Mercer group Ltd

Interim Report | 2019

Mercer group Ltd

NZX Release

Contents

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Mercer Group Returns to an After-Tax Profit

Financial Results for the six months to 31 December 2018

Mercer Group Limited (MGL) is announcing a return to profit, based on solid workflows across both Mercer Stainless and H&C.

The highlights included:

1 | 10% increase in Consolidated Group revenue over the prior year period to $18m.

2 | EBITDA increased to $596k from $96k in the prior year period.

3 | Net Profit after Tax of $227k, up from a loss of $365k in the prior year period.

4 | Strong cashflow from H&C resulted in an operating cash inflow of $5.9m for the six-month period.

While the above highlights are a pleasing result given the performance in recent years, the focus remains on building a sustainable business through actively diversifying our revenue streams by product, end market and geography.

Financial Performance

Operating revenue of $18m was 10% up on prior year. This revenue growth was driven by H&C that saw a 49% increase on prior year to $9.3m. Mercer Stainless revenue was down 16% to $8.9m based on lower workflows in the wine sector.

EBITDA was $596k for the half year, up from $96k in the prior year. This was largely a result of a return to profitability for H&C, which generated $157k EBITDA for the half year versus a loss of $618k for the prior year. Mercer Stainless generated EBITDA of $656k for the period which was a reasonable result based on the reduced revenue. The profitability margins have room for improvement, particularly at H&C and will be a focus going forward.

Mercer Group generated a net profit after tax of $227k for the half year, up from a net loss of $365k in the prior year period.

Cash from operations was $5.7m for the half year, this being the result of large upfront deposits for the stronger workflows. While this is likely to unwind in the second half, it allowed for a $1.8m temporary repayment in debt for the half year, reducing our interest costs. These working capital swings are a natural ebb and flow of our business.

Borrowings were $4.5m as at 31 December 2018, and with a cash balance of $3.5m reflects a pleasing liquidity perspective.

H&C Automated Solutions

H&C has started to see the benefit of stronger workflows. This saw revenue increase to 48.5% over the prior year period to $9.3m. While the business did generate positive EBITDA of $157k for the period (a material improvement on the $618k EBITDA loss for the prior year period), this was below expectations and the result of timing issues and mix of work which required more engineering upfront. We are confident that going forward margins will improve.

Workflows for H&C are strong through the first quarter of 2019. The second quarter of the calendar year could potentially be impacted by the postponement of a secured order in the US – the work was scheduled for the April-June quarter, but has now been pushed out to October by the client.

We continue to diversify the H&C business. In this regard we have been pleased to secure a number of orders from new customers, including:

1. The full design and delivery of an automated system for the leading NZ apple packhouse.
2. The full design and delivery of an automated system for a large Australian based yoghurt business. This included our own pallet AGV design.
3. The largest single order for AiCo carton erectors and lidders into the Australian market.
4. The design and delivery of a bespoke cheese de-bagging system into Israel.

We continue to push ahead with our plan for relevant diversification. In the next six months we expect to be delivering our first deboxing system to a leading US based meat company. While this is requiring capital investment, it will open up a new sector in the US market, and one that has a significant requirement for automation. We are also actively pursuing opportunities for our world leading bulk cheese systems in Asia.

The acquisition of the Milmeq Chilling and Freezing business, due to settle on 28th February, will fall into H&C. Further detail on this is outlined below.

Milmeq Chilling and Freezing

On 7th December 2018, H&C entered into an agreement to acquire the Chilling and Freezing business of Milmeq. This transaction is due to settle on 28th February, subject to final conditions being met. At this stage, we do not expect any issues to arise that would stop this transaction from settling.

The Milmeq Chilling and Freezing business will provide H&C with offices in Auckland and Brisbane and an additional 20 staff. The business is a market leader in plate freezing in Australia and chilling and freezing tunnels globally. While the individual products have their own growth opportunities, there are also synergies to be achieved through the acquisition, both operationally and in market. The Milmeq systems automate the chilling and freezing of food products (meat, poultry and cheese). By bringing these product sets into the H&C business, we will be able to provide existing customers a broader offering. Examples of this include the following:

1. H&C's broader automation capability will allow for the business to offer further automation at the front and back ends of the Milmeq plate freezers and tunnels.
2. By combining the Milmeq tunnel with the Beta and AiCo range's and H&C's automation skills there is potential for the combined business to provide an end-to-end solution in cheese make facilities, automating the process from the cheese tower through to warehousing.

Under the structure of the acquisition, H&C will not be taking on any existing Milmeq contracts. H&C has already secured, one $6m contract for a cheese cooling tunnel in the US and expect to secure one more tunnel within the next month. Given timing around revenue recognition and orders, there is the potential for the acquisition not to generate EBITDA in the short term. We note though, that under the structure of the acquisition, H&C are receiving interest free vendor financing through to 31 December of $1m cash. The amount to be repaid is structured as an earn out and will be determined based on the performance of the business.

We continue to progress the S-Clave through the commercialisation process.

We continue to progress the S-Clave through the commercialisation process. This has been slower than we would like but is a reflection on the process that is required to launch a product into the medical sector.

We remain highly confident of the market solution. We are comfortable with the integrity of the S-Clave (it has passed all industry sterilisation tests and the process take c.15 minutes versus c.1 hour for the existing process). In order to launch the product, we need to finalise the lid system – this has been the focus of the testing in recent time and we believe we are close to the final solution.

Atherton's continue to be a supportive partner, providing us with their R&D facility and access to autoclaves to undertake testing. They also continue to provide us with important market information so that we are positioned correctly for the product launch.

Mercer Stainless had an adequate first half with revenue of $8.9m resulting in EBITDA of $656k. Investment in the dairy sector drove this performance, while the business did not win as much work in the wine sector as last year based on a highly competitive pricing environment. The cyclical nature of the stainless sector continues to be a challenge and despite a continued effort to diversify Mercer Stainless is still largely reliant on the dairy sector. The medium term outlook remains good, with quoting levels currently high, although there are some project delays which may impact on workflows in the short term.

Edendale

We continue to make progress on the settlement of the Edendale silo collapse. We expect to update the market on this within the next two weeks.

Director Appointment

Mercer announces that Mr George Rolleston has been appointed by the board as a non executive director. The board has determined that George will not be an independent director as he is the son of Humphry Rolleston who personally, and through his associates, is the majority shareholder of Mercer.

George brings 14 years of experience in global capital markets and serves as an adviser and investor in a number of internationally focussed high growth technology businesses. He currently sits on the boards of a number of private businesses in the tourism, construction, fintech and security industries and has over a decade experience as an early stage investor in companies employing over 200 people in Australia.

He holds a Bachelor of Business (Law) and a Masters of Applied Finance (MAPPFin).

Outlook

We have been pleased with the turnaround at H&C that has resulted in a net profit for the group for the half year. H&C has strong workflows through the first quarter of the 2019 calendar year, while Mercer Stainless is seeing good quoting levels but is experiencing some project delays. We expect the group to generate a net profit for the full year.

The Milmeq acquisition will provide us with significant new market opportunities and should be a driver of growth going forward. At the same time, the funding arrangement of the acquisition de-risks the business in the short term.

We remain committed to the strategy of growing a technology led business that provides world leading automated solutions. With the acquisition of Milmeq's Chilling and Freezing business the company will have a presence in Auckland and Australia which will provide market opportunities as well as a broader skills base from which to grow. As a company we now have a number of exciting growth opportunities that can be executed from an established and credible base. We will continue to invest in product development and people to drive the Mercer Group forward from the base that is now established.

John Dennehy	Richard Rookes
Chairman	Chief Executive Officer

For further information contact
Richard Rookes, 021 414 016

Condensed Group Statement of Comprehensive Income

For the half year ended 31 December 2018

	Unaudited Six Months to December 2018 $000	Unaudited Six Months to December 2017 $000	Audited Twelve Months to June 2018 $000
Revenue			
Sale of goods and contract revenue	**18,006**	16,383	28,819
Other income	**19**	-	15
Total income	**18,025**	16,383	28,834
Expenses			
Changes in inventories of finished goods and work in progress	**(10,935)**	(9,123)	(18,587)
Salaries and wages	**(4,471)**	(4,659)	(9,602)
Rental and operating leases	**(230)**	(224)	(411)
Other expenses	**(1,785)**	(2,280)	(4,452)
Depreciation	**(147)**	(190)	(388)
Amortisation	**(30)**	-	(22)
Impairment of intangible assets	**-**	-	(822)
Restructuring costs	**(8)**	-	-
Income (Deficit) from operations before finance costs and taxation	**419**	(94)	**(5,450)**
Finance costs	**(203)**	(283)	(490)
Income (Deficit) from operations after finance costs and before taxation	**216**	(377)	(5,940)
Income tax expense	**(54)**	-	(1,901)
Income (Deficit) from operations after finance costs and taxation	**162**	(377)	(7,841)
Other comprehensive income (loss)			
Items that may be subsequently charged or credited to profit and loss			
Currency translation differences on overseas subsidiaries	**65**	12	(69)
Other comprehensive income (loss) for the period, net of tax	**65**	12	(69)
Total comprehensive income (loss) for the period	**227**	(365)	(7,910)
Attributable to:			
- Owners of the parent	**227**	(365)	(7,910)
Total	**227**	(365)	(7,910)
Basic earnings per share:			
Income (Deficit) per share attributable to shareholders of the company (cents)	**0.26**	(0.58)	(12.60)
Fully diluted earnings per share:			
Income (Deficit) per share attributable to shareholders of the company (cents)	**0.26**	(0.58)	(12.60)

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

Condensed Group Statement of Financial Position

As at 31 December 2018

	Unaudited 31 December 2018 $000	Unaudited 31 December 2017 $000	Audited 30 June 2018 $000
ASSETS			
Current assets			
Cash and bank balances	**3,537**	1,123	671
Accounts receivable	**5,379**	3,460	4,403
Other debtors and prepayments	**387**	1,161	397
Finance lease receivable	**14**	-	13
Inventories	**2,534**	4,081	2,412
Total current assets	**11,851**	9,825	7,896
Non current assets			
Other debtors and prepayments	**285**	803	-
Property, plant and equipment	**6,332**	6,610	6,421
Finance lease receivable	**296**	-	303
Deferred tax asset	**491**	2,443	545
Investment in associate	**-**	16	-
Total non current assets	**11,716**	14,739	11,510
Total assets	**23,567**	24,564	19,406
LIABILITIES			
Current liabilities			
Bank overdraft	**-**	1,412	947
Net work in progress and progressive billings	**8,714**	(737)	1,781
Derivative financial instruments	**35**	-	27
Trade and other payables	**4,722**	3,952	4,935
Employee entitlements	**940**	905	986
Borrowings	**370**	838	370
Total current liabilities	**14,781**	6,370	9,046
Non current liabilities			
Borrowings	**4,115**	6,205	5,916
Total liabilities	**18,896**	12,575	14,962
Net assets	**4,671**	11,989	4,444
EQUITY			
Share capital	**44,366**	44,366	44,366
Other reserves	**3,065**	3,081	3,000
Retained earnings	**(42,760)**	(35,458)	(42,922)
Total equity	**4,671**	11,989	4,444

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

Condensed Group Statement of Movements in Equity

For the half year ended 31 December 2018

	Attributable to the owners of the Group					
	Share capital $'000	Retained earnings $'000	Share based payments reserve $'000	Foreign currency translation reserve $'000	Asset revaluation reserve $'000	Total equity $'000
Audited balance at 1 July 2017	41,522	(35,081)	211	(13)	2,871	9,510
Foreign currency translation reserve	-	-	-	12	-	12
Income (deficit) for the half year	-	(377)	-	-	-	(377)
Total comprehensive income (deficit) for the half year	-	(377)	-	12	-	(365)
Capital raising costs	(120)	-	-	-	-	(120)
Issue of new shares	2,964	-	-	-	-	2,964
Unaudited balance at 31 December 2017	44,366	(35,458)	211	(1)	2,871	11,989
Audited balance at 1 July 2018	44,366	(42,922)	211	(82)	2,871	4,444
Foreign currency translation reserve	-	-	-	65	-	65
Income (deficit) for the half year	-	162	-	-	-	162
Total comprehensive income (deficit) for the half year	**-**	**162**	**-**	**65**	**-**	**227**
Unaudited balance at 31 December 2018	**44,366**	**(42,760)**	**211**	**(17)**	**2,871**	**4,671**

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

Condensed Group Statement of Cash Flow

For the half year ended 31 December 2018

	Unaudited Six Months to December 2018	Unaudited Six Months to December 2017	Audited Twelve Months to June 2018
	$000	$000	$000
Operating activities			
Income (Deficit) after tax	**162**	(377)	(7,841)
Income tax recognised in Group Statement of Comprehensive Income	**54**	-	1,901
Finance costs	**203**	283	490
Depreciation and amortisation	**177**	190	410
Inventory provision	**(237)**	1	1,441
Debtors provision	**-**	-	(467)
Loss on sale of plant & equipment	**(1)**	-	-
Impairment of intangible assets	**-**	-	822
Derivative financial instruments	**8**	-	27
Changes in working capital	**5,537**	(1,786)	3,115
Net cash in (out) flow before finance costs	**5,903**	(1,689)	(102)
Interest paid	**(203)**	(283)	(490)
Net cash in (out) flow from operating activities	**5,700**	(1,972)	(592)
Investing activities			
Cash was provided (to) from :			
Purchase of property, plant and equipment	**(120)**	(115)	(138)
Purchase of patents and development activities (net)	**(99)**	(181)	(399)
Finance lease	**7**	-	(316)
Interest received on finance lease	**-**	-	15
Proceeds from disposal of property, plant and equipment	**61**	-	12
Net cash from investing activities	**(151)**	(296)	(826)
Financing activities			
Cash was provided from (to):			
Capital raising costs	**-**	(121)	(120)
Issue of new shares	**-**	2,964	2,964
Drawdown (repayment) of borrowings	**(1,801)**	(639)	(1,396)
Net cash in (out) flow from financing activities	**(1,801)**	2,204	1,448
Net (decrease) increase in cash held	**3,748**	(64)	30
Cash (Overdraft) at beginning of the period	**(276)**	(237)	(237)
Effect of exchange rate changes	**65**	12	(69)
Cash (overdraft) at the end of the period	**3,537**	(289)	(276)

The Group Statement of Cash Flows is exclusive of GST.

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

Notes to the Condensed Group Financial

For the half year ended 31 December 2018

1. General information

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

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

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

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

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

- **Mercer Technologies:** The division manages the research and development of the Mercer Group. Currently focused on commercializing the S-Clave.

The Group is designated as a profit oriented entity for financial reporting purposes.
The financial statements have been approved for issue by the Board of Directors on 25 February 2019.

2. Summary of significant accounting policies

(a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Information on the application of the going concern assumption is included in Note 10.

These condensed consolidated interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly the condensed consolidated interim financial information should be read in conjunction with the Annual Financial Statements for the year ended 30 June 2018, which were prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). They also comply with International Financial Reporting standards (IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

(b) New accounting standards adopted by Mercer Group

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

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

The impact of the adoption of these new standards is disclosed below.

(c) Changes in accounting policies

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

Notes to the Condensed Group Financial Statements cont.

For the half year ended 31 December 2018

2. Summary of significant accounting policies cont.

IFRS 9 Financial Instruments – impact of adoption

IFRS 9, as it relates to Mercer Group, replaces the provisions of IAS 39 that relate to the recognition, classification, measurement and impairment of financial assets. The adoption of IFRS 9 from 1 July 2018 resulted in changes in accounting policies and has an immaterial impact to the amounts recognised in the consolidated interim financial statements. The new accounting policies are set out in the sections below, there was no material impact on the consolidated interim financial statements.

Mercer Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with Mercer Group's previous accounting policies.

Classification and measurement

IFRS 9 impacts the following classifications of financial assets:

- Cash
- Trade receivables

From 1 July 2018, Mercer Group classifies its financial assets as being measured at amortised cost. Until June 2018, Mercer Group classified its financial assets as loans and receivables. There was no change in the fair value of the financial assets as a result of the reclassification.
At initial recognition, Mercer Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Impairment

From 1 July 2018, Mercer Group assesses on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

In assessing whether there has been a significant increase in credit risk, Mercer Group considers both forward looking and financial history of counterparties to assess the probability of default or likelihood that settlement is not received in full.

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

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with Mercer Group, and a failure to make contractual payments for a period of greater than 180 days past due.

The expected credit loss allowances for financial assets are based on assumptions about risk of default and expected credit loss rates. Mercer Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation. This is based on Mercer Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of key assumptions and judgements are included in each section below.

Cash

While cash and cash equivalents are subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Notes to the Condensed Group Financial Statements cont.

For the half year ended 31 December 2018

2. Summary of significant accounting policies cont.

Trade receivables

Mercer Group's trade receivables are subject to IFRS 9's expected credit loss model. Mercer Group has applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. To measure expected credit losses, trade receivables have been grouped and reviewed on the basis of the number of days past due. The expected credit loss allowance has been calculated by considering the impact of the following characteristics:

The Baseline characteristic considers the age of each invoice and applies an increasing expected credit loss estimate as the trade receivable ages.

The Aging and Write offs characteristics consider the history of write off related to the specific customer and the relative size of aged debt to current debt. If the trade receivable aged over 180 days makes up more than 45% of the total trade receivable for a specific customer, further provision for expected credit loss is added.

The Country, Customer and Market characteristics consider the relative risk related to the country and/or region within which the customer resides and makes an assessment of the financial strength of the customer and the market position that Mercer Group has achieved within that market.

IFRS 15 Revenue from Contracts with Customers – impact of adoption

Mercer Group adopted IFRS 15 from 1 July 2018, which resulted in changes in accounting policies relating to the recognition of revenue.

Following a detailed review of Mercer Group's portfolio of contracts, Management concluded that the implementation of IFRS 15 has no material impact on the way in which Mercer Group recognises revenue. Therefore, there is no requirement to restate revenue reported in prior periods. The details of the review process are outlined below. Accounting policies have been amended to ensure that the five-step method, as defined in IFRS 15, is applied consistently to revenue recognition processes across Mercer Group.

Process and policy
To assess the impact of IFRS 15 on Mercer Group, live contracts from each segment were aggregated to create portfolios of contracts. Sample contracts from each segment were selected as being representative of each unique contract type. For each contract type, the five-step method was applied to assess the impact on revenue recognition.

The five-step method for recognising revenue from contracts with customers involves consideration of the following:

1. Identifying the contract with the customer
2. Identifying performance obligations
3. Determining the transaction price
4. Allocating the transaction price to distinct performance obligations
5. Recognising revenue

In terms of the impact of IFRS15 to the presentation of the consolidated interim financial statements, Mercer Group meets the requirements to continue to recognise revenue over time for revenue from contracts with customers, rather than at a point in time. This is because the Group produces bespoke capital equipment for its customers for which the Group has no alterative use, and the Group has an enforceable right to payment for performance completed during the contract.

Notes to the Condensed Group Financial Statements cont.

For the half year ended 31 December 2018

2. Summary of significant accounting policies cont.

IFRS 15 Revenue from Contracts with Customers – impact of adoption cont.

In terms of impact to the presentation of the consolidated interim financial statements, IFRS 15 requires the disaggregation of revenue to provide clear and meaningful information. For Mercer Group, Management concluded that presentation of revenue in terms of the method of revenue recognition was most appropriate. Therefore, revenue is disaggregated by the operating segments, below is the disaggregation of note 3 as amounts recognised at a point in time and over time.

31 December 2018 (Unaudited)	Stainless Fabrication	Haden & Custance	Corporate & MTL	Eliminations	Total Group
Timing of Revenue Recognition					
Point in Time	**933**	**654**	**-**	**(234)**	**1,353**
Over Time	**7,968**	**8,685**	**-**	**-**	**16,653**
Total Revenue	**8,901**	**9,339**	**-**	**(234)**	**18,006**
Cost of Sales	**8,245**	**9,182**	**217**	**(234)**	**17,410**
EBITDA Surplus/(Deficit)	**656**	**157**	**(217)**	**-**	**596**

31 December 2017 (Unaudited)	Stainless Fabrication	Haden & Custance	Corporate & MTL	Eliminations	Total Group
Timing of Revenue Recognition					
Point in Time	1,221	440	6	(520)	1,147
Over Time	9,389	5,847	-	-	15,236
Total Revenue	10,610	6,287	6	(520)	16,383
Cost of Sales	9,568	6,905	334	(520)	16,287
EBITDA Surplus/(Deficit)	1,042	(618)	(328)	-	96

Notes to the Condensed Group Financial Statements cont.

For the half year ended 31 December 2018

3. Segment information

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

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

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

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

Corporate: This division includes Mercer Group Limited, the Parent Company and the head office activities within Mercer Stainless Limited. The segment result includes rental received from other segments in respect of properties owned and occupied by Mercer Stainless Limited. Goodwill previously included in Corporate has been allocated to the relevant reportable segment.

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

	31 December 2018 (Unaudited)			31 December 2017 (Unaudited)			30 June 2018 (Audited)		
	sales of goods and contract revenue $000	Segment result (EBITDA) $000	Segment assets $000	sales of goods and contract revenue $000	Segment result (EBITDA) $000	Segment assets $000	sales of goods and contract revenue $000	Segment result (EBITDA) $000	Segment assets $000
Stainless Fabrication	**8,901**	**656**	**1,716**	10,610	1,042	1,955	18,514	1,055	1,708
Haden & Custance	**9,339**	**157**	**6,025**	6,287	(618)	5,297	12,503	(1,595)	4,263
Mercer Technologies	**-**	**(2)**	**4,044**	6	(7)	3,940	6	5	3,891
Corporate	**-**	**(215)**	**11,782**	-	(321)	13,372	-	(887)	9,544
Intersegment eliminations	**(234)**	**-**	**-**	(520)	-	-	(2,204)	-	-
Total sales, EBITDA, assets	**18,006**	**596**	**23,567**	16,383	96	24,564	28,819	(1,422)	19,406
Depreciation and amortisation	**-**	**(177)**	**-**	-	(190)	-	-	(410)	-
Finance costs	**-**	**(203)**	**-**	-	(283)	-	-	(490)	-
Inventory Adjustments	**-**	**-**	**-**	-	-	-	-	(1,939)	-
Impairment of Intangible Assets	**-**	**-**	**-**	-	-	-	-	(822)	-
Impairment of tangible Assets	**-**	**-**	**-**	-	-	-	-	(857)	-
Income tax credit (charge)	**-**	**(54)**	**-**	-	-	-	-	(1,901)	-
Total sales, deficit after tax, assets	**18,006**	**162**	**23,567**	16,383	(377)	24,564	28,819	(7,841)	19,406

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

Transactions between segments are accounted for using the same accounting policies as set out in these financial statements. The intersegment eliminations are predominately sales between Stainless Fabrication and Haden & Custance.

Notes to the Condensed Group Financial Statements cont.

For the half year ended 31 December 2018

4. Contingent liabilities

	Unaudited 31 December 2018 $000	Unaudited 31 December 2017 $000	Audited 30 June 2018 $000
Guarantee to bankers for credit card facilities up to a limit of	**149**	99	149
Guarantees to bankers for bank guarantees issued to third parties from which it is anticipated that no material liabilities will arise	**3,755**	4,970	3,755
	3,904	5,069	3,904

5. Commitments

	Unaudited 31 December 2018 $000	Unaudited 31 December 2017 $000	Audited 30 June 2018 $000
Non-cancellable sublease receivables			
Non-cancellable			
Commitments for minimum lease payments in relation to non-cancellable operating leases are receivable as follows:			
Within one year	**77**	185	170
Later than one year but not later than five years	**-**	77	-
	77	262	170
Operating lease commitments			
Non-cancellable			
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:			
Within one year	**378**	452	436
Later than one year but not later than five years	**929**	1,031	954
Later than five years	**-**	99	-
	1,307	1,583	1,390

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

6. Dividends

No dividend was paid or declared (June 2018: Nil, December 2017: Nil).

Notes to the Condensed Group Financial Statements cont.

For the half year ended 31 December 2018

7. Related party transactions

(a) Directors

The names of persons who were directors of the company at any time during the financial period are as follows: J F Dennehy, R Rookes and P Smart.

(b) Key management personnel compensation

Key management personnel compensation 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.

	Unaudited Six Months to December 2018 $000	Unaudited Six Months to December 2017 $000	Audited Twelve Months to June 2018 $000
Short term benefits	**457**	445	1,029
Long term benefits	**15**	15	48
Directors' fees	**51**	51	154
Total	**523**	511	1,231

(c) Equity instruments

(i) Share options

In November 2017, Mr J Dennehy, Director and Board Chair, was issued options as follows:
a) to subscribe for 625,000 ordinary shares in the capital of the Company at an exercise price of $0.40 per share exercisable in August 2018.

In November 2017, Mr R Rookes, CEO, was issued options as follows:
a) to subscribe for 833,333 ordinary shares in the capital of the Company exercisable at $0.30 per share exercisable in August 2018; and
b) to subscribe for 777,777 ordinary shares in the capital of the Company at an exercise price of $0.45 per share exercisable in August 2019.

In November 2017, Mr I McGregor, CFO, was issued options as follows:
a) to subscribe for 166,667 ordinary shares in the capital of the Company exercisable at $0.30 per share exercisable in August 2018; and
b) to subscribe for 111,111 ordinary shares in the capital of the Company at an exercise price of $0.45 per share exercisable in August 2019.

(ii) Other shares

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

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

Notes to the Condensed Group Financial Statements cont.

For the half year ended 31 December 2018

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

	Unaudited 31 December 2018 Average exercise price in cents per share option	Unaudited 31 December 2018 $000	Unaudited 31 December 2017 Average exercise price in cents per share	Unaudited 31 December 2017 $000	Audited 30 June 2018 Average exercise price in cents per share	Audited 30 June 2018 $000
At beginning of period	**38.00**	**2,514**	10.36	14,429	10.36	14,429
Issued	**-**	**-**	2.65	2,514	38.00	2,514
Expired	**38.00**	**(1,625)**	5.00	(14,429)	10.36	(14,429)
At end of period	**45.00**	889	2.65	2,514	38.00	2,514

Share options outstanding have the following expiry date and exercise prices:

Grant-date	Vesting expiry date	Exercise price in cents per share option	Unaudited 31 December 2018 $000	Unaudited 31 December 2017 $000	Audited 30 June 2018 $000
November 2017	August 2018	**40.00**	**-**	625	625
November 2017	August 2018	**30.00**	**-**	1,000	1,000
November 2017	August 2019	**45.00**	**889**	889	889
			889	2,514	2,514

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

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

	Unaudited 31 December 2018 $000	Unaudited 31 December 2017 $000	Audited 30 June 2018 $000
Advances owed from associates	**-**	641	-
Gresham Finance payable for deferred consideration	**-**	(398)	-

Notes to the Condensed Group Financial Statements cont.

For the half year ended 31 December 2018

8. Earnings per share

Basic and diluted

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

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

	Unaudited 31 December 2018 # of shares	Unaudited 31 December 2017 # of shares	Audited 30 June 2018 # of shares
Weighted average number of ordinary shares in issue:			
Basic	**62,257,810**	64,520,706	62,257,810
Options	**-**	2,514,000	-
Total	**62,257,810**	67,034,706	62,257,810
Income (deficit) attributable to the shareholders of the Company ($000)	**162**	(377)	(7,841)
Basic earnings per share	**0.26 cents**	(0.56) cents	(12.59) cents
Diluted earnings per share	**0.26 cents**	(0.56) cents	(12.59) cents

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

9. Share Capital

Group	Unaudited 31 December 2018 # of shares	Unaudited 31 December 2017 # of shares	Audited 30 June 2018 # of shares	Unaudited 31 December 2018 $000	Unaudited 31 December 2017 $000	Audited 30 June 2018 $000
Issued and fully paid up capital	**64,520,706**	64,520,706	64,520,706	**44,366**	44,366	44,366
Balance at beginning of the period	**64,520,706**	57,595,206	57,595,206	**44,366**	41,522	41,522
Shares issued during the period	**-**	6,925,500	6,925,500	**-**	2,964	2,964
Capital raising costs	**-**	-	-	**-**	(120)	(120)
Balance at the end of the period	**64,520,706**	64,520,706	64,520,706	**44,366**	44,366	44,366

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

Notes to the Condensed Group Financial Statements cont.

For the half year ended 31 December 2018

10. Going Concern

The Condensed Financial statements have been prepared using the going concern assumption. For the half year ended 31 December 2018 the Group recorded a net surplus of $162,000. With the banking facilities in place and forecast profit for the second half of the current financial year, the Directors believe the going concern assumption remains valid. If the Group was unable to continue in operational existence, and pay debts as and when they became due and payable, 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 in the statement of financial position.

11. Business Acquisition

On the 7th of December 2018 the Group entered into an agreement to acquire the chilling and freezing assets of Milmeq Limited and certain employees located in Brisbane and Auckland. The transaction settles on the 28th of February 2019 following certain conditions being met. The acquisition cost is a combination of a $50,000 cash deposit and a deferred settlement. The deferred settlement is contingent on the business achieving agreed gross margin targets as calculated on 31 December 2019. The business was acquired for the purpose of expanding the Group's international markets and broadening the solutions that the Group can offer to its customers.

Mercer group Ltd

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