 2020 | 2019 |
|---|---|---|
| John Dennehy [resigned 23 Oct 2019] | $25,362 | $76,250 |
| Paul Smart [Independent] | $47,650 | $43,250 |
| Richard Rookes | $777,145 | $358,313 |
| Colin Neal [appointed 1 May 2020] | $8,083 | $0 |
| Trevor Burt [appointed 24 Oct 2019] | $51,917 | $0 |
| GHD Rolleston | $34,488 | $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 2013, 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
- Trevor Burt

**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 BDO.

| Auditor's Remuneration | 2020 | 2019 |
|---|---|---|
| Audit of Financial Statements* | $94,000 | $159,000 |
| Audit of Financial Statements relating to prior year | $22,000 | $0 |
| Other assurance services | $0 | $2,000 |

*BDO were appointed auditors for the year ended 30 June 2020, replacing Deloitte.

## Remuneration committee

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

Non-executive members of the Board make up the committee.

## Employee remuneration

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

| | 2020 | 2019 |
|---|---|---|
| $100,000 - 109,999 | 9 | 6 |
| $110,000 - 119,999 | 5 | 5 |
| $120,000 - 129,999 | 7 | 2 |
| $130,000 - 139,999 | 7 | 3 |
| $140,000 - 149,999 | 2 | 2 |
| $150,000 - 159,999 | 5 | 2 |
| $160,000 - 169,999 | 3 | - |
| $170,000 - 179,999 | 1 | - |
| $190,000 - 199,999 | - | 1 |
| $200,000 - 209,999 | 1 | - |
| $260,000 - 269,999 | 1 | 1 |
| $290,000 - 299,999 | 1 | - |
| $300,000 - 309,999 | 1 | - |
| $350,000 - 359,999 | - | 1 |
| $770,000 - 779,999* | 1 | - |

*Note that these figures include equity based payments amounting to $400,000 (2019: $nil) for share payments (see Note 27 of the Group Financial Statements).

**Diversity**

At 30 June 2020, Mercer Group employed 141 staff, including 39 in the workshop, of which 125 (87%) were male and 16 (13%) were female. Compared to 2019 where 130 (90%) were male and nine (8%) were female employees. MGL encourages representation across both genders and all ethnicities and have a policy hiring on merit.

The five directors and two officers of the company at 30 June 2020 are male compared to four male directors and two male officers in 2019.

## 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 the Mercer Group Limited must conduct its affairs. The codes cover the requirement to avoid conflicts of interest and demand high standards of honesty, integrity and fairness.

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

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 notice that the director may benefit from any transaction between the parent or Group and the identified entities.

| Name of Director | Appointed | Appointment | Description of Interest |
|---|---|---|---|
| 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 – ArborGen Holdings Ltd<br>Director – Geo40 Ltd<br>Director – Argus Fire Systems Service Ltd<br>Director – SolarZero Ltd<br>Director – Sunrise Consulting Ltd<br>Trustee – Bellbird Trust<br>Trustee – Saddleback Trust |
| GHD Rolleston | 28-Feb-19 | Non-executive director | Director/Shareholder – PlantMiner Pty Ltd<br>Director/Shareholder – Travlr Pty Ltd<br>Director/Shareholder – Matrix Pty Ltd (NZ)<br>Director/Shareholder – Suubee Pty Ltd<br>Director/Shareholder – Rolleston Investment Trust<br>Director/Shareholder – Asset Growth Fund Pty Ltd<br>Director/Shareholder – Rolleston Capital<br>Director/Shareholder – Spaceships Australia |
| Trevor Burt | 24-Oct-19 | Non-executive Independent Chairman and a member of the Audit Committee | Chair – Rua Bioscience Ltd<br>Chair – The Lamb Company North America<br>Director – Market Gardeners Ltd<br>Director – Landpower Group Ltd<br>Director/Shareholder – Breakaway Investments Ltd<br>Director/Shareholder – Hossack Station Ltd<br>Director/Shareholder – Eastern Dynasty Ltd<br>Board member – Christ's College<br>Board member – Maia Health Foundation<br>Trustee – Ben Gough Family Trust |
| Colin Neal | 1-May-20 | Non-executive director | Director – Asco Ltd<br>Director – Asphalt Supply Company Ltd<br>Director – Astrolabe Retreat Ltd<br>Director – Bay Cuisine Ltd<br>Director – Big Chill Distribution Ltd<br>Director – Bush Road Ltd<br>Director – Country Foods Ltd<br>Director – Exquisite Foods Ltd<br>Director – Lean Artisan Smokehouse Company Ltd<br>Director – Natava Superfoods Ltd<br>Director – Pasta d'Oro Ltd<br>Director – Polar Capital GP Ltd<br>Director – Polar Equity Ltd<br>Director – Pure Cuisine NZ Ltd<br>Director – SFFL Exports Pty Ltd<br>Director – Smiths City (2020) Ltd<br>Director – Smiths City Finance Ltd<br>Director – Smith City Holdings (2020) Ltd<br>Director – South Island Dairy Processors Ltd<br>Director – South Island Fresh Foods Ltd |

## 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 $63,060.

## Donations

Mercer Group made no donations during either year.

## Directors' shareholding

| | Voting Securities Total | Beneficial Interest | | Associated Persons | | Non Beneficial | |
|---|---|---|---|---|---|---|---|
| **Directors Shareholding** | | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| **GHD Rolleston** | | | | | | | |
| Asset Management Limited | | 14,778,788 | 27,778,788 | - | - | - | - |
| Asset Trading Limited | | 99,542 | 99,542 | - | - | - | - |
| National Mortgage Underwriters | | 192,790 | 192,790 | - | - | 76,696 | 76,696 |
| HJD Rolleston & AJ Keegan | | 5,799,298 | 5,799,298 | - | - | - | - |
| | **20,870,418**<br>31.2% | **20,870,418** | **33,870,418** | **20,947,114** | **33,947,114** | **76,696** | **76,696** |
| **P Smart** | | | | | | | |
| Sunrise Consulting Ltd | 327,846 | 327,846 | 257,500 | - | - | - | - |
| | **327,846**<br>0.50% | **327,846** | **257,500** | **-** | **-** | **-** | **-** |
| **R Rookes** | | | | | | | |
| Richard George Rookes | 2,000,861 | 2,000,861 | 602,500 | - | - | - | - |
| | **2,000,861**<br>3.00% | **2,000,861** | **602,500** | **-** | **-** | **-** | **-** |
| **T Burt** | | | | | | | |
| Trevor Burt | 300,000 | 300,000 | | - | - | - | - |
| | **300,000**<br>0.46% | **300,000** | | **-** | **-** | **-** | **-** |
| **C Neal** | | | | | | | |
| Custodial Services Ltd | 13,011,755 | 13,011,755 | | - | - | - | - |
| | **13,011,755**<br>19.8% | **13,011,755** | | **-** | **-** | **-** | **-** |
| **Total shares in issue at 30 June 2020** | **65,619,067** | | | | | | |

## Shareholders analysis

The shareholder information detailed in this report has been taken from the Companies Register as at 30 June 2020.

## Domicile of security holders

| | Number of holders | % | Number of shares held | % |
|---|---|---|---|---|
| New Zealand | 633 | 97.24 | 65,123,698 | 99.24 |
| Australia | 11 | 1.69 | 30,342 | 0.05 |
| United Kingdom | 2 | 0.31 | 20,019 | 0.03 |
| China | 1 | 0.15 | 331,675 | 0.51 |
| Other | 4 | 0.61 | 113,333 | 0.17 |
| | **651** | **100.0** | **65,619,067** | **100.0** |

## Range of shareholdings

| | Number of holders | % | Number of shares held | % |
|---|---|---|---|---|
| 1 to 1,000 | 292 | 44.86 | 75,376 | 0.11 |
| 1,001 to 5,000 | 111 | 17.05 | 290,862 | 0.44 |
| 5,001 to 10,000 | 51 | 7.83 | 385,534 | 0.59 |
| 10,001 to 100,000 | 142 | 21.81 | 5,958,290 | 9.08 |
| 100,001 and over | 55 | 8.45 | 58,909,005 | 89.78 |
| | **651** | **100.0** | **65,619,067** | **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 30 June 2020:

| | Relevant interest voting securities* | % of shares |
|---|---|---|
| **HJD Rolleston** | 20,947,114 | 31.9 |
| **C Neal** | 13,011,755 | 19.8 |

*The total number of voting securities of the Company on issue at 30 June 2020 was 65,619,067.

# Shareholder information

The information in the disclosure below have been taken from the Company's register at 30 June 2020.

**Twenty largest shareholders:**

| Holder | Number held | % of Issue Capital |
|---|---|---|
| Asset Management Limited | 14,778,788 | 22.52% |
| Custodial Services Limited | 13,011,755 | 19.83% |
| Humphry John D Rolleston | 5,799,298 | 8.84% |
| Forsyth Barr Custodians | 3,292,010 | 5.02% |
| AG Shares Limited | 3,000,000 | 4.57% |
| Richard George Rookes | 2,000,861 | 3.05% |
| William John Hedley Willis | 1,250,000 | 1.90% |
| Ian Alexander McGregor | 875,500 | 1.33% |
| Leveraged Equities Finance | 846,934 | 1.29% |
| Rodger David Shepherd | 720,517 | 1.10% |
| Whitford Equity Investments | 714,286 | 1.09% |
| Paul Hewitson & Christopher John Stark | 676,801 | 1.03% |
| New Zealand Central Securities | 663,350 | 1.01% |
| JBWERE (NZ) Nominees Limited | 530,582 | 0.81% |
| Ballynagarrick Investments | 527,000 | 0.80% |
| FNZ Custodians Limited | 509,556 | 0.78% |
| Wairahi Holdings Limited | 500,000 | 0.76% |
| Zagato Limited | 500,000 | 0.76% |
| William James Thurlow | 500,000 | 0.76% |
| Richard Robson and AS Robson | 500,000 | 0.76% |
| **Totals** | **51,197,238** | **78.02%** |

# 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

### AUDITORS

**BDO**

Level 4
287-293 Durham Street
Christchurch 8013

### BANKERS

**Bank of New Zealand Limited**

Level 1, 86 Highbrook Drive
East Tamaki
Auckland 2013

# Sites

## Christchurch

53 Lunns Road
Christchurch

+64 (3) 348 7039

## Hastings

210 Wilson Road
Woolwich
Hastings

+64 (6) 872 7140

## New Plymouth

73 Corbett Road
Bell Block
New Plymouth

+64 (6) 755 1276

## Auckland

Level 15
55 Shortland Street
Auckland

+64 (0800) 645 637

## Brisbane

Unit 3, 10 Moore Street
Acacia Ridge
QLD 4110
Australia

+61 (7) 3340 1100

Mercer group Ltd

53 Lunns Road, Middleton,
Christchurch, New Zealand

+64 (3) 348 7039

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