MHM AUTOMATION

Annual Report

2023

CONTENTS

CHAIR'S REPORT

THE BEGINNING OF A NEW STAGE OF GROWTH

FY23 was hugely significant for MHM for two reasons:

1. We achieved a **record year of financial performance** as a standalone business.
2. We successfully completed the **acquisition of Wyma Engineering Ltd.**

Wyma is a fantastic business that complements MHM nicely and adds a much greater degree of diversification of products to another set of markets. As a leader in its field in the post-harvest handling of vegetables and fruit, Wyma has a global footprint that complements MHM's and provides scale for both entities in key geographic markets.

The cultural alignment of the businesses is great, and we look forward to combining the two businesses together to continue to provide our customers with world leading automated solutions.

How we approach this combination over the next 12 months will be the key focus for our leadership team to ensure that we protect and grow the value of the combined business.

The transaction structure of the Wyma acquisition involved cash and the issue of shares, and as a result Andrew Barclay from Wyma becomes a significant shareholder in MHM with a 22.9% shareholding. Andrew has also joined the board, replacing Colin Neal who retired in June 2023.

Andrew brings a depth of engineering, project management, and commercial expertise to the board and is a great addition to the overall board capability.

Our focus on health and safety management continues with more resources and focus being put into keeping our people safe. Wyma's safety performance rivals MHM's, and the combination will continue to perform better than industry comparators.

Future demand for automated solutions in the food processing sector continues to be strong and will ensure that we have a full pipeline of sales in the coming year.

Our team has grown in size, capability, and reach, and is well positioned to capture the opportunities for the increased market demand for our automated solutions.

This year we commenced work on the development of our Sustainability Roadmap which you can read about in this Annual Report.

With our growth, the value we create through our supply chain and in the communities where we operate is larger. It also comes with additional expectations around how we report on our impact to show our communities how we work at MHM Automation.

We have developed our Sustainability Roadmap to look at the areas we report on to give people greater visibility and confidence in the overall sustainability of our business. This includes governance policies, processes, risks and opportunities, material issues and the activities we do across MHM.

Over future annual reports and investor communications you will see we are determined to develop a grounded and achievable approach to managing our environmental, social and governance (ESG) responsibilities. It is an exciting time for our business as we step out with confidence on this journey.

We will continue to review further acquisitions that align with our automation strategy. There continue to be opportunities for complementary businesses that could sensibly add to our product and market reach without adding risk to the existing business.

With the appointment of Andrew Barclay, we have seen the retirement of Colin Neal from the Board. Colin has been a constant advocate for growth and a strong supporter of management. In addition, Paul Smart will retire at the AGM this year after 13 years of service to the Board. Paul has been a constant through some difficult times and his leadership of the Audit Committee has been key in the success story that is MHM today. On behalf of all shareholders, I want to thank both Paul and Colin for their efforts.

A replacement process for Paul is underway and we will announce a new director and Audit chair at the AGM.

I want to thank all shareholders for their support over the last year, particularly with the Wyma acquisition and I look forward to another successful year ahead.

CEO REPORT

RECORD FINANCIAL RESULTS

delivered by organic growth and significant acquisition of Wyma

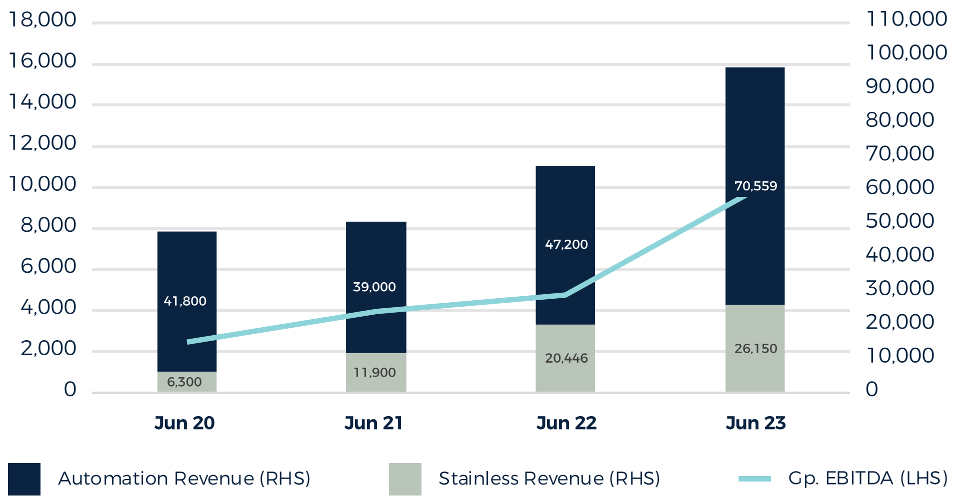
FY23 saw the continued organic growth of both our Automation and Fabrication segments, which coupled with two months of Wyma, delivered revenue growth of 43% and EBITDA growth of 107%.

"Automation is a key theme within the broader food processing and packaging sectors and all of our products allow for customers to increase automation within their plants, and allow us to continue to develop the machines with increasing automation in mind."

The above is an excerpt from my first Annual Report as CEO in 2016. Our commitment to growing a leading automation IP and technology-lead business has been unwavering. The completion of Wyma acquisition is another milestone for our strategy to design and supply innovative automated solutions to the food and primary sectors globally. Wyma is also the catalyst to deliver on STEP 100 during the next 12 months, taking our sales to over $100 million and enabling us to deliver a 10% EBITDA.

SEGMENT REVENUE & OPERATING EBITDA

IN THOUSANDS OF NEW ZEALAND DOLLARS



The 2023 year was an exceptional year for MHM. We saw solid demand for our products and services across the board. It is a credit to every member of the MHM Automation team to be able to deliver such growth in what was a challenging operating environment.

Across all of our business units we saw solid organic growth. Our diversification strategy has been successful, with exposure to a variety of different sectors delivering breadth of performance.

We were also able to cross-sell automation capability to our blue chip customer base.

In May 2023 we settled the acquisition of Wyma, a world leader in the post-harvest vegetable and fruit sectors. Wyma fits with our long-standing strategy of designing and supplying world leading equipment into the food sector, while also bringing us increased scale and diversification. Wyma is a significant step forward in our evolution.

During the year, we commenced our sustainability journey with a road map that we see as meaningful and achievable. This will be developed over the coming year and we are excited to be underway on this, as it is an important step forward for us as a company.

As at 30 June our forward pipeline of contracted sales was $63 million, which is a revenue bow wave that underwrites a significant portion of our FY24 year.

HIGHLIGHTS

- **ZERO LTIs**
  on a 12 month trailing measure
- 43% revenue growth, with
  REVENUE OF $96.7 MILLION
  for the year
- 107% increase in
  OPERATING EBITDA TO $9.9 MILLION
  (10.2% of revenue)
- Continued strong pipeline with
  FORWARD SALES OF $63 MILLION
  at year end
- **ACQUISITION OF WYMA**
  settled on 1 May 2023
- Delivery of MHM's
  FIRST ASRS INSTALLATION
  for an Australian customer
- **NET BANK DEBT $10.6 MILLION**
  and interest expense $467k
- **DIVIDENDS OF $1.011 MILLION**
  paid during the year
- **STEP 100 STRATEGY**
  launched in 2021
  EFFECTIVELY ACHIEVED,
  a year early

FINANCIAL PERFORMANCE

FY23 was a record year for MHM which saw revenue of $96.7 million, an increase of 43% on $67 million for the prior comparative period (pcp).

RESULT OVERVIEW

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	FY20	FY21	FY22	FY23
Revenue		**48,040**	**50,989**	**67,568**	**96,709**
Operating EBITDA	5	2,486	3,941	4,760	9,875
Operating EBITDA %		5.2%	7.7%	7.0%	10.2%
Net profit after tax		934	4,100	1,775	4,163
Cash		2,323	6,992	12,011	8,099
Bank debt	22	(3,599)	—	—	(18,672)
Operating cash flow		2,457	5,940	8,778	6,549
Dividends paid	24	—	—	984	1,101

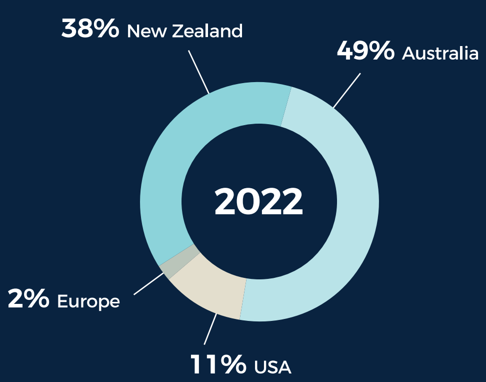
Our Operating EBITDA of $9.9 million was a 107% increase on $4.8 million for the pcp.

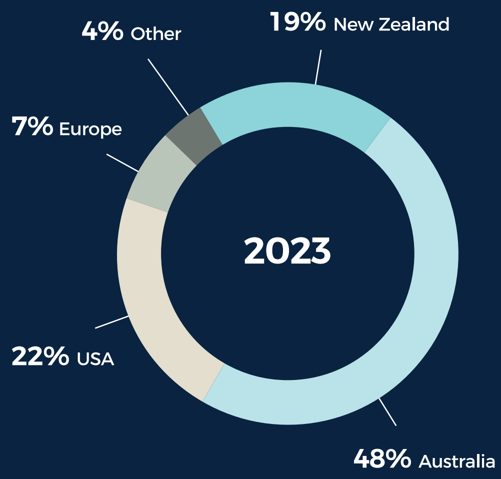
The Group performance was a result of all business units running near or at capacity during the year. The two months contribution of Wyma further lifted the performance and margin for the financial year.

It was pleasing that we were able to increase our margins during the year based on the strong workflows. We had a stated target in our Step 100 Strategy to increase our EBITDA margins by 10%, so it was pleasing to achieve 10.2% across the Group — an increase from 7.0% achieved last year. This was the result of efficiency gains, workflow mix and strong workflows across the Group.

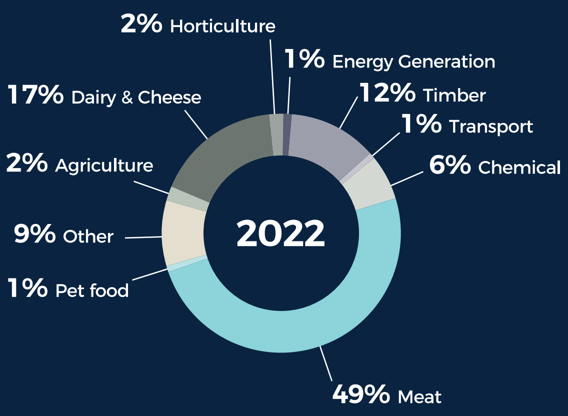
OVERVIEW

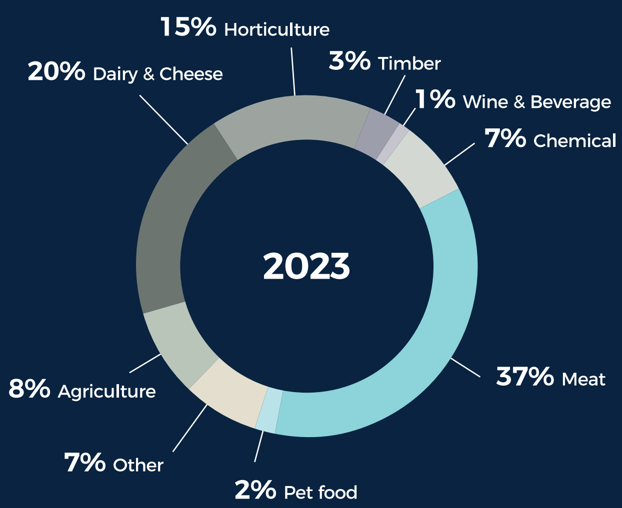
REVENUE BY LOCATION





REVENUE BY SECTOR





AUTOMATION

Our Automation segment comprises the Chilling and Freezing, Materials Handling and Post-Harvest businesses.

It generated combined Revenue of $70.6 million, a 50% increase on $47 million for the pcp. The Operating EBITDA for the segment was $9.4 million, a 122% increase on $4.2 million for the pcp, and a 13.3% margin on Sales Revenue.

The organic revenue growth for our Automation segment (excluding two months from Wyma) was 23% vs pcp. To achieve this level of growth in our business requires planning and excellent delivery. Across our business units we had consistently strong workflows, which is a testament to the quality of our team, our products and our delivery.

The Automation team demonstrated their capabilities and alignment with our values when they took on a project for a Brisbane based customer who urgently needed their automated manufacturing facility rebuilt after the Brisbane floods. This involved end-to-end refit, replacing and upgrading all the robotic cells which were damaged. It was also an opportunity to optimise and make improvements for our customer. This project was completed during the year with the customer very satisfied with the improved operations driving efficiencies in their plant.

Our **Chilling and Freezing** solutions are sold predominately to global protein processors, where the solution is production critical. That is a responsibility we take very seriously when partnering with customers. While this business has been dominated by demand from the Australian red meat sector in recent times, during this year we also delivered our first red meat freezing tunnel and two cheese cooling tunnels into the USA.

The Australian red meat sector is largely export-driven, requiring exacting and sustainable standards on how their product is processed while also ensuring efficient supply chain management to the end customers. We continue to see investment in automation to achieve packed product consistency, manage labour shortages, make energy savings and manage production fluctuations.

During the year we delivered our first ASRS system, with our European partners TGW and Inther. This was a multi-year project that was a combination of chilled and frozen lines operating alongside four SSO plate freezers, with three end of line robotic palletisers. The customer is happy with the turnkey solution designed, manufactured and installed, with after-market support, all from MHM.

The **Materials Handling** capabilities gained traction in the North American protein processing sector's prime red meat market, with the fourth of our Universal Robotic Box Cutters sold to a large North American customer. This sale also included robotic de-palletisers, an automatic de-boxer and multiple conveying lines for processed product and waste.

During the year a low-cost gantry palletiser was launched and is currently being trialled. This is a cost-effective alternative to robotic palletising for our smaller customers who also have space constraints.

Wyma provides further diversification to MHM, with its focus on **Post-Harvest** processing of fresh vegetables and fruit. Wyma has a reputation for quality and longevity, achieved through working closely with customers to gain deep understanding of their businesses and what makes them successful. The equipment and solutions are world class and naturally complement our Automation segment.

Wyma's core operations are in Christchurch at its new purpose-built office and world class manufacturing facility. Its European hub is based in the Czech Republic, in Prague, providing assembly and service support to Europe and there is also a sales and service office in the UK.

Wyma's equipment and solutions are front end and process critical, including washing and preparing fresh vegetables for further processing and packaging. The environment the equipment operates in is demanding, where down time is not an option. Wyma has built a spares and service business that generates over a third of its revenue. During 2023 Wyma completed its largest post-harvest installation in Europe for a Spanish based customer – a system that processes up to 50 tonnes of potatoes an hour.

Wyma contributed two months of revenue. We look forward to bedding Wyma into the Group with an integration project, to ensure the business thrives culturally and commercially under MHM.

FABRICATION

Our fabrication division comprises two workshops in Christchurch, and designs and builds specialist equipment for the dairy, cheese and primary industry sectors. Its brands are Mercer and SCE – both brands with longstanding respected reputations in the markets in which they operate.

Revenue of $26.1 million for the fabrication business was up 28% on the pcp, which was the result of the delivery of its strong pipeline of forward orders.

The Operating EBITDA for the segment was $2.0 million, a 6% decrease from the pcp, and an overall 7.5% margin on Sales Revenue.

It was pleasing to see sales of several grain stackers, with increased interest in this unique equipment.

A long-term global customer has also placed several large orders for specialised cheese making equipment which leverages the latent knowledge, reputation and skill we have in this business from long serving employees.

During the year we invested in technologies to improve process and reduce labour hours, the latest being robotic pipe welding which also supports sustainable manufacture with the removal of acid use to finish stainless surfaces.

FINANCIAL POSITION

The acquisition of Wyma materially altered MHM's balance sheet from the prior year. Refer to Business Combinations in Note 29 for the detailed breakdown of the net assets acquired in the transaction.

The value of the intangible assets acquired was determined via the purchase price allocation. The value of the goodwill arising on the business combination was $24.2 million and the value of the identifiable intangible assets was $18.2 million, of which $12.7 million have a finite useful life and are to be amortised over 10 years.

The Group's closing cash balance was $8.1 million, a $4 million decrease on the prior year, as surplus cash is being used to offset the bank borrowing which was $18.7 million as at 30 June 2023. The net bank debt was $10.6 million. As at 30 June, the Group had undrawn facility limits of $10.4 million.

The current ratio moved favourably from 0.86 to 1.06, largely altered by Wyma's inventory position.

The total assets for the Group increased to $125.8 million, up from $43.4 million in the prior year.

The closing working capital position including cash was net $8.2 million asset vs $2.4 million liability for the prior period.

The working capital position has improved with the addition of Wyma. Wyma holds inventory to support its spares and service business which has been circa 30% of sales, whereas historically MHM has not needed to support high levels of inventory.

Due to ongoing profitability, we have written back of all the New Zealand domiciled tax assets.

S-CLAVE

The S-Clave technology continues to progress to clinical trial managed by our partnership with Atherton, which is Australasia's largest medical sterilisation supplier. Atherton maintain strong interest in developing the prototype to take to clinical trial.

We maintain our position that this sterilisation method and technology is relevant and that we can only access the value of commercialisation from clinical trials.

We have made it clear that S-Clave is not core or aligned to the Group's strategy, but it does remain an option on a disruptive technology play, with a significant value point achieved upon successful clinical trials.

This year the board has made the decision to fully impair the value and expense all further costs. This in no way implies that the objective of commercial trials will not be followed through.

SUSTAINABILITY

It is timely in our evolution to show stakeholders the heightened focus we have on the overall sustainability of our company.

The first step has been through the development of our Sustainability Roadmap. Our Roadmap is designed to be meaningful, grounded and achievable. We hope the work we carry out over coming years adds value for our staff and customers, the communities where we work, and our shareholders.

We have been watching developments in international reporting standards and will soon be commencing a materiality process to identify our material sustainability issues. This will be carried out independently, so we can integrate sustainability into our strategy and report back to stakeholders next year on how we are approaching these sustainability issues.

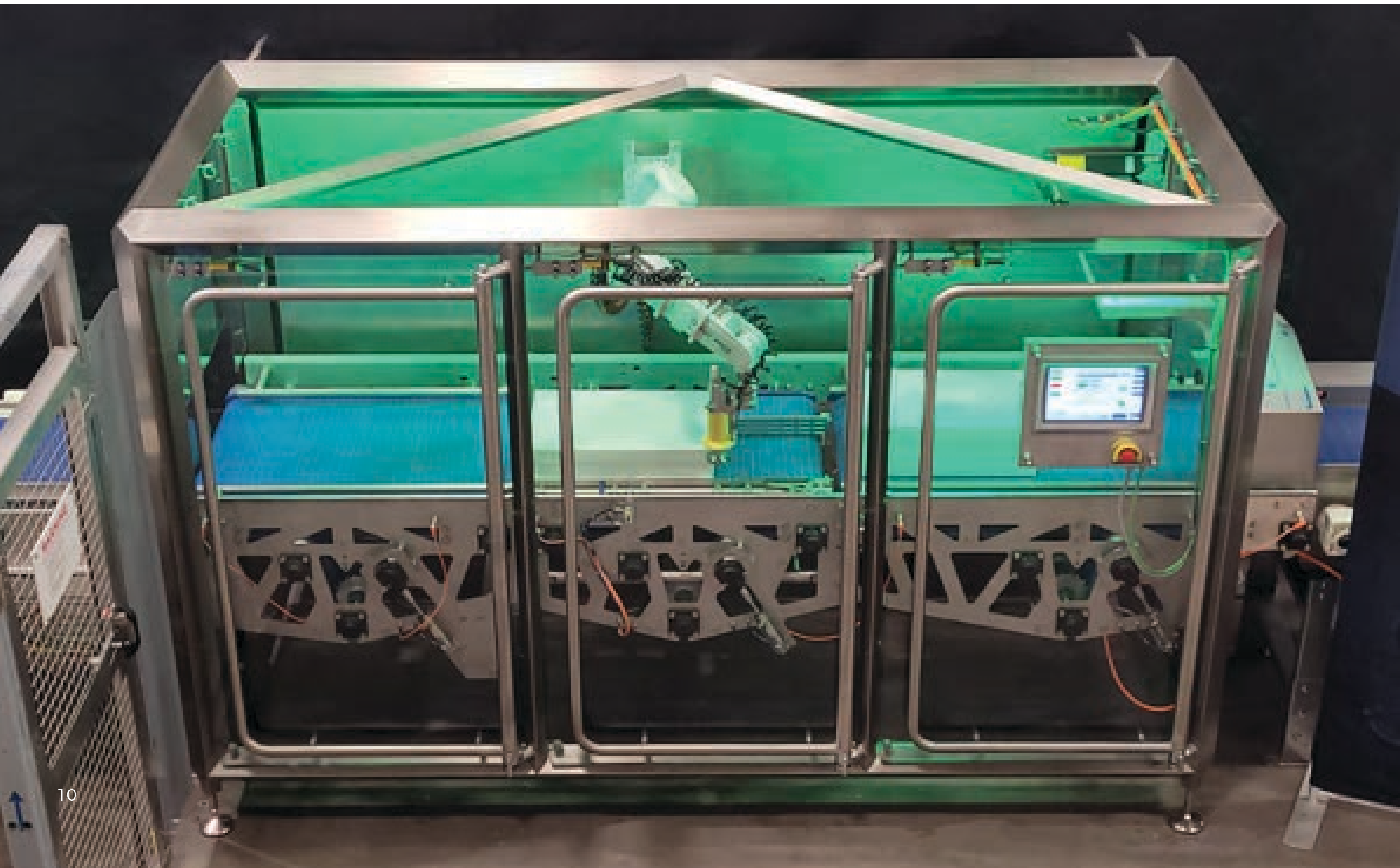
We look forward to the conversations with our partners on our ESG approach as we tackle challenges and opportunities in this space together.

OUTLOOK

We enter the 2024 financial year with over $63 million of forward contracted work. This sets us up through the first half of the year to continue our growth trajectory.

The focus for the 2024 financial year is the integration of Wyma into MHM. Both MHM and Wyma are successful in their own right, so we are ensuring that we do not impact on either operation. There will, however, be synergies to be achieved at the back office and operating levels, as well as cross-selling opportunities.

From an operating perspective, we continue to see good enquiries and demand for our products and services. Automation and modernisation of equipment continues to be a key theme with our customers. Our diversified portfolio of industry leading equipment positions us well to continue to grow and evolve as a company.



SUSTAINABILITY

HOW WE APPROACH SUSTAINABILITY

Our Sustainability Roadmap covers the key steps MHM is committed to working through to develop a structured approach to integrating sustainability into our company over a 5-year horizon.

It includes activities required for compliance, and activities designed to build value with stakeholders over time. This process will involve working with our staff and key stakeholders over the next 12 months to involve them in developing elements of our strategy.

Parts of this Roadmap are new to MHM, and we are learning as a team as we keep pace with developments in sustainability practice so we can meet our customers', shareholders' and communities' needs.

We are a listed company on the NZX, and being larger, we now have additional requirements on how we operate that we need to report against – for example reporting our carbon emissions in 2024. We are pleased to have commenced this new work with the support of Toitū Envirocare. We believe it is foundational work which will demonstrate how we can support our customers with solutions that can assist them in lowering their carbon emissions too.

Some parts of the Roadmap cover activity that is not new to us – it highlights the importance of maintaining our focus on what we already do every day.

Good examples of our daily actions include how we approach risk in our company today, which ensures we have appropriate controls and processes focused on areas including our financial security, and health and safety.

Whilst our financial progress is an area we have communicated well to shareholders over recent years, we trust lifting the visibility of how we manage broader risks across the company in this annual report gives deeper insight and confidence in how we work.

Communications and investor relations strategies, and refinements to our reporting frameworks are elements of our Roadmap.

With the support of our sustainability advisor Dawn Chorus Consulting, we have been following the development of global reporting standards for sustainability being led by the International Sustainability Standards Board, part of the new IFRS Sustainability Alliance. This work will enable us to progress non-financial sustainability disclosures for future reports.

Our Roadmap puts in place building blocks to meet global disclosure requirements in future.

This is important to us, as we are a global company with global clients, and we have opportunities to align our contributions to support our clients' ESG goals. In this way we aim will grow deeper relationships with our partners based on shared values and goals.

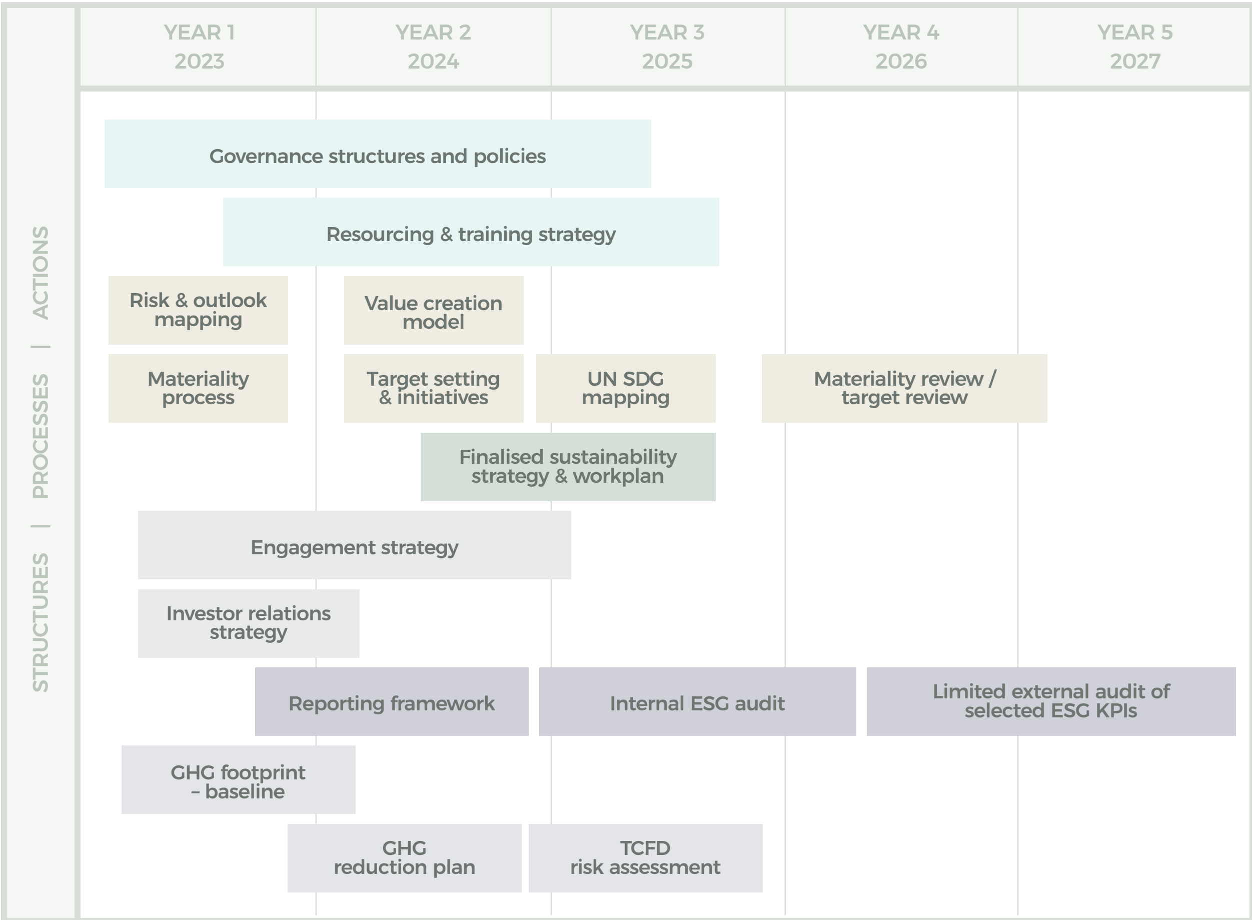
The way we resource this strategy and upskill our people to have a sound understanding of sustainability and how it applies to MHM is part of our Roadmap.

For our people, it is important they understand their company sees sustainability covering our long-term success across all areas of our ESG pillars, so they know the breadth of where they can make a positive difference.

We trust this approach to sustainability provides all stakeholders with greater insight into how we work at MHM Automation and the value we can create together.

Our journey has begun.

MHM AUTOMATION SUSTAINABILITY ROADMAP



AREAS OF FOCUS FOR 2023 - 2024

GOVERNANCE STRUCTURES AND POLICIES
Our process to ensure our governance structures and policies support our ESG approach.

RISK AND OUTLOOK MAPPING
The processes we use to understand and mitigate risk and identify the business outlook.

RESOURCING AND TRAINING
Our approach to resource our Roadmap and lift understanding of sustainability at MHM.

MATERIALITY PROCESS
How we will work with stakeholders to identify material sustainability issues to create our sustainability strategy, and prioritise our focus.

ENGAGEMENT AND INVESTOR RELATIONS STRATEGIES
Our plan that lays out how MHM communicates with stakeholders and investors.

GREENHOUSE GAS (GHG) EMISSIONS
Establishing our baseline carbon emissions with Toitū Envirocare.

REPORTING FRAMEWORK
Developing our reporting approach to inform our stakeholders.

THE G IN ESG – GOVERNANCE

Good governance is an essential element of how MHM Automation strives to be a sustainable company.

Governance structures and processes ensure we have strong and responsible leadership, clear policies, and effective oversight to make ethical and sustainable business decisions.

We know companies with good governance practices are more likely to maintain long-term sustainability and create value for all stakeholders while minimising risks associated with corporate misconduct or mismanagement.

Corporate governance at MHM Automation is designed to clearly set the tone for how we perform in a way that grows value, manages risk, and maintains compliance.

Our structures, policies and day-to-day practices are intended to be clear for our people and for investors to understand.

They help us deliver on our strategy which includes our environmental, social and governance (ESG) sustainability aspirations.

MHM Automation's board regularly reviews our corporate governance practices, processes and policies according to our constitution.

Our Corporate Governance Statement lays out how we approach our obligations under the NZX Corporate Governance Code, 1 April 2023.

MHM Automation's key corporate governance documents, including board charters, policies and our corporate governance statement are reviewed regularly and can be found at https://mhmautomation.com/news-and-investors/

RISK AND OUTLOOK MAPPING – HOW WE APPROACH RISK

We have a range of tools and processes to assess and manage risk at MHM.

Our risk framework has been developed to create a culture of understanding and managing risk across the Group.

Management regularly reports to the Board on key risks and the outlook for factors that may impact on the company's ability to achieve its objectives and/or protect its people, assets or reputation. By doing this, we protect and grow the value we have built at MHM.

The Audit and Risk Committee has overall responsibility for ensuring management's risk management framework appropriately identifies, considers and manages risks.

Risk management is essential for our business planning processes. It is a core component of our financial risk management processes, and annual budget planning process. It sets parameters for our operations and investment activity. It is central to project management and delivery.

We aim to create an environment where staff assume responsibility for managing risk. On a day-to-day basis, risk management sets the tone for our operations, with health, and safety processes embedded into our operational culture.

RISK MANAGEMENT RESPONSIBILITIES

Our Chief Financial Officer is responsible for promoting and facilitating the implementation of formal processes to identify, assess, record and communicate operational and strategic risks.

Our risk register is a process to set tolerances for risk taking, acceptance, or planning mitigations or avoidance. Action plans are in place to close gaps and manage our risk where we can.

The register is reviewed quarterly and covers the following areas of risk:

PEOPLE	Health and safety, availability of critical skills, succession planning.
FINANCIAL	Local economic environment, global market environment, finance obligations, cost management, insurance.
REPUTATIONAL	Brand damage.
OPERATIONAL	Business systems performance and security, pandemic impacts on delivery.
STRATEGIC	Wyma integration, compliance with laws and commitments.

The function of the Audit and Risk Committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 2013.

From a financial risk perspective, the Committee ensures that management maintains sound accounting practices, policies and controls, and it reviews and makes appropriate inquiries into the audit of the Group's financial statements by the external auditors.

BONING ROOM TO PALLETISING SOLUTION

Midfield Group, Australia

The Midfield Group is a major player in the Australian meat processing market. They have a large sheep and beef processing facility in Warrnambool, VIC.

MHM delivered a significant project to fully automate the back-end operations after the products are boxed and barcoded.

In 2021, we installed an AiCo carton lidder and four Milmeq SSO plate freezer stacks.

In 2023, we completed the project with delivery of a three-cell robotic palletising system and an automated storage and retrieval system (ASRS) to sort, store and handle chilled and frozen products.

This was our first ASRS installation, delivered together with technology partners TGW and Inther, and was very successful. We see significant opportunity for further ASRS sales, particularly within the Australian meat industry.

ROBOTIC PALLETISING RE-INSTALLATION

Australia

In February 2022, a major flooding event in Queensland rendered a significant manufacturer's palletising system inoperable.

In an urgent response, MHM Automation swiftly executed the installation and commissioning of four palletising robots.

We accelerated our processes, and within a remarkable timespan of just 12 months, we successfully delivered the solution to our client. This effort exemplifies our commitment to providing efficient and timely resolutions to our clients' pressing needs.

With a contract value of $8 million, this project was a significant contributor to our revenue for the year.

MEAT FREEZING TUNNEL

AFFCO, New Zealand

AFFCO is a leading New Zealand lamb and beef processor, with 12 processing plants across the country and exporting to more than 80 countries worldwide.

In early 2023, we commissioned a Milmeq Single Retention Time (SRT) Meat Freezing Tunnel at their Wairoa plant.

With an impressive freezing capacity of 13,104 cartons of meat in a 48-hour cycle and a daily throughput of approximately 6,500 large cartons, the new tunnel has had a transformative impact on AFFCO's operations, leading to enhanced efficiency and productivity, as well as improved worker safety.

GRAIN STACKERS

Australia and Middle East

MHM continues to see strong demand for our industry-leading mobile grain stackers in Australia, with multiple units being delivered for Harvest 2023.

We are also seeing increasing global interest, as governments seek to secure their food supply chain against the increasing risks posed by extreme weather events, armed conflict and pandemics. Countries with food deficits are constructing food security sites in-country, at their ports and feed manufacturing facilities.

We are completing our first deliveries of grain stacker units into the Middle East, as the UAE acknowledges the viability of these units being transported from port to port to fill their grain bunker facilities. MHM is now actively engaged with customers seeking a similar solution elsewhere in the Middle East, Asia and Africa.

CHEDDARING MACHINE FABRICATION

Tetra Pak, North and South America

Our ISO9000-certified stainless workshop is renowned for delivering complex fabrication projects with stringent quality standards.

MHM has had a longstanding partnership with Tetra Pak, a world-leading food processing and packaging company. Over the years we have completed several large fabrication contracts to produce Tetra Pak's cheddaring machines for New Zealand and offshore locations.

We have recently completed fabrication and delivery of one cheddaring machine to Brazil and presently have another three in production, destined for North and South America.

BOARD OF DIRECTORS

TREVOR BURT

Independent Director, Chairman

A Chartered Fellow of the NZ Institute of Directors, Trevor is an experienced director of large scale companies. He is currently Chairman of New Zealand Lamb Company Limited, and a director of Market Gardeners Ltd, Landpower NZ Ltd, NZ Drinks Ltd and Premier Fresh Australia Pty Ltd.

He was a previous Chairman of Ngai Tahu Holdings Corporation Ltd, Lyttelton Port Ltd and Rua Bioscience Ltd and a 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 MHM Automation, 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.

ANDREW BARCLAY

Managing Director - Wyma

Andrew joined the board in May 2023 when MHM acquired Wyma. Andrew brings with him a wealth of experience in engineering, agriculture, and food processing machinery.

Prior to Wyma, Andrew spent approximately 10 years as a consulting structural engineer in Wellington, and held engineering and sales roles at Shell, before purchasing Wyma in 2001.

Andrew remains the Managing Director for Wyma and has been a part of the business for over 2 decades, and has a passion for product development, solution selling, and manufacturing. He built Wyma globally and has developed a strong understanding of the industry and built relationships with customers all over the world.

Andrew is a member of the Institute of Professional Engineers of NZ and a member of the Institute of Directors of NZ.

PAUL SMART

Independent Director

Paul brings more than 30 years' experience as a senior financial executive and professional director in local and international markets. He holds a BBS (Finance), is a Chartered Accountant and a Chartered Member of the Institute of Directors.

As an executive, Paul's key experiences were as CFO of NZ's largest energy company, Meridian Energy and prior to that, founding CFO of Sky Television.

As a professional director Paul has variously acted as a director, audit and finance chair and board chair for a broad range of companies including listed, venture capital, high-net-worth family, and large private companies. He is currently a non-executive director of ArborGen Holdings, Geo40, Vortex Power Systems, Argus Fire Systems Service and Genus ABS (NZ).

GEORGE ROLLESTON

Director

George joined the board in February 2019.

He is the founder and Managing Director of Asset Growth Fund, based in Melbourne. George has two decades of experience in the global financial markets, working in mergers and acquisitions and in the financial advisory sector. He also sits on a number of boards that span a range of industries, including Felix Group Holdings Ltd (ASX: FLX).

He has a Masters of Applied Finance and a Bachelor of Business (Law) degree. George represents the interests of the majority shareholder, Asset Management Limited.

COLIN NEAL

Director

Colin joined the board in May 2020 and resigned effective 30 June 2023.

DIRECTORS' REPORT

In the opinion of the Directors of MHM Automation Limited, the financial statements and the notes, on pages 21 to 65:

- 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 2023 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 MHM Automation Limited for the year ended 30 June 2023.

The Annual Financial Statements presented are signed for and on behalf of the Board, and were authorised for issue on 15 September 2023.

Trevor Burt, Board Chair

Paul Smart, Chair of Audit & Risk Committee

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2023

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	30 June 2023	30 June 2022
Revenue			
Sale of goods and contract revenue	6	96,709	67,568
Other income		1,123	363
Total income		**97,832**	**67,931**
Expenses			
Changes in inventories of finished goods and work in progress		(870)	552
Raw materials and consumables used		(55,313)	(40,831)
Salaries and wages		(22,979)	(17,152)
Other expenses	8	(9,608)	(6,580)
Depreciation	15/16	(1,803)	(1,151)
Amortisation	17	(623)	(509)
Impairment	17	(4,486)	—
Income from operations before finance costs and taxation		**2,150**	**2,260**
Finance income		240	4
Finance costs	9	(1,025)	(83)
Net finance costs		**(785)**	**(79)**
Income from operations after finance costs and before taxation		**1,365**	**2,181**
Income tax credit (expense)	10	2,798	(406)
Profit/(loss) for the year attributable to owners		**4,163**	**1,775**
Other comprehensive income (loss)			
Items that may be subsequently charged or credited to profit or loss			
Currency translation differences on overseas subsidiaries		(71)	(66)
Items that will not be classified to profit or loss			
Gain on property revaluation, net of tax		20	103
Other comprehensive income (loss) for the year, net of tax attributable to owners		**(51)**	**37**
Total comprehensive income (loss) for the year attributable to owners		**4,112**	**1,812**
Basic earnings per share:			
Earnings (loss) per share attributable to shareholders of the company (cents)	25	5.94	2.70
Fully diluted earnings per share:			
Earnings (loss) per share attributable to shareholders of the company (cents)	25	5.94	2.70

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

IN THOUSANDS OF NEW ZEALAND DOLLARS

ASSETS	NOTE	30 June 2023	30 June 2022
Current assets			
Cash and cash equivalents	11	8,099	12,011
Accounts receivable	12	13,635	11,135
Other debtors and prepayments	12	2,514	440
Contract assets	7	7,017	1,318
Finance lease receivable	13	11	11
Inventories	14	14,109	1,972
Income tax receivable		869	—
Total current assets		**46,254**	**26,887**
Non current assets			
Property, plant and equipment	15	15,415	8,995
Right-of-use assets	16	20,828	1,300
Intangible assets	17	43,135	5,514
Finance lease receivable	13	226	246
Deferred tax asset	18	—	482
Total non current assets		**79,604**	**16,537**
Total assets		**125,858**	**43,424**

LIABILITIES	NOTE	30 June 2023	30 June 2022
Current liabilities			
Contract liabilities	7	21,655	19,016
Derivative financial instruments		33	129
Trade and other payables	20	10,421	7,815
Income tax payable		374	438
Warranty provision	21	1,445	522
Employee entitlements		5,085	2,474
Loans and borrowings	22	3,036	—
Lease liabilities	16	1,442	733
Total current liabilities		**43,491**	**31,127**
Non current liabilities			
Deferred tax liability	18	619	—
Loans and borrowings	22	26,514	—
Lease liabilities	16	19,514	616
Total liabilities		**90,138**	**31,743**
Net assets		**35,720**	**11,681**

EQUITY	NOTE	30 June 2023	30 June 2022
Share capital	23	65,907	44,935
Asset revaluation reserve	23	4,143	4,123
Foreign currency translation reserve	23	(281)	(210)
Share based payments reserve	23	87	31
Accumulated losses		(34,136)	(37,198)
Total equity		**35,720**	**11,681**

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

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2023

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	Share capital	Accumulated losses	Share based payments reserve	Foreign currency translation reserve	Asset revaluation reserve	Total equity
		ATTRIBUTABLE TO THE OWNERS OF THE GROUP					
Balance at 30 June 2021		**44,634**	**(37,989)**	**–**	**(144)**	**4,020**	**10,521**
Profit or loss for the year		–	1,775	–	–	–	1,775
Other comprehensive income		–	–	–	(66)	103	37
Total comprehensive income (loss) for the year		**–**	**1,775**	**–**	**(66)**	**103**	**1,812**
Transactions with owners in their capacity as owners							
Dividends		–	(984)	–	–	–	(984)
Shared based payment		–	–	332	–	–	332
Issue of new shares		301	–	(301)	–	–	–
Balance at 30 June 2022		**44,935**	**(37,198)**	**31**	**(210)**	**4,123**	**11,681**
Profit or loss for the year		–	4,163	–	–	–	4,163
Other comprehensive income		–	–	–	(71)	20	(51)
Total comprehensive income (loss) for the year		**–**	**4,163**	**–**	**(71)**	**20**	**4,112**
Transactions with owners in their capacity as owners							
Dividends	24	–	(1,101)	–	–	–	(1,101)
Shared based payment	28	–	–	257	–	–	257
Issue of new shares	23/28	20,972	–	(201)	–	–	20,771
Balance at 30 June 2023		**65,907**	**(34,136)**	**87**	**(281)**	**4,143**	**35,720**

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

CONSOLIDATED STATEMENT OF CASH FLOW

AS AT 30 JUNE 2023

IN THOUSANDS OF NEW ZEALAND DOLLARS

OPERATING ACTIVITIES	NOTE	30 June 2023	30 June 2022
Profit after tax		**4,163**	**1,775**
Income tax recognised in Profit or Loss	10	(2,798)	406
Tax paid		(462)	(129)
Non-cash finance costs		785	7
Depreciation, amortisation and impairment	15/17	5,904	983
Amortisation of right-to-use assets	16	1,009	677
Change in inventory provision	26	(734)	275
Change in expected credit loss	26	(4)	14
Change in warranty provision		135	—
(Gain) loss on sale of plant and equipment		(14)	4
Non-cash component of shares issued under employee share scheme	28	257	332
Derivative financial instruments		68	137
Changes in working capital	26	(1,519)	4,304
Interest paid		(242)	(7)
Net cash in flow from operating activities		**6,549**	**8,778**

INVESTING ACTIVITIES			
Cash was provided (to) from:			
Purchase of property, plant and equipment	15	(1,114)	(1,868)
Purchase of patents and development activities	17	(251)	(156)
Acquisition of new business	29	(11,656)	—
Finance lease	13	20	18
Proceeds from disposal of property, plant and equipment	15	35	2
Net cash from (to) investing activities		**(12,966)**	**(2,004)**

FINANCING ACTIVITIES			
Cash was provided from (to):			
Payment of principal portion of lease liabilities	16	(930)	(705)
Dividends paid to shareholders	24	(1,101)	(984)
Drawdown of borrowings	22	18,664	—
Repayment of borrowings	22	(14,057)	—
Net cash inflow from (to) financing activities	22	**2,576**	**(1,689)**

Net increase (decrease) in cash held		**(3,841)**	**5,085**
Cash at beginning of the period		12,011	6,992
Effect of exchange rate changes		(71)	(66)
Cash at the end of the period	11	**8,099**	**12,011**

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 FINANCIAL STATEMENTS

1 GENERAL INFORMATION

MHM Automation 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.

MHM Automation Limited is a public company listed with the New Zealand Stock Exchange (NZX).

The Group comprises MHM Automation Limited and its wholly owned subsidiaries. The core activities of MHM Automation 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 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 Aico and Beta.

Milmeq 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.

Wyma Engineering is also part of the automation division. It designs, manufactures and delivers post-harvest vegetable and fruit handing equipment throughout Australasia, USA and Europe.

FABRICATION

This division includes the Mercer Stainless and SCE workshops in Christchurch that sell, design and manufacture proprietary equipment for primary industries across New Zealand and Australia.

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 Tier 1 for-profit entity.

The financial statements have been approved for issue by the Board of Directors on 15 September 2023.

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.

Some immaterial reclassifications have been made to comparative balances for consistency with current period disclosures.

ENTITIES REPORTING

The financial statements are for the consolidated economic entity comprising MHM Automation 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, the Financial Reporting Act 2013 and the Companies Act 1993.

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

All mandatory amendments and interpretations have been adopted in the current year. None had a material impact on these financial statements. The Group has reviewed the standards, interpretations and amendments to existing standards issued but not yet effective and does not expect these standards to have a material effect on the financial statements of the Group when adopted.

(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 MHM Automation Limited's functional currency and the Group's presentation currency. All financial information is presented in New Zealand dollars and 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 point 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. The Group applies the input method to recognise revenue, using the input actual costs incurred versus forecast costs to complete.

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 did not receive any COVID-19 assistance 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, 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.

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.

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.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

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 (other than inventories) and intangible (other than deferred tax) 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 and subsequently these are measured at amortised cost using the effective interest method, less provision for impairment.

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).

Impairment provisions for contract assets and finance leases calculated on an expected credit loss basis are immaterial.

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 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. These financial instruments fall into Level 2 of the fair value hierarchy.

(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 assets' residual values, depreciation methods, and useful lives are reviewed, and adjusted if appropriate, at each reporting 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 based on normal operating capacity. Other intellectual property expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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

(III) PATENTS, TRADEMARKS AND LICENCES

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

(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 reporting 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 an equity-settled 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 over the vesting period is determined by reference to the fair value (at grant date) of the equity instruments granted using the 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 is 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 and the cash-settled liability.

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 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. Management has applied consideration around the shareholder continuity rule and the probability of generating future taxable profits in determining whether a deferred tax asset should continue to be recognised and the quantum of this asset.

IMPAIRMENT TESTING

Goodwill was tested for impairment using a value in use model. 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 on-going costs are capitalised to intangible assets. The asset is tested annually for impairment using a value in use model. Due to on-going uncertainty to achieving a working prototype the Board has made a decision to fully impair the carrying value of the intangible. Further details are in Note 17.

CONTINGENT CONSIDERATION

The Group has agreed to make earnout payments to the selling shareholders of Wyma over a three-year period. These payments serve as additional consideration if Wyma achieves its revenue targets for the years ending 30 June 2024 to 30 June 2026. Refer note 29 for details.

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.

WARRANTY PROVISIONS

The Group provides warranties for repairs of defects that existed at the time of sale. Provisions related to these assurance-type warranties are recognised when the product is sold. Initial recognition is based on past experience of the level of repairs and is reviewed annually. The provision is between 0.5% and 2% of the contract revenue and it is expected that these costs would be incurred within two years of practical completion.

GOING CONCERN

The financial statements have been prepared using the going concern assumption.

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 aging analysis for credit risk.

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

The Group holds the following financial instruments:

IN THOUSANDS OF NEW ZEALAND DOLLARS	Financial asset 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 2023				
Cash and cash equivalents	8,099	—	—	—
Trade receivables	13,635	—	—	—
Receivable from other debtors	1,478	—	—	—
Finance lease receivables	237	—	—	—
Trade and other payables	—	—	—	(10,421)
Derivative financial instruments	—	—	(33)	—
Borrowings and overdraft	—	—	(10,319)	(19,231)
	23,449	**–**	**(10,352)**	**(29,652)**
GROUP 2022				
Cash and cash equivalents	12,011	—	—	—
Trade receivables	11,135	—	—	—
Receivable from other debtors	101	—	—	—
Finance lease receivables	257	—	—	—
Trade and other payables	—	—	—	(7,815)
Derivative financial instruments	—	—	(129)	—
Borrowings and overdraft	—	—	—	—
	23,504	**–**	**(129)**	**(7,815)**

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, finance lease receivables, trade and other payables, and borrowings 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 2023 the Group had $11,896,000 (2022: $12,867,000) 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 (+/-5% last year) with all other variables held constant, which the directors consider reasonably possible.

IN THOUSANDS OF NEW ZEALAND DOLLARS		+5%		-5%	
GROUP	Foreign currency amount assets (liabilities)	Post tax Profit Increase (decrease)	Equity Increase (decrease)	Post tax Profit Increase (decrease)	Equity Increase (decrease)
30 June 2023	11,896	(428)	(428)	428	428
30 June 2022	12,867	(463)	(463)	463	463

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	30 June 2023	30 June 2022
Cash		
Australian dollar	1,016	5,533
Canadian dollar	105	—
Czech koruna	110	—
Euro	1,706	30
UK pound	770	—
United States dollar	408	161
Trade receivables		
Australian dollar	3,560	7,240
Canadian dollar	1,313	—
Czech koruna	93	—
Euro	2,752	206
UK pound	338	1
United States dollar	2,820	1,543
Trade payables		
Australian dollar	(1,161)	(1,471)
Canadian dollar	(1,029)	(7)
Czech koruna	(157)	—
Euro	(427)	(37)
UK pound	(101)	(8)
United States dollar	(187)	(195)
Derivative financial		
Australian dollar	38	(66)
Canadian dollar	(47)	—
Euro	(82)	2
United States dollar	58	(65)
	11,896	**12,867**

(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, although no such facilities are in use at balance date (2022: Nil).

MHM Automation 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 (2022: Nil).

The following table shows the sensitivity of the Group's after tax profit and equity to a movement in interest rates of +/-3 percentage points (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 $18,850,000 (2022: $Nil).

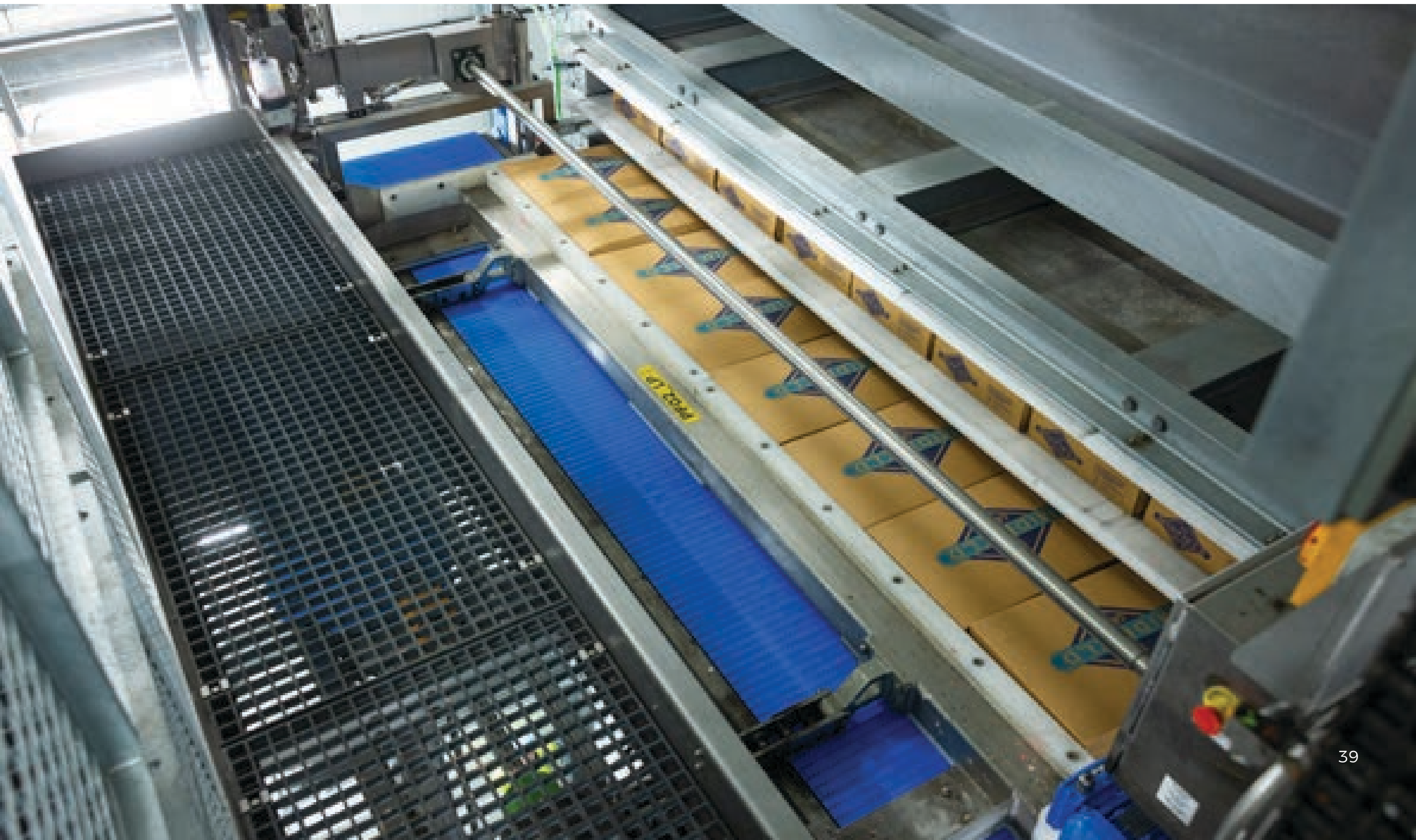
FINANCIAL LIABILITIES		+3 PP		-3 PP	
IN THOUSANDS OF NEW ZEALAND DOLLARS	Carrying amount	Post tax Profit	Equity	Post tax Profit	Equity
GROUP					
30 June 2023	18,672	(67)	(67)	67	67
30 June 2022	–	–	–	–	–

(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 27.

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

At 30 June 2023 the Group had no exposure to significant debtors greater than 10% of net equity (2022: $2,977,000). These amounts arose from progress billing of 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.

Contingent liabilities disclosed in Note 27 amount to $10,037,000 (2022: $13,310,000). 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 at balance date 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

30 JUNE 2023	Carrying amount at reporting date	< 3 months	3-12 months	1-2 years	2-5 years	More than 5 years	Total cashflow
Bank loans and overdrafts	18,672	461	1,408	1,868	20,551	—	24,287
Lease obligations	20,956	718	2,099	2,476	6,498	25,055	36,846
Contingent consideration*	10,319	—	—	5,000	10,000	—	15,000
Other loans	559	559	—	—	—	—	559
Trade and other payables	10,421	10,421	—	—	—	—	10,421
Total	**60,927**	**12,159**	**3,507**	**9,344**	**37,049**	**25,055**	**87,113**

** $15,000,000 is the maximum amount payable for the contingent consideration if the revenue targets agreed in the sale and purchase agreement are fully achieved. See note 29.*

30 JUNE 2022	Carrying amount at reporting date	< 3 months	3-12 months	1-2 years	2-5 years	More than 5 years	Total cashflow
Bank loans and overdrafts	—	—	—	—	—	—	—
Lease obligations	1,349	197	554	348	88	—	1,187
Other loans	—	—	—	—	—	—	—
Trade and other payables	7,815	7,815	—	—	—	—	7,815
Total	**9,164**	**8,012**	**554**	**348**	**88**	**–**	**9,002**

The Group was compliant with banking covenants at 30 June 2023 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.

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.

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Equity	35,720	11,681
Total assets	125,858	43,424
Equity ratio	**28.4%**	**26.9%**

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 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 Aico and Beta.

Milmeq 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.

Wyma Engineering is also part of the automation division. It designs, manufactures and delivers post-harvest vegetable and fruit handling equipment throughout Australasia, Europe and USA.

FABRICATION

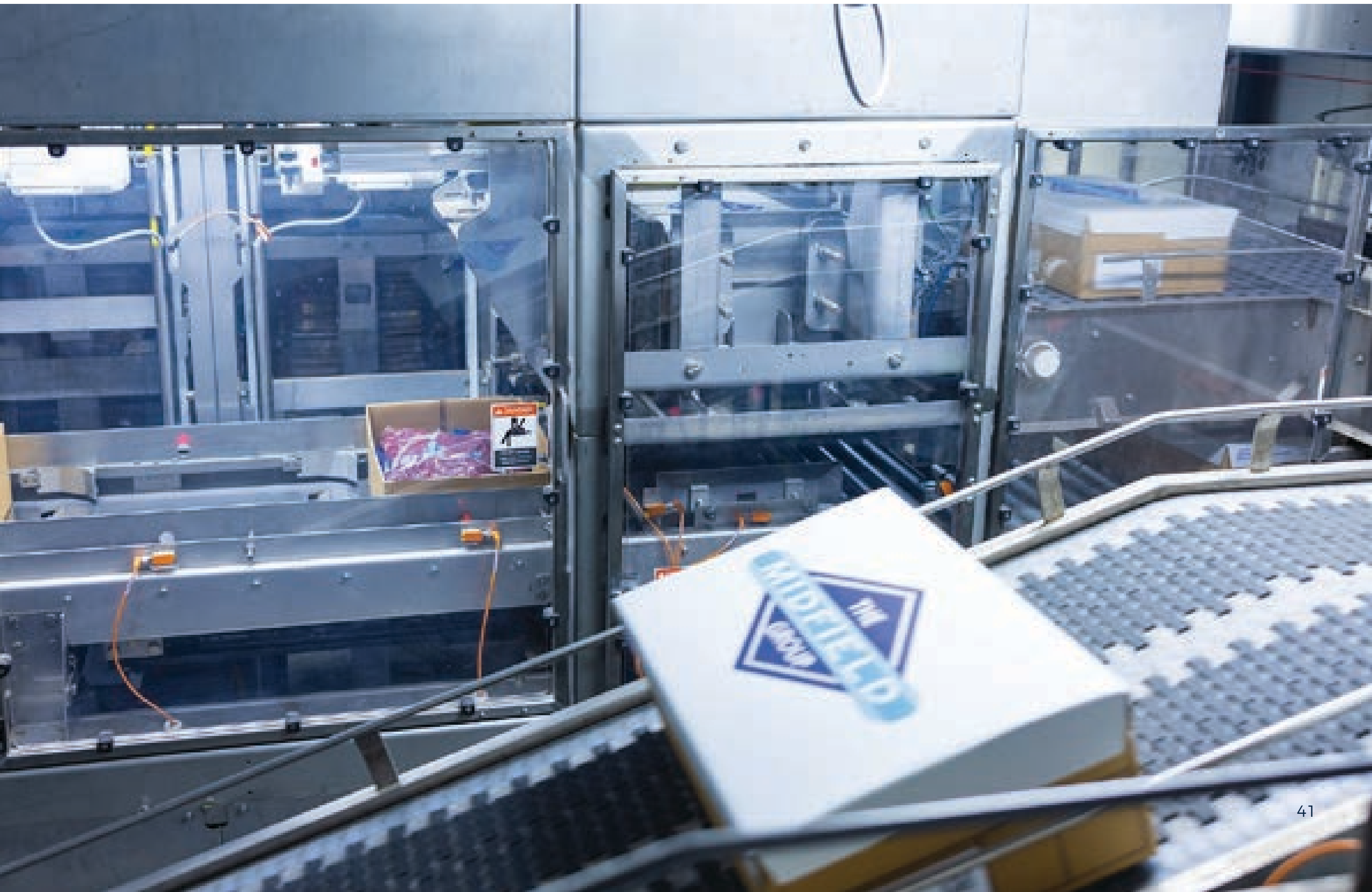
This division includes the Mercer Stainless and SCE workshops in Christchurch that sell, design and manufacture proprietary equipment for primary industries across New Zealand and Australia.

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.

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.

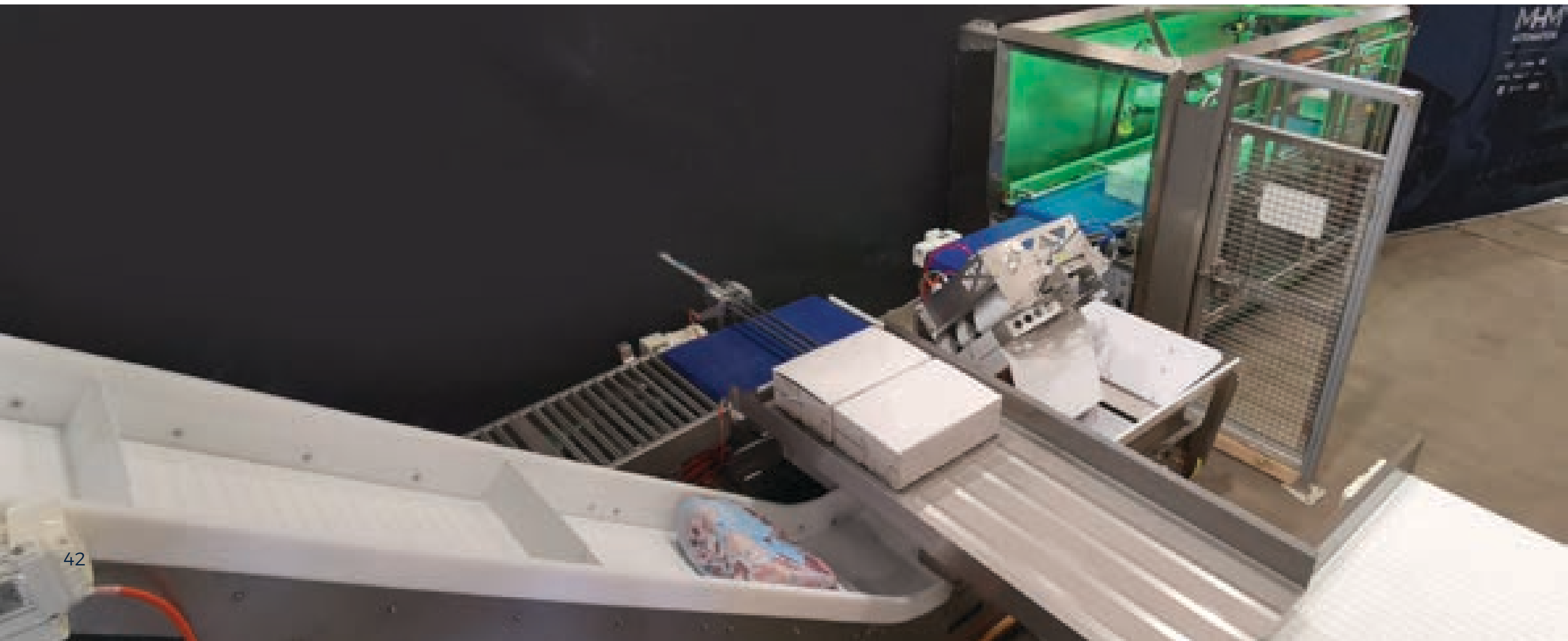


The table below shows the sales revenue, earnings before interest, tax, depreciation, amortisation, impairments, share based payments and non-recurring expenses (Operating EBITDA) by segment.

	30 JUNE 2023			30 JUNE 2022		
IN THOUSANDS OF NEW ZEALAND DOLLARS	Total sales of goods and contract revenue	Segment result (Operating EBITDA)	Segment assets	Total sales of goods and contract revenue	Segment result (Operating EBITDA)	Segment assets
Fabrication	27,940	1,966	6,489	24,336	2,100	9,377
Automation	70,559	9,407	109,428	47,122	4,243	21,610
Mercer Technologies	—	(4)	—	—	(18)	4,485
Corporate	—	(1,494)	9,941	—	(1,565)	7,952
Intersegment eliminations	(1,790)	—	—	(3,890)	—	—
Sales, Operating EBITDA, Assets	**96,709**	**9,875**	**125,858**	**67,568**	**4,760**	**43,424**
ERP implementation costs	—		—	—	(285)	—
Acquisition costs Wyma	—	(371)	—	—	—	—
Share based payments (note 28)	—	(442)	—	—	(555)	—
Depreciation, amortisation and impairment	—	(6,912)	—	—	(1,660)	—
Finance costs	—	(1,025)	—	—	(83)	—
Interest income	—	240	—	—	4	—
Income tax credit (charge)	—	2,798	—	—	(406)	—
Total sales, income (deficit)	**96,709**	**4,163**	**125,858**	**67,568**	**1,775**	**43,424**

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

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Income (loss) from operations before finance costs and taxation	**2,150**	**2,260**
Add back depreciation, amortisation and impairment	6,912	1,660
Add back ERP implementation costs	—	285
Add back Wyma acquisition costs	371	—
Add back share based payments	442	555
Operating EBITDA	**9,875**	**4,760**



IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Customers larger than 10% of total Group revenue in accordance with NZ IFRS 8.34:	**12,566**	**8,916**

Depreciation, amortisation and impairment analysed by segment was:		
Fabrication	810	785
Automation	1,540	762
Mercer Technologies	4,552	10
Corporate	9	103
Total	**6,911**	**1,660**

Liabilities analysed by segment were:		
Fabrication	5,592	7,563
Automation	52,787	22,629
Mercer Technologies	1	1
Corporate	31,758	1,550
Total	**90,138**	**31,743**

Liabilities analysed by geographical location were:		
New Zealand	83,911	30,920
Australia and USA	860	823
Europe	5,367	—
Total	**90,138**	**31,743**

Assets analysed by geographical location were:		
New Zealand	106,719	37,505
Australia and USA	1,262	5,919
Europe	17,877	—
Total	**125,858**	**43,424**

6 SALE OF GOODS AND CONTRACT REVENUE

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Sale of goods (point in time)		
Australia	1,846	1,322
USA	2,574	846
New Zealand	7,034	5,484
Europe	3,362	558
Other	178	95
Contracting service (over time)		
Australia	44,528	31,227
USA	18,475	6,455
New Zealand	11,357	20,248
Europe	3,625	783
Other	3,659	159
Commission only	71	391
Total	**96,709**	**67,568**

For further breakdown of revenue, see note 5.

7 CONTRACT REVENUE MOVEMENTS

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Revenue recognised included in contract liability at the beginning of the period	(17,698)	(12,663)
Construction contracts		
Contract assets	7,017	1,318
Contract liabilities	(21,655)	(19,016)
Net contract liabilities	**(14,638)**	**(17,698)**

The amounts in contract liabilities are expected to be released into revenue within the next 12 months or less.

8 OTHER EXPENSES

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

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	30 June 2023	30 June 2022
Advertising		388	13
Movement in expected credit loss	12	(4)	14
Bad debts written off (recovered)		(1)	13
Consultancy and legal fees		1,037	698
Employee on costs			
Superannuation		964	654
Accident Compensation premiums		237	125
Directors fees	28	260	220
Electricity and facility costs		600	442
Insurance		785	614
IT costs		934	881
Rentals and low value operating leases	16	220	147
Research and development		287	24
Share based payments	28	442	555
Travel and accommodation		630	179
Fees paid to Auditors			
BDO Christchurch Audit Limited			
Audit of financial statements - relating to prior year		1	—
Audit of financial statements - relating to current year		176	130
Audit of Wyma acquisition		69	—
BDO Audit s.r.o. Czech Republic			
Audit of financial statements - relating to current year		30	—
Audit of Wyma acquisition		11	—
Audit of Wyma Europe local statutory accounts		18	—

9 FINANCE COSTS

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	30 June 2023	30 June 2022
Interest expense on financial liabilities measured at amortised cost		467	11
Interest expense on lease liabilities	16	298	72
Fair value adjustment to contingent consideration	29	260	—
Total finance costs		**1,025**	**83**

10 INCOME TAX

(A) INCOME TAX (CREDIT) CHARGE

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	30 June 2023	30 June 2022
Current tax		697	575
Deferred tax	18	(3,495)	(169)
Income tax (credit) charge		**(2,798)**	**406**

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

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	30 June 2023	30 June 2022
Income (loss) before tax expense		**1,365**	**2,181**
Tax at the New Zealand rate of 28%		382	611
Effect of lower tax rates in the Czech Republic		(75)	—
Prior year tax adjustment		—	83
Expenses not deductible for tax purposes		1,488	123
Revenue not assessible for tax purposes		(11)	—
Temporary differences	18	(154)	154
Utilisation of previously unrecognised tax losses		(4,428)	(565)
Income tax (credit) charge		**(2,798)**	**406**
Income tax reported in the statement of profit or loss		(2,798)	406
Total income tax (credit) charge		**(2,798)**	**406**

(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 2023 there were $ Nil (2022: $12,600,000) of unrecognised New Zealand tax losses, representing a tax benefit of $ Nil (2022: $3,528,000).

(D) IMPUTATION CREDIT ACCOUNT

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Credits available to shareholders of the company	529	108

11 CASH AND BANK BALANCES

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Cash at bank and in hand	5,099	12,011
Term deposits	3,000	—
Less bank overdraft	—	—
Cash and cash equivalents per cash flow statement	**8,099**	**12,011**

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.

12 ACCOUNTS RECEIVABLE, OTHER DEBTORS AND PREPAYMENTS

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	30 June 2023	30 June 2022
Trade receivables		13,902	11,154
Less expected credit loss		(267)	(19)
Total accounts receivable		**13,635**	**11,135**
Impairment provision			
Expected credit loss at 1 July		(19)	(5)
Acquired through business combination	29	(252)	—
Decrease (increase) in provision		4	(14)
Provision for expected credit loss at 30 June		**(267)**	**(19)**
Past due and impaired receivables			
1 to 3 months		—	—
Over 3 months		267	19
		267	**19**
Past due but not impaired receivables			
1 to 3 months		1,083	763
Over 3 months		1,584	101
		2,667	**864**

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

The expected credit loss allowance as at 30 June 2023 was determined as follows for trade receivables:

IN THOUSANDS OF NEW ZEALAND DOLLARS	Current	30-59 days	60-89 days	90 days and later	Total
Gross carrying amount					
Balance outstanding	10,968	586	497	1,851	13,902
Total expected credit loss rate	0.0%	2.0%	10.5%	10.7%	1.9%
Expected credit loss allowance	**5**	**12**	**52**	**198**	**267**

The expected credit loss allowance as at 30 June 2022 was determined as follows for trade receivables:

IN THOUSANDS OF NEW ZEALAND DOLLARS	Current	30-59 days	60-89 days	90 days and later	Total
Gross carrying amount					
Balance outstanding	10,272	759	4	120	11,154
Total expected credit loss rate	0.1%	0.5%	46.0%	0.0%	0.2%
Expected credit loss allowance	**13**	**4**	**2**	**–**	**19**

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Other debtors and prepayments		
Other debtors	1,478	101
Prepayments	1,036	339
Total other debtors and prepayments	**2,514**	**440**

13 FINANCE LEASE RECEIVABLE

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Current finance lease receivable	11	11
Non current finance lease receivable	226	246
Total other debtors and prepayments	**237**	**257**

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	30 June 2023	30 June 2022
Other Inventory		
Raw materials and components	12,714	661
Work in progress	539	—
Finished goods	856	1,311
Total inventories	**14,109**	**1,972**

The provision relating to inventories which have been written down to estimated net realisable value amounted to $1,601,000 (2022: $1,033,000).

During 2023 $737,000 (2022: $323,000) was recognised as an expense for inventories carried at net realisable value. This is recognised in raw materials and consumables used in the Statement of Profit or Loss.

15 PROPERTY, PLANT AND EQUIPMENT

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	Freehold land	Buildings	Plant and equipment	Total
At 1 July 2021					
Cost/Valuation		2,250	4,175	6,292	12,717
Accumulated depreciation		—	—	(5,245)	(5,245)
Net book value		**2,250**	**4,175**	**1,047**	**7,472**
Year ended 30 June 2022					
Opening net book value		2,250	4,175	1,047	7,472
Additions		—	899	969	1,868
Fair value gain recognised in other comprehensive income		—	143	—	143
Depreciation		—	(142)	(332)	(474)
Disposals		—	—	(14)	(14)
Closing net book value		**2,250**	**5,075**	**1,670**	**8,995**
At 30 June 2022					
Cost/Valuation		2,250	5,075	4,606	11,931
Accumulated depreciation		—	—	(2,936)	(2,936)
Net book value		**2,250**	**5,075**	**1,670**	**8,995**
Year ended 30 June 2023					
Opening net book value		2,250	5,075	1,670	8,995
Acquired through business combinations	29	—	—	6,231	6,231
Additions		—	238	876	1,114
Fair value gain/(loss) recognised in other comprehensive income		350	(458)	—	(108)
Depreciation		—	(155)	(639)	(794)
Disposals		—	—	(23)	(23)
Closing net book value		**2,600**	**4,700**	**8,115**	**15,415**
At 30 June 2023					
Cost/Valuation		2,600	4,700	15,004	22,304
Accumulated depreciation		—	—	(6,889)	(6,889)
Net book value		**2,600**	**4,700**	**8,115**	**15,415**

An independent valuer, CBRE, was engaged to perform a valuation of land and buildings as at 30 June 2023.

The valuation of the property falls into Level 3 of the fair value hierarchy. The primary approach used by the valuers was the investment approach, which involves capitalising the net market income at an appropriate market derived rate of return to reflect the use, demand and risk associated with the properties and includes comparison with rental and sales evidence of other similar properties.

The resulting valuation excluding tax was $7,300,000 valuing the site (land and buildings) at $2,600,000 and $4,700,000 respectively.

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	30 June 2023	30 June 2022
Cost	3,914	2,466
Accumulated depreciation	(1,444)	(1,327)
Net book value	**2,470**	**1,139**

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.

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

Fair value measurement sensitivity to significant unobservable inputs:		Increase in input	Decrease in input
UNOBSERVABLE INPUTS WITHIN THE DISCOUNTED CASHFLOW ANALYSIS			
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. The capitalisation rate used for the current valuation was 6.375%.	If the capitalisation rate was 7.125% the valuation would be $7,075,000	If the capitalisation rate was 6.625% the valuation would be $7,600,000
Net market income per m²	The valuer's assessment of the net market income attributable to the property.	Increase	Decrease

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 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.

Refer to Note 4(c) for the undiscounted contractual maturity analysis for lease liabilities.

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 2023	Lease contracts number	Fixed Payments %	Variable Payments %	Sensitivity $000
Property leases with fixed uplifts	5	—	68	+/- 1,026
Property leases with periodic uplifts to market rentals and inflation	1	—	9	+/- 3
Leases of plant and equipment	5	4	—	—
Vehicle leases	14	19	—	—
	25	**23**	**77**	**+/- 1,029**

The percentages in the table below reflect the proportions of lease payments that are either fixed or variable for the comparative period.

30 JUNE 2022	Lease contracts number	Fixed Payments %	Variable Payments %	Sensitivity $000
Property leases with fixed uplifts	2	—	30	+/- 20
Property leases with periodic uplifts to market rentals and inflation	2	—	50	+/- 20
Leases of plant and equipment	5	6	—	—
Vehicle leases	8	14	—	—
	17	**20**	**80**	**+/- 0**

RIGHT-OF-USE ASSETS

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	Buildings	Plant, equipment and motor vehicles	Total
At 1 July 2021		750	140	890
Additions		788	299	1,087
Amortisation		(545)	(132)	(677)
At 30 June 2022		**993**	**307**	**1,300**
At 1 July 2022		993	307	1,300
Acquired through business combinations	29	20,312	9	20,321
Additions		—	216	216
Amortisation		(800)	(209)	(1,009)
At 30 June 2023		**20,505**	**323**	**20,828**

LEASE LIABILITIES

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	Buildings	Plant equipment and motor vehicles	Total
At 1 July 2021		823	144	967
Additions		788	299	1,087
Interest expense		57	15	72
Lease payments		(617)	(160)	(777)
At 30 June 2022		**1,051**	**298**	**1,349**
At 1 July 2022		1,051	298	1,349
Acquired through business combinations	29	20,312	9	20,321
Additions		—	216	216
Interest expense		269	29	298
Lease payments		(1,010)	(218)	(1,228)
At 30 June 2023		**20,622**	**334**	**20,956**

	30 June 2023	30 June 2022
Due within one year or less	1,442	733
Due after more than one year	19,514	616
	20,956	**1,349**

Short term and low value leases are disclosed at Note 8.

17 INTANGIBLE ASSETS

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	30 June 2023	30 June 2022
Goodwill			
Cost		24,600	351
Impairment		—	—
Net book value		**24,600**	**351**
Opening balance		351	351
Goodwill on acquisition of business combination	29	24,249	—
Closing balance		**24,600**	**351**
Acquired patents, trademarks and licences			
Cost *		937	767
Accumulated amortisation and impairment charges		(355)	(270)
Net book value		**582**	**497**
Opening balance		497	437
Acquired through business combinations	29	17	—
Additions		70	60
Amortisation		(2)	—
Closing balance		**582**	**497**
Intellectual property			
Cost *		23,815	5,641
Accumulated amortisation and impairment charges		(5,862)	(975)
Net book value		**17,953**	**4,666**
Opening balance		4,666	5,079
Additions		181	96
Acquired through business combinations	29	18,213	—
Impairment		(4,486)	—
Amortisation		(621)	(509)
Closing balance		**17,953**	**4,666**
Total intangible assets		**43,135**	**5,514**

**$4,486,000 of patents and intellectual property relates to the S-Clave project (2022: $4,419,000). The Board made the decision to fully impair the carrying value. It in no way implies that the objective of commercial trials will not be followed through.*

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

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

Intangible assets were acquired with the business combination (see note 29) and are classified as intellectual property:

IN THOUSANDS OF NEW ZEALAND DOLLARS		Useful life
Customer contracts	5,195	10 years
Agency relationships	7,582	10 years
Wyma brands	5,436	Indefinite life and subject to annual impairment testing
Total	**18,213**	

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

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

There were no amounts capitalised into labour for internally generated development assets (2022: $ Nil).

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

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Automation	24,600	351
Total	**24,600**	**351**

IMPAIRMENT ASSESMENT

GOODWILL AND BRAND

On an annual basis, the recoverable amount of the goodwill and brand 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. Goodwill of $351,000 (2002: $351,000) allocated to Haden & Custance relates to the acquisition in December 2016.

Goodwill and brand has been tested for impairment as at 30 June 2023. 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 Wyma Engineering is 15%. The terminal growth rate was 2% and the cash flows were discounted at a discount rate of 10.5%. 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

As of 30 June 2023, the investment in S-Clave intellectual property was $4,486,000 (30 June 2022: $4,419,000) prior to management assessing its recoverable amount of $0.

At this date, the S-Clave's technology was not yet available for use and was therefore required to be tested for impairment under NZ IAS 36 Impairment of Assets.

The S-Clave technology continues to progress towards clinical trials managed by our partnership with Atherton, Australasia's largest medical sterilisation supplier. Atherton maintains a strong interest and continue to utilise their test facilities to develop a prototype to take to clinical trial.

We have progressed the issues highlighted on 30 June 2022 as planned, however, significant new issues have emerged through the development and re-testing process. While ongoing testing of the seal integrity at the required temperature has been positive, the modifications to the tray have resulted in considerable design and production issues with the tray flexing which needs to be addressed. Resolution of these significant new issues will involve additional expenditure and modification to the design, materials and production process prior to further testing. At reporting date, there is significant uncertainty as to the timing of the resolution of these new issues. This, combined with the risk of further issues and/or delays in trials has significantly delayed our assessment of the time-to-market which is reflected in our assessment of revenue-generating sales and cash flows in the assessment of the recoverable amount (value in use).

We have worked with Atherton for six years, two of these were hampered by Covid disruptions. MHM will need to commit to additional costs in the future to work directly with Atherton with the requirement of a CSD specialist and/or a Commercialisation Manager.

The recoverable amount has been assessed using the value in use (VIU) method consistent with the requirements of NZ IAS 36. Due to the stage of development, it is not possible to determine the fair value less costs of disposal.

Due to the factors above the VIU model used to support the impairment testing of S-Clave has been reviewed and updated with the following key inputs and variables:

- Cashflow projections delayed by 24 months, hospitals uptake modelled to occur in 2025-2026 (2022: 2023-2024)
- A range of WACC rates was estimated between 27.5% and 30% to account for time value of money and associated risks. This was based on current market rates adjusted for business and specific risks. A WACC rate of 30% (2022: 20%) was determined to reflect the increased cost of capital, the interest rate environment, and the increased time to market of 24 months.
- Additional operational expenditure (resource of Commercialisation Manager to take to trials) (2022: no MHM resource anticipated).

Based on these inputs, the recoverable amount as of 30 June 2023 was assessed to be nil resulting in an impairment charge of $4,486,000 recognised in profit and loss for the year ended 30 June 2023.

Given the significant uncertainties and delays to achieving a workable tray and the delay to market, the Directors have resolved to book a provision for impairment for the full carrying amount of the intangible asset.

MHM will continue to assess the recoverable amount of the S-Clave asset at future reporting periods. In the event that the uncertainties are resolved and the Directors have confidence in the projections in future years, consideration will be given to re-assessing the level of the impairment provision.

18 DEFERRED TAX ASSET

IN THOUSANDS OF NEW ZEALAND DOLLARS	Buildings	Intangibles	Other Temporary Differences	Tax Losses (Profits)	Total
Balance at 1 July 2021	(917)	—	970	300	353
Amounts charged (credited) to profit or loss	—	—	(154)	323	169
Recognised in other comprehensive income	(40)	—	—	—	(40)
Balance at 30 June 2022	**(957)**	**—**	**816**	**623**	**482**
Arising from business combinations	—	(5,266)	542	—	(4,724)
Amounts (charged) credited to profit or loss	—	62	154	3,279	3,495
Recognised in other comprehensive	128	—	—	—	128
Balance at 30 June 2023	**(829)**	**(5,204)**	**1,512**	**3,902**	**(619)**

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

The Directors are confident of generating taxable profits in the future after successive profits for the last four years and therefore it is deemed appropriate to take the benefits of all remaining tax losses. As at 30 June 2023 there were $ Nil (2022: $3,528,000) of unrecognised New Zealand tax benefit.

The capitalised balance of deferred tax remaining was recognised on the basis that shareholder continuity has been maintained for losses generated from 2016 onwards. The Board adopted the budget and cash flow forecast for the year to 30 June 2024. The budget and forecasts indicates that there will be sufficient future taxable profits available for the Group to utilise the tax assets recognised.

19 INVESTMENT IN SUBSIDIARIES

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

Subsidiaries	Activities	Location	2023 % Ownership	2022 % Ownership
MHM New Zealand Limited (formerly 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%
MHM Land Limited (formerly Mercer Technologies Limited)	Holds Intellectual Property	New Zealand	**100%**	100%
Mercer Products Pty Limited	Non-trading subsidiary, formerly a distributor of kitchen products	Australia	**100%**	100%
MHM Wyma Australia Pty Limited (formerly Mercer Technologies Pty Limited)	Non-trading subsidiary, formerly a supplier of stainless steel products	Australia	**100%**	100%
MHM New Zealand Pty Limited (formerly 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%
MHM International Limited	Holding company for international entities	New Zealand	**100%**	—
Wyma Engineering NZ Limited	Designs and manufactures post-harvest handling solutions	New Zealand	**100%**	—

Subsidiaries	Activities	Location	2023 % Ownership	2022 % Ownership
Wyma Australia Pty Limited	Marketing and sales office	Australia	**100%**	—
Wyma Europe s.r.o	Designs and manufactures post-harvest handling solutions	Czech Republic	**100%**	—
Wyma Denmark ApS	Non-trading subsidiary	Denmark	**100%**	—
Wyma Inc	Non-trading subsidiary	United States	**100%**	—
Xenos Limited	Non-trading subsidiary	New Zealand	**100%**	—

20 TRADE AND OTHER PAYABLES

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Trade creditors	8,884	5,950
Sundry creditors and accruals	1,537	1,865
Total creditors and accruals	**10,421**	**7,815**

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

21 WARRANTY PROVISION

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
As at 1 July	**522**	**522**
Acquired through business combinations	788	—
Arising during the year	292	—
Utilised	47	—
Unused amounts reversed	(204)	—
	1,445	**522**

The Group provides warranties for repairs of defects that existed at the time of sale. Provisions related to these assurance-type warranties are recognised when the product is sold. Initial recognition is based on past experience of the level of repairs and is reviewed annually. The provision is between 0.5% and 2% of the contract revenue and it is expected that these costs would be incurred within two years of practical completion.

22 BORROWINGS

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	30 June 2023	30 June 2022
Bank loans		18,672	—
Contingent consideration	29	10,319	—
Other Loans		559	—
Total borrowings		**29,550**	**—**
Contractual maturity			
Within one year		3,036	—
Later than one year		26,514	—
		29,550	**—**

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.

The bank facility expires on 1 May 2026. It is subject to floating interest rates. It is subject to meeting various covenants including maintaining EBIT as a ratio of interest and Net Financial Debt not exceeding a ratio of EBITDA. Dividend payments are limited to 20% of Net Profit after Tax. There have been no breaches during the year.

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 2021	—	—	967	967
Cashflows	—	—	(705)	(705)
Non-cashflows				
- Lease adjustments (Note 16)	—	—	1,087	1,087
At 30 June 2022	**—**	**—**	**1,349**	**1,349**
Cashflows	(14,057)	18,664	(930)	3,677
Non-cashflows				
- Lease adjustments (Note 16)	—	—	216	216
- Acquired in a business combination (note 29)	14,616	—	20,321	34,937
- Contingent consideration (note 29)	2,477	7,842	—	10,319
- Amortisation of borrowing costs	—	8	—	8
At 30 June 2023	**3,036**	**26,514**	**20,956**	**50,506**

23 SHARE CAPITAL AND RESERVES

	SHARES	
GROUP	30 June 2023	30 June 2022
Issued and fully paid up capital	**89,035,734**	**66,069,067**
Balance at beginning of the year	66,069,067	65,619,067
Shares issued during the year	22,966,667	450,000
Balance at the end of the year	**89,035,734**	**66,069,067**

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

The shares have no restrictions on distribution of reserves, however, per note 22 the Group is restricted by its banking facility that dividend payments are limited to 20% of Net Profit after Tax. 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.

24 DIVIDENDS

CASH DIVIDEND ON ORDINARY SHARES DECLARED AND PAID

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Special dividend for 2021: 1.5 cents per share 1.5 cents per share (paid 22 September 2021)		984
Final dividend for 2022: 0.72 cents per share (paid 12 September 2022)	476	
Interim dividend for 2023: 0.942 cents per share (paid 12 April 2023)	625	
	1,101	**984**

25 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 the period.

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 period 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.

There are potential dilutive instruments as at 30 June 2023, however these were not considered dilutive as tranche 3 of the senior executive plan is contingent on achievement of future performance targets (per note 28(c)(ii)), and are therefore contingently issuable shares.

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES IN ISSUE:	30 June 2023	30 June 2022
Basic	69,469,295	65,619,067
Equity based remuneration	657,945	1,233
Total	**70,127,241**	**65,620,300**
Income (loss) attributable to the shareholders of the Company ($000)	4,163	1,775
Basic earnings per share	5.94 cents	2.70 cents
Diluted earnings per share	5.94 cents	2.70 cents

26 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	30 June 2023	30 June 2022
Trade creditors and employee entitlements	(3,130)	4,097
Trade debtors and prepayments	4,446	(4,262)
Inventories	870	(277)
Contract assets	364	520
Contract liabilities	(4,807)	4,515
Total	**(2,257)**	**4,593**
Change in inventory provision	734	(275)
Change in expected credit loss	4	(14)
Net movement in Statement of Cashflows	**(1,519)**	**4,304**

27 CONTINGENT LIABILITIES

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Guarantee to bankers for credit card facilities up to a limit of $523,000	523	240
Guarantees to bankers for bank guarantees issued to third parties for work completed from which it is anticipated that no material liabilities will arise	9,515	13,070
Total	**10,037**	**13,310**

28 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: A Barclay, T Burt, C Neal, G Rolleston, R Rookes and P Smart.

(B) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation for the year ended 30 June 2023 and the year ended 30 June 2022 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. 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. Wyma executives are included from the date of acquisition.

IN THOUSANDS OF NEW ZEALAND DOLLARS	30 June 2023	30 June 2022
Short term benefits	2,410	1,805
Long term benefits	125	77
Share based payments	442	555
Directors' fees	260	220
Total	**3,237**	**2,657**

REMUNERATION TO CLOSE FAMILY MEMBERS OF KEY MANAGEMENT PERSONNEL

Remuneration of $21,582 was paid to close family members of Key Management Personnel.

(C) EQUITY INSTRUMENTS

(I) SHARE OPTIONS

	NUMBER OF SHARES	
	30 June 2023	30 June 2022
At beginning of the year	600,000	—
Granted	—	1,050,000
Exercised	(300,000)	(450,000)
At end of the year	**300,000**	**600,000**

(II) SHARE BASED PAYMENTS

The Group operates a Senior Executive Plan (Plan) which was approved by the Board of Directors of the Company on 3 May 2022. The Plan is designed to provide incentives for the senior executives to deliver long-term shareholder returns.

Under the Plan, share options have been granted to the CEO and CFO at a zero-exercise price and carry no dividend or voting rights. Each exercised option converts to one ordinary share. The fair value of the options ($0.67) is estimated by reference to the share price on the grant date taking into account the terms and conditions upon which the share options were granted.

The first tranche of the options was exercised on 30 June 2022. R Rookes was issued 300,000 shares at a value of $201,000 and I McGregor was issued 150,000 shares at a value of $100,500 as consideration for their services as chief executive and chief financial officer of the Company.

The second tranche of the options was exercised early on 21 October 2022. R Rookes was issued 200,000 shares at a value of $134,000 and I McGregor was issued 100,000 shares at a value of $67,000 as consideration for their services as chief executive and chief financial officer of the Company.

The share price of the options exercised during the period was $0.63.

In addition, the company made an additional payment of $130,645 to the senior executives in cash to cover their tax obligation in relation to the share based payment transaction.

The third tranche of options vest if the EBITDA targets for June 2024 are achieved and the senior executives remain employed on 31 December 2024.

Expense and liability arising from the Plan are as follows:

IN THOUSANDS OF NEW ZEALAND DOLLARS	NOTE	30 June 2023	30 June 2022
Equity settled		257	332
Payment in relation to tax obligation		185	223
Total share based payment expense	8	**442**	**555**
Cash settled liability		**185**	**223**

(D) COMPANIES IN WHICH DIRECTORS HAVE A SIGNIFICANT / CONTROLLING INTEREST

	TRANSACTION AMOUNT		BALANCE OWED	
IN THOUSANDS OF NEW ZEALAND DOLLARS	2023	2022	2023	2022
Purchases (property lease)	283	–	–	–
Purchases (other)	8	–	2	–

The property leased at Waterloo Park is owned by Jajar Investments Limited, of which A Barclay is a major shareholder.

The lease is for a period of 10 years with rights of renewal and commenced on 1 April 2023. At balance date, the remaining lease liability was $18,013,841 calculated assuming one ten-year right of renewal is exercised and is included in Note 16.

Other purchases are from a company of which P Smart is a director.

TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

The payments to related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided for any related party payables.

29 BUSINESS COMBINATION

On 1 May 2023 MHM Automation Limited purchased all the shares in Wyma Engineering (NZ) Limited (Wyma). Wyma, based in Christchurch, is a world leader in designing and manufacturing equipment of post-harvest vegetable and fruit handling equipment. It has operations in Australia, the UK and the Czech Republic.

The Wyma acquisition brings diversification to the Group by expanding its reach into the post-harvest vegetable and fruit handling markets. It also boosts the Group's scale through its established presence in the European market. This aligns with the Group's acquisition strategy, which aims to gain access to technology and market expertise while improving operational efficiency.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

PURCHASE CONSIDERATION AND FAIR VALUE OF NET ASSETS ACQUIRED

IN THOUSANDS OF NEW ZEALAND DOLLARS	Fair value
Cash paid	14,502
Shares issued	20,853
Contingent consideration	10,059
Total purchase consideration	**45,414**

The fair value of the 22,666,667 shares issued as part of the consideration paid for Wyma amounts to $20,853,334 in reference to the NZX closing share price on 1 May 2023 of $0.92 per share. Issue costs of $82,554 which were directly attributable to the issue of the shares have been netted against the deemed proceeds.

The Group also paid $14,057,073 to settle Wyma's external debt on completion date and this is considered a separate transaction not part of the acquisition. The amount paid is therefore excluded in the purchase consideration and the external debt is included in the net identifiable assets of Wyma.

The assets and liabilities recognised as a result of the acquisition are as follows:

IN THOUSANDS OF NEW ZEALAND DOLLARS	Fair value
Cash and cash equivalents	2,846
Accounts receivable	7,011
Other debtors and prepayments	2,009
Contract assets	6,063
Derivative financial instruments	164
Inventories	13,007
Income tax receivable	973
Intangible assets	
- Customer contracts	5,195
- Agency relationships	7,582
- Brands	5,436
- Software	17
Property, plant and equipment	6,231
Right-of-use assets	20,321
Deferred tax assets	542
Contract liabilities	(7,446)
Trade and other payables	(4,786)
Warranty provision	(788)
Employee entitlements	(3,568)
Deferred tax liabilities	(5,266)
Lease liabilities	(20,321)
Loans and borrowings	(14,057)
Net identifiable assets acquired	**21,165**
Add: Goodwill	24,249
Total purchase consideration	**45,414**

The goodwill is attributable to the high profitability of the acquired business, its reputation within the industry and the synergies expected to be achieved from integrating Wyma into the Group's operations which is not separately recognised. It will not be deductible for tax purposes. The goodwill is allocated entirely to the Automation segment.

The fair value of acquired trade receivables is $7,010,906. The gross contractual amount for trade receivables due is $7,262,667, with a loss allowance of $251,761 recognised on acquisition.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities.

CONTINGENT CONSIDERATION

The Group has agreed to make earnout payments to the selling shareholders of Wyma over a three-year period. These payments serve as additional consideration if Wyma achieves its revenue targets for the years ending 30 June 2024 to 30 June 2026.

The potential undiscounted amount payable under the agreement is between $0 and $15,000,000 and is calculated on a sliding scale of revenue targets to a maximum revenue target of $60,000,000 per year for each year of the earnout period. The third earnout payment is calculated taking into account the payments that have been made for the first two earnout payments so that the total earnout cannot be more than $15,000,000.

The fair value of the contingent consideration of $10,059,000 was estimated based on a simulation approach using MHM's expectations for Wyma achieving the revenue targets. The estimates are based on a discount rate of 16.5% and assumed probability-adjusted revenue of Wyma between $55,000,000 and $62,000,000.

The fair value of the contingent consideration determined at 30 June 2023 reflects the probability of Wyma achieving its revenue targets.

REVENUE AND PROFIT CONTRIBUTION

Wyma contributed revenues of $14,162,000 and net profit of $396,000 to the Group for the period from 1 May to 30 June 2023 after adjusting for the additional depreciation and amortisation on the fair value adjustments to property, plant and equipment and intangible assets and the unwinding of the contingent consideration.

If the acquisition had occurred on 1 July 2022, consolidated pro-forma revenue and profit for the year ended 30 June 2023 would have been $148,169,000 and $3,198,000 respectively.

These amounts have been calculated using Wyma's results and adjusting them for:

- Differences in the accounting policies between the Group and the subsidiary,
- The additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2022, together with the consequential tax effects, and
- The fair value adjustment to contingent consideration.

CASH FLOWS AND ACQUISITION RELATED COSTS

The net cash flow on acquisition as presented in the Consolidated Statement of Cash Flows under investing activities amounts to $11,656,000 and pertains to the cash consideration of $14,502,000 net of cash balances acquired of $2,846,000.

Acquisition-related costs of $370,748 that were not directly attributable to the issue of shares are included in other expenses in the Consolidated Statement of Profit or Loss and presented under the operating activities in the Consolidated Statement of Cash Flows.

30 SUBSEQUENT EVENTS

There were no subsequent events.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS

BDO Christchurch Audit Limited

OPINION

We have audited the consolidated financial statements of MHM Automation Limited ("the Company") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 30 June 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of movements 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 2023, 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") and International Financial Reporting Standards ("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 we have fulfilled our other ethical responsibilities in accordance with these requirements. 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. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How the matter was addressed in our audit
BUSINESS COMBINATION- WYMA ENGINEERING (NZ) LTD	
The Group acquired 100% of Wyma Engineering (NZ) Ltd ('Wyma') and its subsidiaries with effect from 1 May 2023. The transaction is accounted for as a business combination in accordance with NZ IFRS 3 'Business Combinations'. Refer to Note 29 of the consolidated financial statements. As a result of the acquisition, the Group recognised net assets of $45.4m including identifiable intangible assets of $18.2m and goodwill of $24.3m. The accounting for this transaction is complex due to the significant judgements and estimates that are required to determine the value of the consideration transferred and the identification and measurement of the fair value of the assets acquired and liabilities assumed. Due to the size and complexity of the acquisition, we considered this to be a key audit matter in our audit.	Our audit procedures in this area included: › reviewing the transaction documentation including the sale and purchase agreement and management's assessment of the transaction and assessing the accounting treatment applied against the requirements of NZ IFRS 3 *'Business Combinations'*, › engaging our valuation specialists to assist us in assessing the appropriateness of the methodologies applied and valuations produced in respect of assets acquired and liabilities assumed, › assessed the competence and objectivity of management's external valuation expert and challenged the expert as to findings and conclusions of their work; › verifying the cash and equity-based consideration and challenging the fair value of the contingent consideration which included assessing the likelihood of Wyma achieving performance targets by reviewing historical financial performance and forecasting accuracy, › attending Wyma stocktakes at the date of acquisition to inspect physical inventories and property, plant and equipment on hand, › engaging a component auditor to assist with verifying physical assets acquired in overseas jurisdictions, › assessing management's subsequent impairment assessment of indefinite life intangible assets and goodwill acquired, › evaluating the adequacy of the disclosures included in the financial statements.

Key audit matter	How the matter was addressed in our audit

IMPAIRMENT ASSESSMENT – S-CLAVE

During the year ended 30 June 2023 an impairment expense of $4.49m was recognised in relation to capitalised development costs for the S-Clave intangible asset. Following the impairment, as at 30 June 2023 the carrying value of the S-Clave asset was $0 (30 June 2022: $4.42m). Refer to Note 17 of the consolidated financial statements.

The impairment charge was calculated by comparing the recoverable amount to the carrying value. The recoverable amount was determined by management on a 'value in use' basis. The value in use model was based on discounted future cash flows.

Determination of the impairment charge requires significant judgment and estimation. The key assumptions in the impairment assessment were future cash flows, including the commercialisation timeframe, and the discount rate applied to future cash flows.

The impairment testing of the S-Clave intangible asset is considered a key audit matter due to the materiality of the balance, the presence of impairment indicators, and the significant level of management estimation and judgement applied in determining key assumptions used in the impairment assessment.

Our audit focussed on assessing and challenging the key assumptions used by management in their impairment assessment. Our procedures included:

- considering whether the valuation methodology was appropriate, including whether a 'fair value less costs of disposal' approach to the impairment test would result in a lower or no impairment;
- assessing the Group's forecasting accuracy by comparing historical forecasts to actual results and considering the impact on the current impairment assessment;
- discussing with management the basis for the cash flow forecasts including the time to commercialise the product, and the key drivers of change in forecasts compared to the prior period, including internal and external factors;
- engaging our valuation experts to assist us with:
    - assessing whether the discount rate and growth rate used by management in the valuation model are reasonable in the context of the forecast, and
    - testing the accuracy of the calculations in the impairment model
- performing sensitivity analysis to assess the impact of reasonably possible changes in key assumptions on the impairment assessment
- considering the appropriateness of the disclosures in the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
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. During the year the Group acquired Wyma, which increased the volume and types of contractual arrangements through the newly acquired business. 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. 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. We focussed on this area as a key audit matter due to the risk of incorrect timing of revenue recognition and estimation, and the 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: › obtaining Wyma's customer contracts and trading terms and evaluating whether management's revenue recognition assessment is appropriate and in accordance with relevant financial reporting standards; › assessing the compliance of the Group's revenue recognition policies with applicable accounting standards; › assessing the revenue recognition processes and practices; › 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; › testing the accuracy of cut off with substantive procedures; › assessing management's estimates applied to determine percentage of completion; › obtaining an understanding of the design and implementation of controls in relation to revenue recognition; and 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 information on pages 3 to 20 and 72 to 78, 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 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 financial statements is located at the External Reporting Board's website at: *https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-1/*

This description forms part of our auditor's report.

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 Audit Limited

BDO Christchurch Audit Limited
Christchurch, New Zealand
15 September 2023

This audit report relates to the consolidated financial statements of MHM Automation Limited (the 'Group') for the year ended 30 June 2023 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 15 September 2023 to confirm the information included in the audited consolidated financial statements presented on this website.

STATUTORY INFORMATION

MHM AUTOMATION GROUP BOARD OF DIRECTORS

PRINCIPAL ACTIVITY

The Board is the governing body of MHM Automation Limited and as at 30 June 2023 there were six members. However, Colin Neal's resignation as a director was announced on 8 May 2023 which was effective 30 June 2023. 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 2023 Annual General Meeting, when one director will retire by rotation. Directors being eligible, may offer themselves for re-election in accordance with the Company's constitution. Mr Rookes will continue his role as Chief Executive Officer.

DIRECTORS HOLDING OFFICE DURING THE PERIOD WERE:

Trevor Burt (Independent Chair), Paul Smart (Independent), Colin Neal, George Rolleston, Richard Rookes, Andrew Barclay.

DIRECTORS' REMUNERATION

Non-executive directors received the following Director's fees from the Company as follows:

	2023	2022
Paul Smart [Independent]	$56,167	$48,500
Colin Neal	$56,167	$48,500
Trevor Burt [Independent]	$91,304	$73,913
George Rolleston	$56,076	$49,022
Total	**$259,714**	**$219,935**

Non-executive directors also receive reimbursement for reasonable travel, accommodation and other expenses incurred in the course of performing their duties. Directors' fees exclude GST, where applicable. No share options are issued to the directors. The directors receive no other benefits.

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 [Chair]
- 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.

The last audit partner rotation was 2020. BDO attends the Company's Annual Meeting.

The amount of fees paid to BDO for audit work in FY23 are detailed in Note 8 of this Annual Report.

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.

CHIEF EXECUTIVE OFFICER REMUNERATION

The review and approval of the CEO's remuneration (REM) is the responsibility of the Board.

The CEO's REM includes:

- A fixed base salary, including Kiwisaver contributions by the Group
- An at-risk short-term incentive (STI) payable annually subject to agreed upon and achieved company and individual key performance indicators
- A long-term incentive (LTI) which is the periodic issue of Ordinary Shares subject to agreed conditions.

12 months to;	Salary & Benefits	Short Term Incentive Earned	Long Term Incentive*
30 June 2023	467,640	—	294,790
30 June 2022	428,327	100,000	370,280

**Tax liabilities for the issue of shares is paid by the Company*
The short-term incentive is paid the year after it is earned. For the 12 months to 30 June 2023 total REM was $862,430 (2022: $903,607)

EMPLOYEE REMUNERATION

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

	2023	2022
$100,000 - 109,999	27	13
$110,000 - 119,999	32	17
$120,000 - 129,999	15	14
$130,000 - 139,999	20	4
$140,000 - 149,999	14	7
$150,000 - 159,999	14	2
$160,000 - 169,999	2	1
$170,000 - 179,999	5	1
$180,000 - 189,999	7	5

	2023	2022
$190,000 - 199,999	3	1
$200,000 - 209,999	3	1
$210,000 - 219,999	7	1
$220,000 - 229,999	2	2
$230,000 - 239,999	1	-
$240,000 - 249,999	1	-
$250,000 - 259,999	-	-
$280,000 - 289,999	1	1
$290,000 - 299,999	1	-

	2023	2022
$340,000 - 349,999	-	1
$350,000 - 359,999	2	-
$370,000 - 379,999	1	-
$540,000 - 549,999*	1	-
$560,000 - 569,999*	-	1
$860,000 - 869,999*	1	-
$900,000 - 909,999*	-	1
$3,600,000 - 3,609,999**	1	-

** Note that these figures include equity based payments amounting to $442,000 (2022: $555,000) for share payments (see note 28 of the Group Financial Statements).*

*** Relates to historical bonus paid to Wyma employee pre-acquisition*

DIVERSITY

At 30 June 2023, MHM Automation employed 347 staff, including 125 in the workshop, of which 300 (86%) were male and 47 (14%) were female. Compared to 2022 where 153 (91%) were male and 15 (9%) were female employees. MHM Automation encourages representation across both genders and all ethnicities and have a policy of hiring on merit.

The 6 directors of the company at 30 June 2023 are male (compared to 5 male directors in 2022). Of the 13 officers at 30 June 2023, 11 are male and 2 are female (compared to the 5 male officers and no female officers in 2022).

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 MHM Automation Limited group 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

During the year, Colin Neal sold the following parcels of shares:

	Shares	Cents		Shares	Cents		Shares	Cents
14 Nov 22	1,500,000	70	19 Jan 23	94,104	83	21 Mar 23	200,000	90
5 Jan 23	42,128	97	19 Jan 23	662	84	21 Mar 23	52,900	92
6 Jan 23	25,340	96	20 Jan 23	97,998	83	23 Mar 23	300,000	93
9 Jan 23	17,534	96	20 Jan 23	1,176	85	31 Mar 23	410,600	92
10 Jan 23	368	97	20 Jan 23	826	86	4 Apr 23	2,000,000	90
12 Jan 23	2,858	94	21 Mar 23	16,500	95	1 Jun 23	1,914,893	94
17 Jan 23	17,006	86						

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.

Richard Rookes APPOINTED - 21 FEBRUARY 2011 Executive and member of the Audit Committee	Director – Skope Industries Ltd
Paul Smart APPOINTED - 31 JULY 2012 Non-executive and Independent Chairman of the Audit Committee	Director – ArborGen Holdings Ltd Director – Geo40 Ltd Director – Genus ABS (NZ) Ltd Director – Argus Fire Systems Service Ltd Director – Sunrise Consulting Ltd Chair – Vortex Power Systems Ltd Trustee - Bellbird Trust Trustee - Saddleback Trust
George Rolleston APPOINTED - 28 FEBRUARY 2019 Non-executive Director	Director/Shareholder – Plant Miner Pty Ltd Director/Shareholder - Travlr Pty Ltd Director/Shareholder - Matrix Pty Ltd (NZ) Director/Shareholder - Suubee Pty Ltd Director/Shareholder - Rolleston Investment Trust Director/Shareholder - Asset Growth Fund Pty Ltd Director/Shareholder - Rolleston Capital Director/Shareholder - Spaceships Australia Director/Shareholder - Waimak Asset Management Pty Ltd Director/Shareholder - Felix Group Holdings Ltd Director/Shareholder - Komodo Capital Ltd G and P Rolleston SuperFund
Trevor Burt APPOINTED - 24 OCTOBER 2019 Non-executive Independent Chairman and a member of the Audit Committee	Chair – The Lamb Company North America Director – Market Gardeners Ltd Director – Landpower Group Ltd Director – NZ Drinks Ltd Director – Premier Fresh Australia Pty Ltd Director/Shareholder – Breakaway Investments Ltd Director/Shareholder – Hossack Station Ltd Director/Shareholder – Eastern Dynasty Ltd Trustee – Ben Gough Family Trust

Colin Neal APPOINTED - 1 MAY 2020 Non-executive Director	Director - Astrolabe Retreat Ltd Director - Bay Cuisine Ltd Director - Bush Road Ltd Director - EQ Management 21 Ltd Director - Hello Foods Ltd Director - Lean Artisan Smokehouse Company Ltd Director - Natava Superfoods Ltd Director - Pasta d'Oro Ltd Director - Polar Capital GP Ltd Director - Polar Capital Trustees Ltd Director - Polar Capital Trustees (No 2) Ltd Director - Polar Equity Ltd Director - Pure Cuisine NZ Ltd Director - SFFL Exports Pty Ltd Director - Smiths City (2020) Ltd Director - Smiths City Finance Ltd Director - Smith City Holdings (2020) Ltd
Andrew Barclay APPOINTED - 1 MAY 2023 Executive Director	Director/Shareholder – Jajar Investments Ltd Director – Heat Ranger Ltd Director – Xenos Ltd

DIRECTORS NOTICE

No member of the Board of MHM Automation 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

MHM Automation 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

MHM Automation made no donations during either year.

DIRECTORS SHAREHOLDING

		BENEFICIAL INTEREST		ASSOCIATED PERSONS		NON BENEFICIAL	
Directors Shareholding	**Voting Securities Total**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
GHD Rolleston							
Asset Management Limited		14,778,788	14,778,788	—	—	—	—
National Mortgage Underwriters		143,211	143,221	—	—	56,972	56,972
HJD Rolleston & AJ Keegan		3,384,019	5,799,298	—	—	—	—
		18,306,018	**20,721,297**	**18,362,990**	**20,701,573**	**56,972**	**56,972**
	20.62%						
A Barclay							
Jajar Investments Ltd	20,400,000	20,400,000	—	—	—	—	—
	20,400,000	**20,400,000**	**—**	**—**	**—**	**—**	**—**
	22.91%						
P Smart							
Sunrise Consulting Ltd	347,846	347,846	327,846	—	—	—	—
	347,846	**347,846**	**327,846**	**—**	**—**	**—**	**—**
	0.39%						

DIRECTORS SHAREHOLDING CONT.

Directors Shareholding	Voting Securities Total	Beneficial Interest 2023	Beneficial Interest 2022	Associated Persons 2023	Associated Persons 2022	Non Beneficial 2023	Non Beneficial 2022
R Rookes							
Richard George Rookes	2,500,861	2,500,861	2,000,861	–	–	–	–
	2,500,861	**2,500,861**	**2,000,861**	–	–	–	–
	2.81%						
T Burt							
Trevor Burt	700,000	700,000	700,000	–	–	–	–
	700,000	**700,000**	**700,000**	**–**	**–**	**–**	**–**
	0.79%						
C Neal							
Custodial Services Ltd	3,300,410	3,300,410	9,995,303	–	–	–	–
	3,300,410	**3,300,410**	**9,995,303**	**–**	**–**	**–**	**–**
	3.71%						
Total shares in issue at 30 June 2023	**89,035,734**						

SHAREHOLDERS ANALYSIS

The shareholder information detailed in this report has been taken from the Company's Register as at 30 June 2023.

DOMICILE OF SECURITY HOLDERS	Number of holders	%	Number of shares held	%
New Zealand	712	96.87	82,216,871	92.34
Australia	14	1.90	4,083,339	4.59
United Kingdom	2	0.27	20,019	0.02
China	1	0.14	331,675	0.37
Other	6	0.82	2,383,830	2.68
	735	**100.0**	**89,035,734**	**100.0**
RANGE OF SHAREHOLDINGS				
1 to 1,000	276	37.55	76,848	0.09
1,001 to 5,000	149	20.28	419,037	0.47
5,001 to 10,000	83	11.29	691,931	0.78
10,001 to 100,000	169	22.99	6,009,182	6.74
100,001 and over	58	7.89	81,838,736	91.92
	735	**100.0**	**89,035,734**	**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 2023:

	Relevant Interest Voting Securities	% of Shares
Jajar Investments Limited	20,400,000*	22.91
HJD Rolleston	18,362,990	20.69
Forsyth Barr Custodians	4,874,810	5.48

** The total number of voting securities of the Company on issue at 30 June 2023 was 89,035,734.*

SHAREHOLDER INFORMATION

The information in the disclosure below have been taken from the Company's register at 30 June 2023.

Twenty largest shareholders:

HOLDER	Number held	% of Issue Capital
Jajar Investments Limited	20,400,000	22.91%
Asset Management Limited	14,778,788	16.60%
Forsyth Barr Custodians	4,874,810	5.48%
Vanessa Rosemary Neal	4,172,620	4.69%
John Anthony Dell	4,043,784	4.54%
Leveraged Equities Finance	3,598,575	4.04%
Humphry John D Rolleston	3,384,019	3.80%
Richard George Rookes	2,500,861	2.81%
Withlaro Holdings Limited	2,340,628	2.63%
Jason Bryce Gerrie	2,266,667	2.55%
Andrew John Ritchie	2,000,000	2.25%

HOLDER	Number held	% of Issue Capital
New Zealand Depository Nominee	1,791,980	2.01%
Ballynagarrick Investments	1,527,000	1.72%
Ian Alexander McGregor	1,125,500	1.26%
John Francis Dennehy	1,074,070	1.21%
William John Hedley Willis	1,000,000	1.12%
Rodger David Shepherd	720,517	0.81%
Trevor John Burt	700,000	0.79%
Paul Hewitson & Christopher John Stark	676,801	0.76%
New Zealand Central Securities	674,163	0.76%
Totals	**73,650,783**	**82.72%**

COMPANY DIRECTORY

SHARE REGISTERY

Link Market Services
PO Box 91976
Auckland 1142

SOLICITORS

Buddle Findlay
83 Victoria Street
Christchurch 8013

BANKERS

Bank of New Zealand Limited
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East Tamaki
Auckland 2013

REGISTERED OFFICE

53 Lunns Road
Middleton
Christchurch 8042

AUDITORS

BDO Christchurch
Audit Limited
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wyma

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