The Warehouse Group Limited
Interim Financial Statements

For the 26 weeks ended 27 January 2019

Consolidated Income Statement

	Note	Unaudited 26 Weeks Ended 27 January 2019	Unaudited 26 Weeks Ended 28 January 2018	Audited 52 Weeks Ended 29 July 2018
		$ 000	$ 000	$ 000
Continuing operations				
Retail sales	3	1,640,537	1,598,076	2,994,571
Cost of retail goods sold		(1,107,308)	(1,075,587)	(2,003,396)
Gross profit		533,229	522,489	991,175
Other income		5,505	5,214	8,118
Lease and occupancy expenses		(81,413)	(80,564)	(159,587)
Employee expenses		(274,041)	(264,397)	(524,673)
Depreciation and amortisation expenses	3	(30,318)	(28,838)	(59,630)
Other operating expenses		(92,512)	(95,485)	(163,961)
Operating profit from continuing operations	3	60,450	58,419	91,442
Unusual items	4	(3,036)	(3,223)	(34,135)
Earnings before interest and tax from continuing operations		57,414	55,196	57,307
Net interest expense		(5,087)	(5,516)	(9,165)
Profit before tax from continuing operations		52,327	49,680	48,142
Income tax expense		(14,914)	(14,204)	(20,636)
Net profit for the period from continuing operations		37,413	35,476	27,506
Discontinued operations				
Loss from discontinued operations (net of tax)	14	(1,605)	(3,547)	(4,386)
Net profit for the period		35,808	31,929	23,120
Attributable to:				
Shareholders of the parent		35,825	31,798	22,878
Minority interests		(17)	131	242
		35,808	31,929	23,120
Profit attributable to shareholders of the parent relates to:				
Profit from continuing operations		37,430	35,345	27,264
Loss from discontinued operations		(1,605)	(3,547)	(4,386)
		35,825	31,798	22,878
Earnings per share attributable to shareholders of the parent:				
Basic earnings per share		10.4 cents	9.2 cents	6.6 cents
Diluted earnings per share		10.4 cents	9.2 cents	6.6 cents
Earnings per share attributable to shareholders of the parent from continuing operations:				
Basic earnings per share		10.8 cents	10.3 cents	7.9 cents
Diluted earnings per share		10.8 cents	10.2 cents	7.9 cents

Consolidated Statement of Comprehensive Income

	Unaudited 26 Weeks Ended 27 January 2019	Unaudited 26 Weeks Ended 28 January 2018	Audited 52 Weeks Ended 29 July 2018
	$ 000	$ 000	$ 000
Net profit for the period	35,808	31,929	23,120
Items that may be reclassified subsequently to the Income Statement			
Movement in foreign currency translation reserve	(39)	(6)	(5)
Movement in hedge reserves (net of tax)	(15,665)	4,867	25,885
Total comprehensive income for the period	20,104	36,790	49,000
Attributable to:			
Shareholders of the parent	20,121	36,659	48,758
Minority interest	(17)	131	242
Total comprehensive income	20,104	36,790	49,000
Attributable to:			
Total comprehensive income from continuing operations	21,709	40,337	53,386
Total comprehensive income from discontinued operations	(1,605)	(3,547)	(4,386)
Total comprehensive income	20,104	36,790	49,000
Total comprehensive income from continuing operations attributable to:			
Shareholders of the parent	21,726	40,206	53,144
Minority interest	(17)	131	242
Total comprehensive income	21,709	40,337	53,386

Consolidated Statement of Changes in Equity

(Unaudited)	Share Capital	Treasury Stock	Hedge Reserves	Foreign Currency Translation Reserve	Employee Share Benefits Reserve	Retained Earnings	Minority Interest	Total Equity
For the 26 weeks ended 27 January 2019	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Balance at the beginning of the period as previously reported	365,517	(6,060)	10,711	(5)	766	108,476	879	480,284
Adjustment on adoption of NZ IFRS 15	-	-	-	-	-	(275)	-	(275)
Restated balance at the beginning of the period	365,517	(6,060)	10,711	(5)	766	108,201	879	480,009
Profit for the half year	-	-	-	-	-	35,825	(17)	35,808
Movement in foreign currency translation reserve	-	-	-	(39)	-	-	-	(39)
Movement in derivative cash flow hedges	-	-	(22,060)	-	-	-	-	(22,060)
Movement in de-designated hedges	-	-	303	-	-	-	-	303
Tax related to movement in hedge reserve	-	-	6,092	-	-	-	-	6,092
Total comprehensive income	-	-	(15,665)	(39)	-	35,825	(17)	20,104
Share rights charged to the income statement	-	-	-	-	63	-	-	63
Share rights exercised	-	604	-	-	(829)	225	-	-
Dividends paid	-	-	-	-	-	(20,811)	(106)	(20,917)
Treasury stock dividends received	-	-	-	-	-	87	-	87
Balance at the end of the period	365,517	(5,456)	(4,954)	(44)	-	123,527	756	479,346

(Unaudited)	Share Capital	Treasury Stock	Hedge Reserves	Foreign Currency Translation Reserve	Employee Share Benefits Reserve	Retained Earnings	Minority Interest	Total Equity
For the 26 weeks ended 28 January 2018	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Balance at the beginning of the period	365,517	(7,471)	(15,174)	-	2,138	140,512	867	486,389
Profit for the half year	-	-	-	-	-	31,798	131	31,929
Movement in foreign currency translation reserve	-	-	-	(6)	-	-	-	(6)
Movement in derivative cash flow hedges	-	-	6,457	-	-	-	-	6,457
Movement in de-designated hedges	-	-	303	-	-	-	-	303
Tax related to movement in hedge reserve	-	-	(1,893)	-	-	-	-	(1,893)
Total comprehensive income	-	-	4,867	(6)	-	31,798	131	36,790
Share rights charged to the income statement	-	-	-	-	288	-	-	288
Share rights exercised	-	1,411	-	-	(1,725)	314	-	-
Dividends paid	-	-	-	-	-	(20,811)	(4)	(20,815)
Treasury stock dividends received	-	-	-	-	-	101	-	101
Balance at the end of the period	365,517	(6,060)	(10,307)	(6)	701	151,914	994	502,753

(Audited)	Share Capital	Treasury Stock	Hedge Reserves	Foreign Currency Translation Reserve	Employee Share Benefits Reserve	Retained Earnings	Minority Interest	Total Equity
For the 52 weeks ended 29 July 2018	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Balance at the beginning of the period	365,517	(7,471)	(15,174)	-	2,138	140,512	867	486,389
Profit for the year	-	-	-	-	-	22,878	242	23,120
	-	-	-	(5)	-	-	-	(5)
Movement in derivative cash flow hedges	-	-	35,346	-	-	-	-	35,346
Movement in de-designated hedges	-	-	606	-	-	-	-	606
Tax related to movement in hedge reserve	-	-	(10,067)	-	-	-	-	(10,067)
Total comprehensive income	-	-	25,885	(5)	-	22,878	242	49,000
Contributions by and distributions to owners:								-
Share rights charged to the income statement	-	-	-	-	353	-	-	353
Share rights exercised	-	1,411	-	-	(1,725)	314	-	-
Dividends paid	-	-	-	-	-	(55,495)	(230)	(55,725)
Treasury stock dividends received	-	-	-	-	-	267	-	267
Balance at the end of the period	365,517	(6,060)	10,711	(5)	766	108,476	879	480,284

Consolidated Balance Sheet

	Note	Unaudited As at 27 January 2019 $ 000	Unaudited As at 28 January 2018 $ 000	Audited As at 29 July 2018 $ 000
ASSETS				
Current assets				
Cash and cash equivalents	11	24,758	44,778	26,455
Trade and other receivables	6	88,331	79,826	79,758
Inventories		542,771	535,880	523,840
Derivative financial instruments	12	4,470	426	19,030
Taxation receivable		3,856	-	-
		664,186	660,910	649,083
Assets held for sale	15	4,641	20,368	7,560
Total current assets		668,827	681,278	656,643
Non-current assets				
Property, plant and equipment	9	229,264	244,091	238,592
Intangible assets	10	118,899	133,922	115,331
Derivative financial instruments	12	786	647	764
Deferred taxation		41,295	45,723	38,418
Total non-current assets		390,244	424,383	393,105
Total assets		1,059,071	1,105,661	1,049,748
LIABILITIES				
Current liabilities				
Borrowings	11	37,700	74,237	43,840
Trade and other payables	7	308,965	291,308	279,028
Derivative financial instruments	12	5,979	10,980	-
Taxation payable		-	1,262	6,388
Provisions	8	58,167	58,962	67,422
		410,811	436,749	396,678
Other liabilities directly associated with assets held for sale	15	1,283	4,194	3,886
Total current liabilities		412,094	440,943	400,564
Non-current liabilities				
Borrowings	11	140,177	139,712	144,954
Derivative financial instruments	12	4,850	2,701	3,394
Provisions	8	22,604	19,552	20,552
Total non-current liabilities		167,631	161,965	168,900
Total liabilities		579,725	602,908	569,464
Net assets		479,346	502,753	480,284
EQUITY				
Contributed equity		360,061	359,457	359,457
Reserves		(4,998)	(9,612)	11,472
Retained earnings		123,527	151,914	108,476
Total equity attributable to shareholders		478,590	501,759	479,405
Minority interest		756	994	879
Total equity		479,346	502,753	480,284
Net assets per share		138.8 cents	145.7 cents	139.2 cents

Consolidated Statement of Cash Flows

	Note	Unaudited 26 Weeks Ended 27 January 2019	Unaudited 26 Weeks Ended 28 January 2018	Audited 52 Weeks Ended 29 July 2018
		$ 000	$ 000	$ 000
Cash flows from operating activities				
Cash received from customers		1,639,654	1,603,868	3,003,199
Payments to suppliers and employees		(1,558,695)	(1,541,019)	(2,875,770)
Income tax paid		(21,096)	(12,174)	(14,082)
Interest paid		(4,959)	(5,868)	(9,307)
		54,904	44,807	104,040
Loans repaid by finance business customers		22,140	25,775	50,469
New loans to finance business customers		(17,047)	(23,938)	(46,595)
Net cash flows from operating activities		59,997	46,644	107,914
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		40	107	12,227
Proceeds from business disposal		-	17,291	17,291
Purchase of property, plant, equipment and software		(28,187)	(38,925)	(70,229)
Other items		(1,421)	-	-
Net cash flows from investing activities		(29,568)	(21,527)	(40,711)
Cash flows from financing activities				
Proceeds from / (Repayment) bank borrowings		(11,103)	4,822	(20,444)
Repayment of securitised borrowings		-	(11,555)	(11,555)
Repayment of finance leases		(78)	(262)	(456)
Treasury stock dividends received		87	101	267
Dividends paid to parent shareholders		(20,926)	(20,933)	(55,822)
Dividends paid to minority shareholders		(106)	(4)	(230)
Net cash flows from financing activities		(32,126)	(27,831)	(88,240)
Net cash flow		(1,697)	(2,714)	(21,037)
Opening cash position		26,455	47,492	47,492
Closing cash position		24,758	44,778	26,455

Reconciliation of Operating Cash Flows

	Note	Unaudited 26 Weeks Ended 27 January 2019	Unaudited 26 Weeks Ended 28 January 2018	Audited 52 Weeks Ended 29 July 2018
Profit after tax		35,808	31,929	23,120
Non-cash items				
Depreciation and amortisation expenses	3	30,318	28,838	59,630
Intangible asset impairment	10	-	-	25,622
Share based payment expense		63	288	353
Interest capitalisation		224	238	467
Supplier contributions		-	(2,699)	(2,694)
Movement in deferred tax		3,407	(5,042)	(5,826)
Other items		122	218	436
Total non-cash items		34,134	21,841	77,988
Items classified as investing or financing activities				
Net loss on disposal of property, plant and equipment		1,374	399	397
Loss on business disposal		-	1,458	1,421
Supplementary dividend tax credit		115	122	327
Total investing and financing adjustments		1,489	1,979	2,145
Changes in assets and liabilities				
Trade and other receivables		(8,575)	684	(3,715)
Finance business receivables		4,388	2,229	3,305
Inventories		(18,931)	(52,980)	(36,566)
Trade and other payables		29,584	25,435	11,522
Provisions		(7,656)	9,306	18,768
Income tax		(10,244)	6,221	11,347
Total changes in assets and liabilities		(11,434)	(9,105)	4,661
Net cash flows from operating activities		59,997	46,644	107,914

Notes to the Financial Statements

1. GENERAL INFORMATION

The Warehouse Group Limited (the Company) and its subsidiaries (together the Group) trade in the New Zealand retail sector. The Company is a limited liability company incorporated and domiciled in New Zealand. The Group is registered under the Companies Act 1993 and is an FMC Reporting Entity under Part 7 of the Financial Markets Conduct Act (FMCA) 2013. The address of its registered office is Level 4, 4 Graham Street, PO Box 2219, Auckland. The Company is listed on the New Zealand Stock Exchange (NZX).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and consequently, do not include all the information required for full financial statements. These Group interim financial statements should be read in conjunction with the annual report for the year ended 29 July 2018.

These financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments (including derivative instruments). The reporting currency used in the preparation of the financial statements is New Zealand dollars, rounded to the nearest thousands unless otherwise stated. Certain comparative amounts have been reclassified to conform with the current period presentation.

Except for the adoption of two new accounting standards (detailed in note 19), the accounting policies that materially affect the measurement of the interim financial statements have been applied on a consistent basis with those used in the audited financial statements for the 52 weeks ended 29 July 2018 and the unaudited interim financial statements for the 26 weeks ended 28 January 2018.

Seasonality
The Group's revenue and profitability follow a seasonal pattern with higher sales and operating profits typically achieved in the first half of the financial year as a result of additional sales generated during the Christmas trading period.

Approval of Financial Statements
These consolidated interim financial statements were approved for issue by the Board of Directors on 18 March 2019. Unless as otherwise stated, the financial statements have been reviewed by our Auditors, but are not audited.

3. SEGMENT INFORMATION

Operating segments
The Group has four operating segments trading in the New Zealand retail sector and a start-up venture to expand the Group's digital offering. These segments form the basis of internal reporting used by management and the Board of Directors to monitor and assess performance and assist with strategy decisions.

Each of the four retail segments represent a distinct retail chain, synonymous with its segment name. Customers can purchase product from the retail chains either on-line or through the Group’s physical retail store network. The Group’s store network currently has 93 The Warehouse stores , 70 Warehouse Stationery stores, 77 Noel Leeming stores and 18 Torpedo7 stores. The Warehouse predominantly sells general merchandise and apparel, Noel Leeming sell technology and appliance products, Torpedo7 sells sporting equipment and as the name indicates Warehouse Stationery sells stationery.

Group support office functions, such as Information Systems, Finance, Brand Executives and People Support are operated using a shared services model which allocates the costs of these support office functions to individual brands calculated on an arm’s length basis. The remaining support office functions which relate to corporate and governance functions, a property company and the Group’s interest in a chocolate factory are not allocated and form the main components of the “Other Group operations” segment.

The Warehouse, Warehouse Stationery and Wholesale businesses were amalgamated from the commencement of the current financial year. Following the amalgamation, the Group restated the prior year comparative sales figures reported for The Warehouse segment to remove intersegment sales connected with the Wholesale business.

Notes to the Financial Statements - continued

3. SEGMENT INFORMATION - (Continued)

Operating performance	REVENUE (Unaudited) 26 Weeks Ended 27 January 2019 $ 000	(Unaudited) 26 Weeks Ended 28 January 2018 $ 000	(Audited) 52 Weeks Ended 29 July 2018 $ 000	OPERATING PROFIT (Unaudited) 26 Weeks Ended 27 January 2019 $ 000	(Unaudited) 26 Weeks Ended 28 January 2018 $ 000	(Audited) 52 Weeks Ended 29 July 2018 $ 000
The Warehouse	929,503	930,288	1,695,839	46,576	49,031	71,440
Warehouse Stationery	132,812	128,987	263,766	5,915	3,656	10,590
Warehouse Segment	1,062,315	1,059,275	1,959,605	52,491	52,687	82,030
Noel Leeming	487,271	453,853	880,453	17,557	15,253	31,163
Torpedo7	89,929	88,591	163,402	(1,786)	776	(1,447)
Noel Leeming Segment	577,200	542,444	1,043,855	15,771	16,029	29,716
Digital	-	-	-	(2,287)	-	(1,133)
Other Group operations	4,348	5,501	9,655	(5,525)	(10,297)	(19,171)
Inter-segment eliminations	(3,326)	(9,144)	(18,544)			
Retail Group	1,640,537	1,598,076	2,994,571	60,450	58,419	91,442
Unusual items				(3,036)	(3,223)	(34,135)
Earnings before interest and tax from continuing operations				57,414	55,196	57,307
Net interest expense				(5,087)	(5,516)	(9,165)
Profit before tax from continuing operations				52,327	49,680	48,142
Operating margin						
The Warehouse (%)				5.0	5.3	4.2
Warehouse Stationery (%)				4.5	2.8	4.0
Noel Leeming (%)				3.6	3.4	3.5
Torpedo7 (%)				(2.0)	0.9	(0.9)
Total Retail Group (%)				3.7	3.7	3.1

Capital expenditure and depreciation	Note	CAPITAL EXPENDITURE (Unaudited) 26 Weeks Ended 27 January 2019 $ 000	(Unaudited) 26 Weeks Ended 28 January 2018 $ 000	(Audited) 52 Weeks Ended 29 July 2018 $ 000	DEPRECIATION & AMORTISATION (Unaudited) 26 Weeks Ended 27 January 2019 $ 000	(Unaudited) 26 Weeks Ended 28 January 2018 $ 000	(Audited) 52 Weeks Ended 29 July 2018 $ 000
Warehouse Segment		21,107	19,731	42,889	23,321	22,961	46,477
Noel Leeming Segment		4,942	8,885	14,165	5,613	5,195	11,685
Digital		1,292	-	4,363	511	-	-
Other Group operations		105	10,421	10,238	873	682	1,468
Retail Group		27,446	39,037	71,655	30,318	28,838	59,630
Discontinued Finance business		2	335	335	-	-	-
Total Group	9	27,448	39,372	71,990	30,318	28,838	59,630

Balance sheet information	TOTAL ASSETS (Unaudited) As at 27 January 2019 $ 000	(Unaudited) As at 28 January 2018 $ 000	(Audited) As at 29 July 2018 $ 000	TOTAL LIABILITIES (Unaudited) As at 27 January 2019 $ 000	(Unaudited) As at 28 January 2018 $ 000	(Audited) As at 29 July 2018 $ 000
Warehouse Segment	541,723	583,574	553,351	240,168	237,262	230,594
Noel Leeming Segment	266,800	222,653	230,790	145,995	129,270	133,356
Digital	5,167	-	4,390	904	-	332
Other Group operations	86,070	92,709	88,011	2,669	3,290	2,720
Retail Group	899,760	898,936	876,542	389,736	369,822	367,002
Discontinued Finance business	3,167	8,550	7,560	1,283	4,194	3,886
Operating assets / liabilities	902,927	907,486	884,102	391,019	374,016	370,888
Unallocated assets / liabilities						
Cash and borrowings	24,758	44,778	26,455	177,877	213,949	188,794
Derivative financial instruments	5,256	1,073	19,794	10,829	13,681	3,394
Intangible Goodwill and Brands	80,979	106,601	80,979	-	-	-
Taxation	45,151	45,723	38,418	-	1,262	6,388
Total	1,059,071	1,105,661	1,049,748	579,725	602,908	569,464

4. ADJUSTED NET PROFIT

Adjusted net profit reconciliation	Note	(Unaudited) 26 Weeks Ended 27 January 2019	(Unaudited) 26 Weeks Ended 28 January 2018	(Audited) 52 Weeks Ended 29 July 2018
		$ 000	$ 000	$ 000
Adjusted net profit		39,616	37,666	59,015
Add back: Unusual items				
Gain on property disposal		-	-	218
Goodwill impairment (Torpedo7)	10	-	-	(25,622)
Restructuring costs		(3,036)	(3,223)	(8,731)
Unusual items before taxation		(3,036)	(3,223)	(34,135)
Income tax relating to unusual items		850	902	2,384
Unusual items after taxation		(2,186)	(2,321)	(31,751)
Net profit from continuing operations attributable to shareholders of the parent		37,430	35,345	27,264

Certain transactions can make the comparison of profits between years difficult. The Group uses adjusted net profit as a key indicator of performance and considers it provides a better understanding of underlying business performance and the Group also uses it as the basis for determining dividend payments. Adjusted net profit makes allowance for the after tax effect of unusual items which are not directly connected with the Group's normal trading activities. The Group defines unusual items as any profits or losses from the disposal of properties or investments, brand and goodwill impairment, direct costs and adjustments relating to business acquisitions or disposals and costs connected with restructuring the Group.

Restructuring Costs

In January 2017 the Group commenced a program of changes to its business operating model. The changes were designed to drive an improvement in financial performance, reduce costs and generate greater customer relevance. The changes focused primarily on simplification to reduce complexities, drive efficiencies and increase business agility. This involved strengthening and consolidating the various Group support service functions to drive synergy benefits, deliver efficiencies and reduce complexity. It also involved combining The Warehouse and Warehouse Stationery and similarly combining the Noel Leeming and Torpedo7 Groups by integrating their operating structures and executive leadership teams.

The first two stages of this process have been concluded and a third phase started in late 2017. The Group has partnered with a global management consultancy firm to assist with the third phase of the multi-year transformation process and implementation. Direct costs associated with the transformation and fees payable to the consultancy firm are treated as unusual items.

5. DIVIDENDS

Dividends paid	CENTS PER SHARE (Unaudited) 26 Weeks Ended 27 January 2019	(Unaudited) 26 Weeks Ended 28 January 2018	(Audited) 52 Weeks Ended 29 July 2018	DIVIDENDS PAID (Unaudited) 26 Weeks Ended 27 January 2019	(Unaudited) 26 Weeks Ended 28 January 2018	(Audited) 52 Weeks Ended 29 July 2018
				$ 000	$ 000	$ 000
Prior year final dividend	6.0	6.0	6.0	20,811	20,811	20,811
Interim dividend	-	-	10.0	-	-	34,684
Total dividends paid	6.0	6.0	16.0	20,811	20,811	55,495

On 18 March 2019 the Board declared a fully imputed interim dividend of 9.0 cents per ordinary share to be paid on 2 April 2019 to all shareholders on the Group's share register at the close of business on 12 April 2019.

6. TRADE AND OTHER RECEIVABLES

Trade and Other Receivables	(Unaudited) As at 27 January 2019	(Unaudited) As at 28 January 2018	(Audited) As at 29 July 2018
	$ 000	$ 000	$ 000
Trade receivables	45,760	41,789	45,677
Prepayments	16,794	16,178	14,110
Rebate accruals and other debtors	25,777	21,859	19,971
	88,331	79,826	79,758

7. TRADE AND OTHER PAYABLES

Trade and Other Payables	(Unaudited) As at 27 January 2019	(Unaudited) As at 28 January 2018	(Audited) As at 29 July 2018
	$ 000	$ 000	$ 000
Trade creditors and accruals	244,034	231,004	211,171
Goods in transit creditors	28,264	21,940	24,545
Capital expenditure creditors	1,124	549	1,864
Goods and services tax	8,942	12,725	13,457
Reward schemes, lay-bys, Christmas club deposits and gift vouchers	16,994	14,934	16,004
Interest accruals	886	928	968
Payroll accruals	8,721	9,228	11,019
Total trade and other payables	308,965	291,308	279,028

8. PROVISIONS

Provisions	(Unaudited) As at 27 January 2019	(Unaudited) As at 28 January 2018	(Audited) As at 29 July 2018
	$ 000	$ 000	$ 000
Current liabilities	58,167	58,962	67,422
Non-current liabilities	22,604	19,552	20,552
Total provisions	80,771	78,514	87,974
Provisions consist of:			
Employee entitlements	67,060	65,011	76,063
Make good provision	7,907	7,909	7,933
Sales returns provision	5,677	4,104	3,724
Onerous lease	127	1,490	254
Total provisions	80,771	78,514	87,974

9. PROPERTY, PLANT, EQUIPMENT AND COMPUTER SOFTWARE

Property, Plant, Equipment and Computer Software	Note	(Unaudited) As at 27 January 2019 $ 000	(Unaudited) As at 28 January 2018 $ 000	(Audited) As at 29 July 2018 $ 000
Assets held for sale	15	1,516	11,874	49
Property, plant and equipment		229,264	244,091	238,592
Computer software	10	37,920	27,321	34,352
Net book value		268,700	283,286	272,993
Movement in property, plant, equipment and software				
Balance at the beginning of the period		272,993	281,364	281,364
Capital expenditure	3	27,448	39,372	71,990
Depreciation and amortisation	3	(30,318)	(28,838)	(59,630)
Disposals		(1,423)	(8,612)	(20,731)
Balance at the end of the period		268,700	283,286	272,993

10. INTANGIBLE ASSETS

Intangible Assets	Note	(Unaudited) As at 27 January 2019 $ 000	(Unaudited) As at 28 January 2018 $ 000	(Audited) As at 29 July 2018 $ 000
Computer software	9	37,920	27,321	34,352
Brands		23,523	23,523	23,523
Goodwill		57,456	83,078	57,456
Net book value		118,899	133,922	115,331
Movement in Goodwill				
Balance at the beginning of the period		57,456	83,078	83,078
Goodwill impairment (Torpedo7)	4	-	-	(25,622)
Balance at the end of the period		57,456	83,078	57,456

The Group performs a detailed impairment assessment annually of the Group's intangible assets and considers if there are any indicators of impairment at each interim reporting date. The Group’s interim review did not identify any significant indicators of impairment in any of the Group’s cash generating units (CGU) except for the Torpedo7 Group.

The Torpedo7 trading performance continues to be disappointing and has caused the Group to reassess the carrying value of the two Torpdeo7 brand assets. Based on the impairment valuations calculated for the two brands it was determined that neither 1-day or the Torpedo7 brands should be impaired at this time.

11. BORROWINGS

Net debt	(Unaudited) As at 27 January 2019 $ 000	(Unaudited) As at 28 January 2018 $ 000	(Audited) As at 29 July 2018 $ 000
Cash on hand and at bank	24,758	44,778	26,455
Bank borrowings	37,612	73,981	43,715
Lease liabilities	88	256	125
Current borrowings	37,700	74,237	43,840
Bank borrowings	15,000	15,000	20,000
Lease liabilities	16	104	51
Fixed rate senior bond (coupon: 5.30%)	125,000	125,000	125,000
Fair value adjustment relating to effective interest	763	647	723
Unamortised capitalised costs on senior bond	(602)	(1,039)	(820)
Non-current borrowings	140,177	139,712	144,954
Total borrowings	177,877	213,949	188,794
Net debt	153,119	169,171	162,339
Committed bank credit facilities at balance date are:			
Bank debt facilities	200,000	260,000	210,000
Bank facilities used	(52,612)	(88,981)	(63,715)
Unused bank debt facilities	147,388	171,019	146,285
Letter of credit facilities	28,000	28,000	28,000
Letters of credit	(1,711)	(5,670)	(5,516)
Unused letter of credit facilities	26,289	22,330	22,484
Total unused bank facilities	173,677	193,349	168,769

12. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Financial Instruments	(Unaudited) As at 27 January 2019 $ 000	(Unaudited) As at 28 January 2018 $ 000	(Audited) As at 29 July 2018 $ 000
Current assets	4,470	426	19,030
Non-current assets	786	647	764
Current liabilities	(5,979)	(10,980)	-
Non-current liabilities	(4,850)	(2,701)	(3,394)
Total derivative financial instruments	(5,573)	(12,608)	16,400
Derivative financial instruments consist of:			
Current assets	4,470	426	19,030
Current liabilities	(5,979)	(10,980)	-
Foreign exchange contracts	(1,509)	(10,554)	19,030
Non-current assets	786	647	764
Non-current liabilities	(4,850)	(2,701)	(3,394)
Interest rate swaps	(4,064)	(2,054)	(2,630)
Total derivative financial instruments	(5,573)	(12,608)	16,400

The Group continues to manage its foreign exchange and interest rate risks in accordance with the policies and parameters detailed in the 2018 Annual Report.

The Group’s foreign exchange contracts hedge forecast inventory purchases priced in US dollars over the next 12 months. The following table lists the key inputs used to determine the fair value of the Group's foreign exchange contracts at balance date.

US Dollar forward contracts - cash flow hedges			
Notional amount (NZ$000)	320,991	353,576	369,225
Average contract rate ($)	0.6833	0.7127	0.7153
Spot rate used to determine fair value ($)	0.6846	0.7355	0.6795

13. FAIR VALUE MEASUREMENT

The following table sets out the Group's financial instruments that are measured subsequent to initial recognition at fair values and are grouped into levels based on the degree to which the fair value is observable:

Level 1 - fair value measurements derived from quoted prices in active markets for identical assets.
Level 2 - fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

Asset / (Liability)		Note	(Unaudited) As at 27 January 2019	(Unaudited) As at 28 January 2018	(Audited) As at 29 July 2018
			$ 000	$ 000	$ 000
Derivatives used for hedging					
Foreign exchange contracts	(Level 2)	12	(1,509)	(10,554)	19,030
Interest rate swaps	(Level 2)	12	(4,064)	(2,054)	(2,630)
Senior bond fair value adjustment relating to effective interest	(Level 2)	11	(763)	(647)	(723)

There has been no transfers between levels or changes in the valuation methods used to determine the fair value of the Group's financial instruments during the current and comparative periods. Sensitivities to reasonably possible changes in non-market observable valuation inputs would not have a material impact on the Group's financial results.

Specific valuation techniques used to value financial instruments are:
- Forward exchange contracts determined using forward exchange market rates at the balance date (refer note 12).
- Interest rate swaps calculated as the present value of the estimated future cash flows based on the applicable market interest yield rates at balance date.

Except for the Group's fixed rate senior bond (refer note 11) and derivatives (detailed above) the carrying value of the Group's financial assets and liabilities approximate fair value. The fixed rate senior bond is listed on the NZX and measured at amortised cost. The fair value of fixed rate senior bonds at balance date, based on the last price traded on the New Zealand stock exchange (level 1 valuation), were as follows.

Fixed Rate Senior Bond	(Unaudited) As at 27 January 2019	(Unaudited) As at 28 January 2018	(Audited) As at 29 July 2018
Face value ($000)	125,000	125,000	125,000
Coupon (%)	5.30	5.30	5.30
Market yield (%)	3.75	3.85	3.79
Maturity	June 2020	June 2020	June 2020
NZX quoted closing price ($)	1.02711	1.03924	1.03369
Fair value ($000)	128,389	129,905	129,211

14. DISCONTINUED OPERATIONS

In September 2017 the Group sold its Financial Services business, except for Diners Club (NZ) to SBS Banking Group. The Group's attempts to sell the remaining Diners Club (NZ) business have been unsuccessful and accordingly when the franchise agreement expired in December 2018, it was not renewed. Membership was discontinued at that time and outstanding receivables are being collected.

The full year results and cash flows from the Financial Services Group are as follows.

Financial Services Group results and cash flows	(Unaudited) 26 Weeks Ended 27 January 2019	(Unaudited) 26 Weeks Ended 28 January 2018	(Audited) 52 Weeks Ended 29 July 2018
	$ 000	$ 000	$ 000
Finance business revenue	599	3,315	4,729
Expenses	(2,815)	(5,893)	(8,188)
Business acquisition, disposal and restructuring costs	-	(1,458)	(1,421)
Loss before interest and tax	(2,216)	(4,036)	(4,880)
Interest expense	(14)	(324)	(382)
Loss before tax	(2,230)	(4,360)	(5,262)
Income tax benefit	625	813	876
Loss from discontinued operations	(1,605)	(3,547)	(4,386)
Cash flows from discontinued operations			
Net cash flows from operating activities	966	(683)	5,069
Net cash flows from investing activities	(1,422)	16,956	16,957
Net cash flows from financing activities	542	(23,226)	(28,753)

15. HELD FOR SALE

The assets and liabilities relating to the discontinued Financial Services Group (refer note 14) have been classified as held for sale since the Group committed to a plan to dispose of this business segment in July 2017. In addition to the net assets of the Financial Services Group the Group also held surplus property assets which it intends to sell. At balance date the Group is currently in the process of selling surplus land at the Group's support office, Auckland.

Held for sale	(Unaudited) As at 27 January 2019	(Unaudited) As at 28 January 2018	(Audited) As at 29 July 2018
	$ 000	$ 000	$ 000
Property	1,474	11,818	-
Financial Services Group assets classified as held for sale			
Finance business receivables	2,993	8,457	7,381
Plant and equipment	9	17	12
Computer software	33	39	37
Other assets	132	37	130
Total assets classified as held for sale	4,641	20,368	7,560
Other liabilities directly associated with assets held for sale	(1,283)	(4,194)	(3,886)

16. COMMITMENTS

Commitments	(Unaudited) As at 27 January 2019	(Unaudited) As at 28 January 2018	(Audited) As at 29 July 2018
(a) Capital commitments	$ 000	$ 000	$ 000
Capital expenditure contracted for at balance date but not recognised as liabilities is set out below:			
Within one year	1,021	2,969	2,783
(b) Operating lease commitments			
Commitments for minimum lease payments in relation to non-cancellable operating leases at balance date are as follows:			
Future minimum rentals payable			
0-1 Years	122,218	118,175	121,473
1-2 Years	107,327	102,784	107,531
2-5 Years	246,337	236,442	249,550
5+ Years	213,547	247,459	234,207
Total operating lease commitments	689,429	704,860	712,761

17. RELATED PARTIES

Except for Directors' fees, key executive remuneration and dividends paid by the Group to its Directors, there have been no other related party transactions during the period.

18. CONTINGENT LIABILITIES

The Group has no material contingent liabilities other than those arising in the normal course of business, being primarily letters of credit issued to secure future purchasing requirements and store lease commitments.

19. ACCOUNTING STANDARDS

The Group adopted two new accounting standards during the period, NZ IFRS 9 'Financial Instruments' and NZ IFRS 15 'Revenue from Contracts with Customers'. The adoption of these two new standards did not have a material impact on the Group's financial statements and accordingly the Group has elected not to restate comparative information.

NZ IFRS 9: Financial Instruments
NZ IFRS 9 "Financial Instruments" replaced the previous Financial Instruments standard (NZ IAS 39) with effect for the Group from 30 July 2018. The new standard addresses the classification, measurement and recognition of financial assets and liabilities, introduced new rules for hedge accounting and a new impairment model for financial assets. The two areas which potentially impacted the Group concerned hedge accounting and the impairment provisions for trade receivables.

Hedge accounting - the Group's current hedge relationships continued to qualify as effective hedges upon the adoption of NZ IFRS 9. Accordingly, the Group has not experienced any profit impact from implementing the new accounting treatment for its hedge relationships. The nature and extent of the Group's note disclosures in the annual financial statements in relation to its hedge relationships will however need to be amended to accommodate the requirements of the new reporting standard.

Trade receivables impairment provisions – the new standard changed the way impairment of Financial Assets (classified at amortised cost) are calculated from an 'incurred credit loss' model as previously stipulated under NZ IAS 39 to an 'expected credit loss' model. Based on the Group's assessment of historical provision rates and forward-looking analysis, there was no material impact on the impairment provisions.

NZ IFRS 15: Revenue from Contracts with Customers
NZ IFRS 15, 'Revenue from contracts with customers' replaced the current revenue recognition guidance in NZ IAS 18 'Revenue' and NZ IAS 11 'Construction Contracts' and related interpretations with effect for the Group from 30 July 2018. The new standard is based on the principle that revenue is recognised when control of a good and service transfers to a customer.

The Group assessed the potential impact of NZ IFRS 15 which involved segregating the different revenue streams within the Group and analysing any impact arising from the new accounting standard. The majority of revenue is made up of in store transactions where performance obligations are generally satisfied at the point of sale, with less than 10% earned through online sales. Accounting for online sales was the only area identified as potentially having a material impact on the Group.

Accounting for online sales - the Group's online transactions provide customers with the option for direct delivery or collection of goods from the store. Under NZ IFRS 15, an assessment must be made in these arrangements whether control has transferred to the customer, even though the customer does not have physical possession of the goods. Another consideration for online sales is whether arranging the delivery of goods is a separate performance obligation that impacts the timing, measurement and classification of revenue recognised. The Group has assessed the implications of these matters and concluded that there was a small deferral in the timing of revenue recognition arising from the adoption of NZ IFRS 15 which resulted in an adjustment to opening retained earnings of $0.275 million.

The Group did not identify any other material changes from the adoption of NZ IFRS 15.

20. ACCOUNTING STANDARDS WHICH ARE RELEVANT TO THE GROUP BUT ARE NOT YET EFFECTIVE

NZ IFRS 16: Leases
NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17 and will be adopted by the Group from 28 July 2019. The current accounting model for leases requires a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 will require a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The income statement will also be impacted by the recognition of interest and depreciation expenses and the removal of the current rental expense.

The Group has been evaluating and planning for the adoption and implementation of NZ IFRS16 including selecting a new lease accounting system, evaluating practical expedient and accounting policy elections, and assessing the overall financial statement impact. While the impact of NZ IFR16 is non-cash in nature and will not affect the Group's cash flows it will have a material impact on the Group's reported financial position.

The Group currently intends to use a simplified transition approach on adoption of NZ IFRS 16, this expedient however does not permit the Group to restate comparative amounts for the periods prior to adoption. Management has estimated the impact of NZ IFRS 16 using the 'modified retrospective approach' at the date of adoption based on the Group's current operating leases. The model required management to make some key judgements including:

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

On adoption the Group will recognise the following balance sheet line items:
- Recognition of a right of use asset;
- Recognition of a deferred taxation asset;
- Recognition of a lease liability; and
- Decrease in opening retained earnings

The impact on the consolidated income statement for the period ended 2 August 2020 is expected to decrease occupancy expenses, increase amortisation expenses and increase interest expenses. The impact on each of these line items is significant however management do not expect the overall effect on net profit attributable to shareholders to be material. An estimate of the impact of the new standard was disclosed in the 29 July 2018 financial statements.