
THE
WAREHOUSE
GROUP

Financial Statements

For the 52 week period ended 28 July 2019

The financial statements have been presented in a style which attempts to make them less complex and more relevant to shareholders. The note disclosures have been grouped into six sections: 'basis of preparation', 'financial performance', 'operating assets and liabilities', 'financing and capital structure', 'financial risk management' and 'other disclosures'. Each section sets out the significant accounting policies in green text boxes applied in producing the relevant notes, along with details of any key judgements and estimates used. The purpose of this format is to provide readers with a clearer understanding of what drives financial performance of the Group.

These financial statements have been approved for issue by the Board of Directors on 24 September 2019.

Joan Withers - Chair
24 September 2019

Keith Smith - Deputy Chair
24 September 2019

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The Warehouse Group Limited is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 4, 4 Graham Street, PO Box 2219, Auckland.

Consolidated Income Statement

For the 52 week period ended 28 July 2019

	NOTE	(52 WEEKS) 2019 $000	(52 WEEKS) 2018 $000
Continuing operations			
Retail sales	2.1	3,071,357	2,994,571
Cost of retail goods sold	8.1	(2,042,722)	(2,003,396)
Gross profit		1,028,635	991,175
Other income	3.1	8,325	8,118
Lease and occupancy expense	3.2	(164,375)	(159,587)
Employee expense	3.3	(520,892)	(524,673)
Depreciation and amortisation expense	2.2	(60,613)	(59,630)
Other operating expenses	3.4	(178,702)	(163,961)
Operating profit from continuing operations	2.1	112,378	91,442
Unusual items	5.0	(9,435)	(34,135)
Earnings before interest and tax from continuing operations		102,943	57,307
Net interest expense	10.2	(8,879)	(9,165)
Profit before tax from continuing operations		94,064	48,142
Income tax expense	4.1	(26,621)	(20,636)
Net profit for the period from continuing operations		67,443	27,506
Discontinued operations			
Loss from discontinued operations (net of tax)	15.1	(1,928)	(4,386)
Net profit for the period		65,515	23,120
Attributable to:			
Shareholders of the parent		65,382	22,878
Minority interests	11.4	133	242
		65,515	23,120
Profit attributable to shareholders of the parent relates to:			
Profit from continuing operations		67,310	27,264
Loss from discontinued operations		(1,928)	(4,386)
		65,382	22,878
Earnings per share attributable to shareholders of the parent			
Basic earnings per share	6.0	18.9 cents	6.6 cents
Diluted earnings per share - continuing operations	6.0	19.5 cents	7.9 cents

Consolidated Statement of Comprehensive Income

For the 52 week period ended 28 July 2019

	NOTE	(52 WEEKS) 2019 $000	(52 WEEKS) 2018 $000
Net profit for the period		65,515	23,120
Items that may be reclassified subsequently to the income statement			
Movement in foreign currency translation reserve		19	(5)
Movement in derivative cash flow hedges		(17,165)	35,346
Movement in de-designated derivative hedges		580	606
Tax relating to movement in hedge reserve		4,644	(10,067)
Other comprehensive income		(11,922)	25,880
Total comprehensive income		53,593	49,000
Attributable to:			
Shareholders of the parent		53,460	48,758
Minority interest	11.4	133	242
Total comprehensive income		53,593	49,000
Attributable to:			
Total comprehensive income from continuing operations		55,521	53,386
Total comprehensive loss from discontinued operations		(1,928)	(4,386)
Total comprehensive income		53,593	49,000
Total comprehensive income from continuing operations attributable to:			
Shareholders of the parent		55,388	53,144
Minority interest	11.4	133	242
Total comprehensive income		55,521	53,386

The above consolidated income statement and statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 28 July 2019

	NOTE	2019	2018
		$000	$000
ASSETS			
Current assets			
Cash and cash equivalents	10.1	49,297	26,455
Trade and other receivables	8.2	90,670	79,758
Inventories	8.1	517,758	523,840
Derivative financial instruments	12.2	7,948	19,030
Taxation receivable	4.2	-	-
		665,673	649,083
Assets held for sale	15.2	-	7,560
Total current assets		665,673	656,643
Non current assets			
Property, plant and equipment	9.1	221,161	238,592
Intangible assets	9.2	125,512	115,331
Derivative financial instruments	12.2	-	764
Deferred taxation	4.3	38,475	38,418
Total non current assets		385,148	393,105
Total assets	2.3	1,050,821	1,049,748
LIABILITIES			
Current liabilities			
Borrowings	10.1	125,465	43,840
Trade and other payables	8.3	352,575	279,028
Derivative financial instruments	12.2	939	-
Taxation payable	4.2	713	6,388
Provisions	8.4	60,771	67,422
		540,463	396,678
Other liabilities directly associated with assets held for sale	15.2	-	3,886
Total current liabilities		540,463	400,564
Non current liabilities			
Borrowings	10.1	-	144,954
Derivative financial instruments	12.2	7,055	3,394
Provisions	8.4	21,270	20,552
Total non current liabilities		28,325	168,900
Total liabilities	2.3	568,788	569,464
Net assets		482,033	480,284
EQUITY			
Contributed equity	11.2	360,061	359,457
Reserves	11.3	(1,216)	11,472
Retained earnings		122,469	108,476
Total equity attributable to shareholders		481,314	479,405
Minority interest	11.4	719	879
Total equity		482,033	480,284

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the 52 week period ended 28 July 2019

	NOTE	(52 WEEKS) 2019 $000	(52 WEEKS) 2018 $000
Cash flows from operating activities			
Cash received from customers		3,083,748	3,003,199
Payments to suppliers and employees		(2,853,781)	(2,875,770)
Income tax paid		(26,540)	(14,082)
Interest paid		(8,657)	(9,307)
		194,770	104,040
Loans repaid by finance business customers		26,417	50,469
New loans to finance business customers		(23,194)	(46,595)
Net cash flows from operating activities		197,993	107,914
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and computer software		1,860	12,227
Proceeds from business disposal	15.0	1,850	17,291
Purchase of property, plant and equipment and computer software		(61,326)	(70,229)
Business disposal warranty claim	15.0	(1,421)	-
Net cash flows from investing activities		(59,037)	(40,711)
Cash flows from financing activities			
Repayment of bank borrowings		(63,715)	(31,999)
Repayment of finance leases		(135)	(456)
Treasury stock dividends received		217	267
Dividends paid to parent shareholders		(52,302)	(55,822)
Dividends paid to minority shareholders		(179)	(230)
Net cash flows from financing activities		(116,114)	(88,240)
Net cash flow		22,842	(21,037)
Opening cash position		26,455	47,492
Closing cash position	10.1	49,297	26,455

Reconciliation of Operating Cash Flows

For the 52 week period ended 28 July 2019

	NOTE	(52 WEEKS) 2019 $000	(52 WEEKS) 2018 $000
Net profit		65,515	23,120
Non cash items			
Depreciation and amortisation expense	2.2	60,613	59,630
Intangible asset impairment	9.2	5,478	25,622
Share based payment expense	3.3	420	353
Interest capitalisation		446	467
Supplier contributions		-	(2,694)
Movement in deferred tax	4.3	4,857	(5,826)
Movement in de-designated derivative hedges		418	436
Total non cash items		72,232	77,988
Items classified as investing or financing activities			
Loss/(Gain) on sale of property, plant and equipment		(10,392)	397
(Gain)/Loss on business disposal	15.0	(398)	1,421
Supplementary dividend tax credit	4.2	275	327
Total investing and financing adjustments		(10,515)	2,145
Changes in assets and liabilities			
Trade and other receivables		268	(3,715)
Finance business receivables		5,929	3,305
Inventories		6,082	(36,566)
Trade and other payables		70,785	11,522
Provisions		(6,628)	18,768
Income tax		(5,675)	11,347
Total changes in assets and liabilities		70,761	4,661
Net cash flows from operating activities		197,993	107,914

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the 52 week period ended 28 July 2019

	NOTE	SHARE CAPITAL	TREASURY SHARES	HEDGE RESERVES	FOREIGN CURRENCY TRANSLATION RESERVE	EMPLOYEE SHARE BENEFITS RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
		$000	$000	$000	$000	$000	$000	$000	$000
For the 52 week period ended 28 July 2019									
Balance at the beginning of the period		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
					-				
Net profit for the period		-	-	-	-	-	65,382	133	65,515
Movement in foreign currency translation reserve		-	-	-	19	-	-	-	19
Movement in derivative cash flow hedges		-	-	(17,165)	-	-	-	-	(17,165)
Movement in de-designated derivative hedges		-	-	580	-	-	-	-	580
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	4,644	-	-	-	-	4,644
Total comprehensive income		-	-	(11,941)	19	-	65,382	133	53,593
Contributions by and distributions to owners									
Share rights charged to the income statement		-	-	-	-	63	-	357	420
Share rights vested		-	604	-	-	(829)	696	(471)	-
Dividends paid	7.1, 11.4	-	-	-	-	-	(52,027)	(179)	(52,206)
Treasury stock dividends received		-	-	-	-	-	217	-	217
Balance at the end of the period		365,517	(5,456)	(1,230)	14	-	122,469	719	482,033
		(note: 11.2)	(note: 11.2)	(note: 11.3)	(note: 11.3)	(note: 11.3)		(note: 11.4)	
For the 52 week period ended 29 July 2018									
Balance at the beginning of the period		365,517	(7,471)	(15,174)	-	2,138	140,512	867	486,389
					-				
Net profit for the period		-	-	-	-	-	22,878	242	23,120
Movement in foreign currency translation reserve		-	-	-	(5)	-	-	-	(5)
Movement in derivative cash flow hedges		-	-	35,346	-	-	-	-	35,346
Movement in de-designated derivative hedges		-	-	606	-	-	-	-	606
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	(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 vested		-	1,411	-	-	(1,725)	314	-	-
Dividends paid	7.1, 11.4	-	-	-	-	-	(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
		(note: 11.2)	(note: 11.2)	(note: 11.3)	(note: 11.3)	(note: 11.3)		(note: 11.4)	

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the Financial Statements - Basis of Preparation

For the 52 week period ended 28 July 2019

1.0 BASIS OF PREPARATION

1.1 Reporting entity

The Warehouse Group Limited (the Company) and its subsidiaries (together the Group) largely 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).

1.2 Compliance statement

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice (GAAP), FMCA 2013 and NZX listing rules. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other applicable Financial Reporting Standards, and authoritative notes as appropriate for profit oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

1.3 Basis of preparation

The measurement basis adopted in the preparation of these financial statements is historic cost, as modified by the revaluation of certain assets and liabilities at fair value. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand, unless otherwise stated. Certain comparative amounts have been reclassified to conform with the current year's presentation.

The principal accounting policies applied in the preparation of these financial statements are set out in the accompanying notes where an accounting choice is provided by NZ IFRS, is new or has changed, is specific to the Group's operations or is significant or material. Where NZ IFRS do not provide any accounting policy choice, the Group has applied the requirements of NZ IFRS but a detailed accounting policy has not been specifically included.

The Group sold its Financial Services business (excluding Diners Club (NZ)) in September 2017 and then sold the Diners Club (NZ) finance receivables in April 2019, the Group's remaining Diners Club franchise obligations cease in December 2019. The results for the Financial Services Group have been classified as a discontinued operation and are presented as a single amount in the income statement and form part of 'assets held for sale' and 'liabilities associated with assets held for sale' on the balance sheet.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Material subsidiaries at year end are listed below.

				PERCENTAGE OWNERSHIP	
NAME OF ENTITY	PRINCIPAL ACTIVITY	CHANGE	NOTE	2019	2018
The Warehouse Limited	Retail			100	100
Warehouse Stationery Limited	Retail	Amalgamated with The Warehouse Limited		N/A	100
Noel Leeming Group Limited	Retail			100	100
Torpedo7 Limited	Retail			100	100
The Warehouse Group Investments Limited	Digital Retail		11.4	95	100
Diners Club (NZ) Limited	Financial Services	Classified as discontinued operations	15.0	100	100
Eldamos Investments Limited	Property			100	100
The Warehouse Nominees Limited	Investment			100	100
TWP No.3 Limited	Retail / Wholesale	Amalgamated with The Warehouse Limited		N/A	100

1.4 Reporting period

These financial statements are for the 52 week period 30 July 2018 to 28 July 2019. The comparative period is for the 52 week period 31 July 2017 to 29 July 2018. The Group operates on a weekly trading and reporting cycle which means most financial years represent a 52 week period, a 53 week year occurring once every 5 to 6 years. The next 53 week trading period is next year's 2020 financial year.

1.5 Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires the Group to make judgements, estimates and assumptions that effect the reported amounts of assets and liabilities at balance date and the reported amounts of revenues and expenses during the year. Judgements and estimates which are material to the financial statements are found in the following notes:

(a) Inventory (note 8.1)

(b) Provisions (note 8.4)

(c) Derivative financial instruments (note 12.2)

(d) Intangible assets (note 9.2)

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 28 July 2019

2.0 SEGMENT INFORMATION

2.1 Operating performance

	NOTE	REVENUE 2019	REVENUE 2018	OPERATING PROFIT 2019	OPERATING PROFIT 2018	RETAIL OPERATING MARGIN 2019	RETAIL OPERATING MARGIN 2018
		$000	$000	$000	$000		
The Warehouse		1,705,687	1,695,839	85,075	71,440	5.0%	4.2%
Warehouse Stationery		268,592	263,766	16,669	10,590	6.2%	4.0%
Warehouse Segment		1,974,279	1,959,605	101,744	82,030	5.2%	4.2%
Noel Leeming		924,648	880,453	38,103	31,163	4.1%	3.5%
Torpedo7		172,474	163,402	(7,027)	(1,447)	−4.1%	−0.9%
Noel Leeming Segment		1,097,122	1,043,855	31,076	29,716	2.8%	2.8%
Digital Retail		-	-	(5,996)	(1,133)		
Other Group operations		8,508	9,655	(14,446)	(19,171)		
Inter-segment eliminations		(8,552)	(18,544)	-	-		
Retail Group		3,071,357	2,994,571	112,378	91,442	3.7%	3.1%
Unusual items	5.0			(9,435)	(34,135)		
Earnings before interest and tax from continuing operations				102,943	57,307		
Net interest expense	10.2			(8,879)	(9,165)		
Profit before tax from continuing operations				94,064	48,142		

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 senior management and the Board of Directors to monitor and assess performance and assist with strategic decisions.

Each of the four main retail segments represent a distinct retail chain, synonymous with its segment name. Customers can purchase product from the retail chains either online or through the Group's physical retail store network. The Group's store network currently has 93 (2018: 93) The Warehouse stores, 70 (2018: 70) Warehouse Stationery stores, 77 (2018: 74) Noel Leeming stores and 18 (2018: 14) Torpedo7 stores. The Warehouse predominantly sells general merchandise and apparel, Noel Leeming sells 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.

2.2 Capital expenditure, depreciation and amortisation

	NOTE	CAPITAL EXPENDITURE 2019	CAPITAL EXPENDITURE 2018	DEPRECIATION AND AMORTISATION 2019	DEPRECIATION AND AMORTISATION 2018
		$000	$000	$000	$000
The Warehouse Segment		47,753	42,889	46,310	46,477
Noel Leeming Segment		10,276	14,165	11,364	11,685
Digital Retail		3,641	4,363	1,200	-
Other Group operations		433	10,238	1,739	1,468
Continuing Retail Group		62,103	71,655	60,613	59,630
Discontinued operations		-	335	-	-
Total Group		62,103	71,990	60,613	59,630
Comprising					
Property, plant and equipment	9.1	34,676	51,185	50,371	52,368
Computer software	9.2	27,427	20,805	10,242	7,262
Total Group		62,103	71,990	60,613	59,630

2.3 Balance sheet information

	NOTE	TOTAL ASSETS 2019	TOTAL ASSETS 2018	TOTAL LIABILITIES 2019	TOTAL LIABILITIES 2018
		$000	$000	$000	$000
The Warehouse Segment		536,464	553,351	302,333	230,594
Noel Leeming Segment		238,747	230,790	128,001	133,356
Digital Retail		6,906	4,390	1,940	332
Other Group operations		97,483	88,011	2,342	2,720
Continuing Retail Group		879,600	876,542	434,616	367,002
Discontinued operations		-	7,560	-	3,886
Operating assets/liabilities		879,600	884,102	434,616	370,888
Unallocated assets/liabilities					
Cash and borrowings	10.1	49,297	26,455	125,465	188,794
Derivative financial instruments	12.2	7,948	19,794	7,994	3,394
Intangible goodwill and brands	9.2	75,501	80,979	-	-
Taxation assets/liabilities	4.2, 4.3	38,475	38,418	713	6,388
Total Group		1,050,821	1,049,748	568,788	569,464

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 28 July 2019

3.0 INCOME AND EXPENSES

Retail sales

Retail sales are recognised at the point of sale when the customer receives the goods or where delivery of the goods is not instantaneous which is typical with online sales, the sale is recognised when the goods are delivered. Retail revenue from the sale of goods is recognised at the fair value of the consideration received or receivable, net of returns, discounts and excluding GST.

Lease expense

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Employee expense

The employee entitlements expense includes wages and salaries, performance based compensation and share based compensation paid or accruing to team members. Details of how these entitlements are calculated are found in notes 8.4 and 14.0.

3.1 Other income	**2019**	**2018**
	$000	$000
Tenancy rents received	3,348	4,002
Other	4,977	4,116
Other income	8,325	8,118

3.2 Lease and occupancy expense	**2019**	**2018**
	$000	$000
Operating lease costs	127,346	125,295
Other occupancy costs	37,029	34,292
Lease and occupancy expense	164,375	159,587

3.3 Employee expense	**2019**	**2018**
	$000	$000
Wages and salaries	493,514	490,610
Directors' fees	709	700
Performance based compensation	26,249	33,010
Equity settled share based payments expense	420	353
Employee expense	520,892	524,673

3.4 Other operating expenses	**2019**	**2018**
	$000	$000
Other operating expenses include:		
Provision for bad and doubtful debts	281	1,174
Loss on disposal of plant and equipment	1,369	366
Donations	89	663
Net foreign currency exchange (gain)/loss	64	(92)

3.5 Auditors' fees	**2019**	**2018**
	$000	$000
Auditing the Group financial statements	520	660
Reviewing the half year financial statements	90	90
Other services	67	53
Total fees paid to PricewaterhouseCoopers	677	803

Audit Fees - Corporate Governance

Fees paid to PricewaterhouseCoopers for other services relate to treasury related market analysis and equity scheme commentary, agreed upon procedures at the Annual Shareholders' Meeting and tax compliance services. In accordance with the Group's policies regarding audit governance and independence this work was approved by the Group's Audit and Risk Committee. The Group's policy permits the audit firm to provide non-audit services that are not considered to be in conflict with the preservation of the independence of the auditor, subject to Audit and Risk Committee approval.

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 28 July 2019

4.0 TAXATION

A reconciliation between the tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate is detailed below.

4.1 Taxation - Income statement	NOTE	2019	2018
		$000	$000
Profit before tax from continuing operations		94,064	48,142
Loss before tax from discontinued operations	15.1	(2,714)	(5,262)
Profit before tax		91,350	42,880
Taxation calculated at 28%		25,578	12,006
Adjusted for the tax effect of:			
Goodwill impairment		-	7,174
Share-based employee compensation		66	(296)
Non deductible expenditure		738	1,563
Income tax over provided in prior year		(547)	(687)
Income tax expense		25,835	19,760
Adjust for income tax expense attributable to losses from discontinued operations	15.1	786	876
Income tax expense attributable to continuing operations		26,621	20,636
Income tax expense comprises:			
Current year income tax payable	4.2	20,978	25,586
Deferred taxation	4.3	4,857	(5,826)
Income tax expense		25,835	19,760

Income taxation

The income tax expense for the period is the tax payable on the current year's taxable income based on the income tax rate 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.

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. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

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 and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries and associates where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised in equity are similarly recognised in equity.

Goods and services tax (GST)

The income statement and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST with the exception of receivables and payables which include GST invoiced.

The following table details the movement in income tax receivable/(payable) during the current and prior year.

4.2 Taxation - Balance sheet current taxation	NOTE	2019	2018
		$000	$000
Opening balance		(6,388)	4,959
Current year income tax payable	4.1	(20,978)	(25,586)
Net taxation paid		26,540	14,082
Transfer from cash flow hedge reserve		(162)	(170)
Supplementary dividend tax credit		275	327
Closing balance		(713)	(6,388)

The following table details the major deferred income tax liabilities and assets recognised by the Group and the movements during the current and prior year.

4.3 Taxation - Balance sheet deferred taxation	NOTE	BRAND NAMES	INVENTORY	PROPERTY, PLANT SOFTWARE & EQUIPMENT	EMPLOYEE PROVISIONS	DERIVATIVES	OTHER	TOTAL
For the 52 week period ended 28 July 2019		$000	$000	$000	$000	$000	$000	$000
Opening balance		(6,586)	15,387	12,815	13,933	(4,391)	7,260	38,418
Adjustment on adoption of NZ IFRS 15		-	-	-	-	-	108	108
Charged/(credited) to the income statement		1,533	(3,544)	(1,634)	(508)	-	(704)	(4,857)
Net charged to other comprehensive income	4.1	-	-	-	-	4,806	-	4,806
Closing balance		(5,053)	11,843	11,181	13,425	415	6,664	38,475
For the 52 week period ended 29 July 2018								
Opening balance		(6,586)	12,530	8,101	13,102	5,506	8,258	40,911
Charged/(credited) to the income statement	4.1	-	2,857	2,431	953	-	(415)	5,826
Net charged to other comprehensive income		-	-	-	-	(9,897)	-	(9,897)
Disposal of subsidiary		-	-	2,283	(122)	-	(583)	1,578
Closing balance		(6,586)	15,387	12,815	13,933	(4,391)	7,260	38,418

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 28 July 2019

5.0 ADJUSTED NET PROFIT

Adjusted net profit reconciliation	NOTE	2019	2018
		$000	$000
Adjusted net profit		74,103	59,015
Add back: Unusual items			
Gain on property disposals		11,761	218
Brand and Goodwill impairment (Torpedo7)	9.2	(5,478)	(25,622)
Restructuring costs		(15,718)	(8,731)
Unusual items before taxation		(9,435)	(34,135)
Income tax relating to unusual items		2,642	2,384
Unusual items after taxation		(6,793)	(31,751)
Net profit from continuing operations attributable to shareholders of the parent		67,310	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 a better measure of underlying business performance. 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 gains or losses from the disposal of properties or investments, goodwill and brand impairment, costs relating to business acquisitions or disposals and costs connected with restructuring the Group.

Unusual items

(a) The group entered a sale agreement that became unconditional in May 2019 to sell surplus land at its Auckland Support Office for a consideration of $13.000 million representing a pre-tax profit of $11.761 million. The Group received an initial deposit of $1.950 million and will receive the balance of the consideration ($11.050 million refer note 8.2) once the purchaser has obtained the necessary resource consent for its proposed development works which will be no later than April 2020. The property disposal in the prior year related to surplus land in Auckland and was sold prior to the commencement of store development works for a consideration of $12.036 million, realising a pre-tax profit of $0.218 million.

(b) The Group fully impaired the Torpedo7 brand assets associated with the online 1-day business ($5.478 million – refer note 9.2). In the prior year the Group impaired the Torpedo7 goodwill ($25.622 million).

(c) In January 2017, the Group commenced a transformation programme to change its business operating model, which included shifting The Warehouse away from a 'Hi-Lo' pricing model to an 'Every Day Low Price' model. The changes have been designed to drive an improvement in financial performance, reduce costs and generate greater customer relevance. The changes focused primarily on simplification to reduce complexities, reduce working capital, drive efficiencies and increase business agility. This involved strengthening and consolidating the various Group support service functions to drive synergy benefits. 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 Group has partnered with a management consultancy firm to assist with the transformation process and strategy implementation. In addition to a retainer the Group recognises an expense for success fees payable to the management consultancy firm where they have been involved in transformation initiatives that are shown to have achieved the expected outcomes. This phase of the partnership is scheduled to conclude in January 2020.

6.0 EARNINGS PER SHARE

Earnings per share calculation	NOTE	2019	2018
Net profit attributable to shareholders of the parent ($000s)		65,382	22,878
Net profit from continuing operations attributable to shareholders of the parent ($000s)		67,310	27,264
Adjusted net profit ($000s)	5.0	74,103	59,015
Basic			
Weighted average number of ordinary shares (net of treasury stock) on issue (000s)		345,229	344,916
Basic earnings per share (cents)		18.9	6.6
Basic earnings per share from continuing operations (cents)		19.5	7.9
Adjusted basic earnings per share (cents)		21.5	17.1

Earnings per share (EPS) is the amount of post tax profit attributable to each share. Basic EPS is calculated by dividing net profit attributable to shareholders by the weighted average number of ordinary shares (net of treasury shares) outstanding during the year. Continuing and adjusted basic EPS are similarly calculated using continuing and adjusted net profit as the numerator.

The Group's share rights and related put options (refer note 14.0) are dilutive as they create a future commitment for the Group to issue shares in certain circumstances that would decrease the basic EPS. The dilution currently attributed to these share rights and put options is insignificant and does not have a material impact on the basic EPS calculation, however, this could change in the future if a higher conversion value is attributed to both the put options and the share rights held by the Group's minority shareholders.

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 28 July 2019

7.0 DIVIDENDS

7.1 Dividends paid	2019	2018	2019	2018
	$000	$000	CENTS PER SHARE	CENTS PER SHARE
Prior year final dividend	20,811	20,811	6.0	6.0
Interim dividend	31,216	34,684	9.0	10.0
Total dividends paid	52,027	55,495	15.0	16.0

Dividend policy

The Board declares two dividends annually in respect of the half year (interim dividend) and full year results (final dividend). The Group's dividend policy is to pay a dividend to shareholders of between 75% and 85% of the Retail Group's adjusted net profit.

All dividends paid were fully imputed.

7.2 Dividends policy reconciliation	NOTE	2019	2018	2019	2018
		$000	$000	CENTS PER SHARE	CENTS PER SHARE
Interim dividend		31,216	34,684	9.0	10.0
Final dividend (declared after balance date)		27,747	20,811	8.0	6.0
Total dividends paid and declared in respect of the current and prior financial years		58,963	55,495	17.0	16.0
Group adjusted net profit	5.0	74,103	59,015		
Pay-out ratio (%)		79.6%	94.0%		

On 24 September 2019 the Board declared a final fully imputed ordinary dividend of 8.0 cents per share to be paid on 5 December 2019 to all shareholders on the Group's share register at the close of business on 22 November 2019.

7.3 Imputation credit account	2019	2018
	$000	$000
Imputation credits at balance date available for future distribution	113,294	117,178

The above amounts represent the balance of the Group's imputation credit account at balance date adjusted for imputation credits that will arise from the payment of the amount of the provision for income taxation. Imputation is a mechanism that a company uses to pass on credits for tax it has paid on its profits, to its shareholders when it pays dividends. These imputation credits offset the amount of taxation that the New Zealand resident shareholders would otherwise be liable to pay on those dividends, so they do not have to pay "double tax".

Notes to the Financial Statements - Operating Assets and Liabilities

For the 52 week period ended 28 July 2019

8.0 WORKING CAPITAL

8.1 Inventory	**2019**	**2018**
	$000	$000
Finished goods	478,234	494,028
Inventory adjustments	(23,968)	(28,981)
Retail stock	454,266	465,047
Goods in transit from overseas	63,492	58,793
Inventory	517,758	523,840

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using a weighted average method and includes expenditure incurred to purchase the inventory and transport it to its current location. Net realisable value is the estimated selling price of the inventory in the ordinary course of business less costs necessary to make the sale. The cost of inventories consumed during the year are recognised as an expense and included in cost of goods sold in the Income Statement.

Significant judgements and estimates

Assessing provisions for inventory obsolescence, net realisable value and shrinkage involves making estimates and judgements in relation to future selling prices and expected shrinkage rates between the most recent store stock counts and balance date. Shrinkage is a reduction in inventory due to shoplifting, employee theft, paperwork errors and supplier fraud. The Group considers a wide range of factors including historical data, current trends and product information from buyers as part of the process to determine the appropriate value of these provisions.

Goods in transit from overseas

Goods in transit from overseas are recognised when title to the goods is passed to the Group. Title to the goods is passed when valid documents (which usually include a 'bill of lading') are received, and terms, as set out in a supplier's letter of credit or in the supplier's terms of trade, are met.

8.2 Trade and other receivables	NOTE	**2019**	**2018**
		$000	$000
Trade receivables		42,335	45,677
Prepayments		13,479	14,110
Property disposal proceeds	5.0	11,050	-
Rebate accruals and other debtors		23,806	19,971
Trade and other receivables		90,670	79,758

Trade receivables arise from sales made to customers on credit or through the collection of rebates from suppliers not otherwise deducted from suppliers' payable accounts. Trade receivables are non-interest bearing and are generally on 30 to 60 day terms. Trade receivables are recognised based on the value of the invoice sent to the customer and adjusted for expected credit losses to provide for future unrecovered debts. The expected collectability of trade and other receivables is reviewed on an ongoing basis.

8.3 Trade and other payables	**2019**	**2018**
	$000	$000
Local trade creditors and accruals	211,132	211,171
Foreign currency trade creditors	76,869	-
Goods in transit creditors	20,508	24,545
Capital expenditure creditors	2,641	1,864
Goods and services tax	14,345	13,457
Reward schemes, lay-bys, Christmas club deposits and gift vouchers	17,393	16,004
Interest accruals	736	968
Payroll accruals	8,951	11,019
Trade and other payables	352,575	279,028

Trade payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are normally unsecured and are usually settled within 60 to 120 days of recognition. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

The Group changed the terms for payments to overseas suppliers in November 2018. The Group had previously paid for the purchase of inventory from overseas suppliers upon the receipt of valid shipping documentation which was prior to the inventory being received in New Zealand. These payment terms have now been extended which means the inventory from overseas suppliers is paid after the goods are received by the Group and results in the recognition of foreign currency trade creditors.

Notes to the Financial Statements - Operating Assets and Liabilities

For the 52 week period ended 28 July 2019

8.4 Provisions	CURRENT		NON-CURRENT		TOTAL	
	2019	2018	2019	2018	2019	2018
	$000	$000	$000	$000	$000	$000
Employee entitlements	54,204	62,427	14,490	13,636	68,694	76,063
Make good provision	942	1,017	6,780	6,916	7,722	7,933
Sales return provision	5,625	3,724	-	-	5,625	3,724
Onerous lease	-	254	-	-	-	254
Total provisions	60,771	67,422	21,270	20,552	82,041	87,974

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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 within 12 months of the reporting date are recognised in provisions 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) Performance based compensation

The Group recognises a liability and expense for incentives payable to employees where either a contractual or constructive obligation arises to pay an employee based on achieving an agreed level of individual and company performance.

(iii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. 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 reporting date on New Zealand government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Make good provision

The Group has an obligation to restore certain leasehold sites to their original condition when the lease expires. This provision represents the present value of the expected future make good commitment. Amounts charged to the provision represent both make good costs incurred and costs incurred which mitigate the final liability prior to the lease expiry.

Sales return

The Group provides various guarantees and warranties to replace, repair or refund customers for faulty or defective products sold. This provision represents the estimated sales return obligation at balance date based on historical sale return rates.

Significant judgements and estimates

The calculation of the Group's annual employee incentive liability requires the Group to use judgement to collectively estimate the outcome of individual employee performance appraisals and company performance against specified performance hurdles linked to the Group's incentive schemes prior to the completion of individual employee entitlement calculations.

9.0 NON CURRENT ASSETS

9.1 Property, plant and equipment		LAND AND BUILDINGS		PLANT AND EQUIPMENT		WORK IN PROGRESS		TOTAL	
	NOTE	2019	2018	2019	2018	2019	2018	2019	2018
		$000	$000	$000	$000	$000	$000	$000	$000
Cost		91,018	87,833	638,828	603,888	16,638	20,019	746,484	711,740
Accumulated depreciation		(11,840)	(10,650)	(496,040)	(447,871)	-	-	(507,880)	(458,521)
Opening carrying amount		79,178	77,183	142,788	156,017	16,638	20,019	238,604	253,219
Additions	2.2	3,594	15,003	38,018	39,563	(6,936)	(3,381)	34,676	51,185
Disposals		(1,112)	(11,818)	(636)	(1,614)	-	-	(1,748)	(13,432)
Depreciation	2.2	(1,248)	(1,190)	(49,123)	(51,178)	-	-	(50,371)	(52,368)
Closing carrying amount		80,412	79,178	131,047	142,788	9,702	16,638	221,161	238,604
Cost		93,498	91,018	651,544	638,828	9,702	16,638	754,744	746,484
Accumulated depreciation		(13,086)	(11,840)	(520,497)	(496,040)	-	-	(533,583)	(507,880)
Closing carrying amount		80,412	79,178	131,047	142,788	9,702	16,638	221,161	238,604
Less: Assets held for sale		-	-	-	(12)	-	-	-	(12)
Property, plant and equipment		80,412	79,178	131,047	142,776	9,702	16,638	221,161	238,592

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.

Property, plant and equipment are depreciated on a straight line basis to allocate the cost, less any residual value, over their useful life. The estimated useful life of property, plant and equipment are as follows:

- Freehold land — indefinite
- Plant and equipment — 3 - 12 years
- Freehold buildings — 50 - 100 years
- Work in progress — not depreciated

The Group annually reviews the carrying amounts of property, plant and equipment for impairment. 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. In assessing whether an asset is impaired, reference is made to individual store profitability and any other known events or circumstances that may indicate that the carrying amount of an asset may be impaired.

Gains and losses on disposals of assets are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Income Statement. Costs incurred on repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

9.2 Intangible assets

	NOTE	GOODWILL 2019	GOODWILL 2018	BRAND NAMES 2019	BRAND NAMES 2018	COMPUTER SOFTWARE 2019	COMPUTER SOFTWARE 2018	TOTAL 2019	TOTAL 2018
		$000	$000	$000	$000	$000	$000	$000	$000
Cost		94,380	117,094	23,523	23,523	126,689	133,178	244,592	273,795
Impairment and accumulated amortisation		(36,924)	(34,016)	-	-	(92,300)	(105,033)	(129,224)	(139,049)
Opening carrying amount		57,456	83,078	23,523	23,523	34,389	28,145	115,368	134,746
Additions	2.2	-	-	-	-	27,427	20,805	27,427	20,805
Disposals		-	-	-	-	(1,563)	(7,299)	(1,563)	(7,299)
Impairment		-	(25,622)	(5,478)	-	-	-	(5,478)	(25,622)
Amortisation	2.2	-	-	-	-	(10,242)	(7,262)	(10,242)	(7,262)
Closing carrying amount		57,456	57,456	18,045	23,523	50,011	34,389	125,512	115,368
Cost		94,380	94,380	23,523	23,523	149,035	126,689	266,938	244,592
Impairment and accumulated amortisation		(36,924)	(36,924)	(5,478)	-	(99,024)	(92,300)	(141,426)	(129,224)
Closing carrying amount		57,456	57,456	18,045	23,523	50,011	34,389	125,512	115,368
Less: Assets held for sale	15.2	-	-	-	-	-	(37)	-	(37)
Intangible assets		57,456	57,456	18,045	23,523	50,011	34,352	125,512	115,331

Goodwill
Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration paid above the fair value of the net identifiable assets, liabilities and contingent liabilities acquired.

Brand names
Brand names acquired in a business combination are recognised at fair value at the acquisition date. Brand names are considered to have indefinite useful lives as the Group have rights to use these names in perpetuity.

Impairment of goodwill and brand names
Assets that have an indefinite useful life are reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Computer software
All costs directly incurred in the purchase or development of computer software or subsequent upgrades and enhancements, which can be reliably measured and are not integral to a related asset, are capitalised as intangible assets. Computer software is amortised on a straight line basis over a period of between two to fifteen years. Costs incurred on computer software maintenance are expensed to the income statement as they are incurred.

Prior year Torpedo7 Goodwill write-off
In the prior year the goodwill attributed to the Torpedo7 Group ($25.622 million) was fully written off.

Significant judgements and estimates - impairment testing
Impairment testing requires both judgement and estimates to assess the recoverable amount of the assets compared to the carrying values. Estimates of future cash flows are subjective and can be significantly impacted by business changes and economic conditions. The recoverable amounts are calculated using the 'fair value less costs to sell' method. This discounted cash flow valuation method requires the use of estimates and projections regarding future operating performance. The Group considers a wide range of factors including the Group's financial budgets, strategic plans, external benchmarks and historical performance to formulate the future cash flow projections. The Group also engages external advisors to determine appropriate discount rates and long term growth rates, integral to the valuations. In a departure from prior years the results of these valuations have been further refined and scaled back to align with the average values assessed by a selection of the Group's external equity research analysts.

The Group's goodwill and brand assets are allocated to cash generating units and form the basis for impairment testing. Cash generating units represent the lowest level within the Group at which the assets are monitored for internal management purposes. Details of the carrying amounts of goodwill and brand assets (excluding the Torpedo7 brands) and the allocation to cash generating units along with the key assumptions used in the impairment tests to extrapolate cash flows beyond the 5 year projection period are set out in the table below.

Impairment testing

	NOEL LEEMING 2019	NOEL LEEMING 2018	THE WAREHOUSE 2019	THE WAREHOUSE 2018
	$000	$000	$000	$000
Goodwill	31,776	31,776	25,680	25,680
Brand names	15,500	15,500	-	-
Closing carrying amount	47,276	47,276	25,680	25,680
Key assumptions				
Terminal year EBIT margin (%)	5.1	3.1	7.1	4.8
Terminal year growth rate (%)	1.5	1.7	1.5	1.7
Post-tax discount rate (%)	9.3	10.9	8.5	9.1

The annual impairment testing for the Noel Leeming and The Warehouse cash generating units did not indicate the carrying amounts of the attributed goodwill and brand assets were impaired.

1-day brand Impairment
Impairment testing performed for the Torpedo7 cash generating unit at balance date indicated a potential asset impairment and caused the Group to assess the carrying values of the segment's two brand assets. The recoverable amount of each brand was determined using a relief from royalty valuation methodology using royalty rates derived from comparable market data. The brand valuation for the "Torpedo7" brand exceeded the carrying value ($2.545 million), however the valuation of the segment's other "1-day" brand was significantly less than the carrying value ($5.478 million) and as a consequence the Group fully impaired this asset.

Notes to the Financial Statements - Financing and Capital Structure

For the 52 week period ended 28 July 2019

10.0 BORROWINGS

10.1 Net debt	2019	2018
	$000	$000
Cash on hand and at bank	49,297	26,455
Bank borrowings at call - interest rate: 2.88%	-	43,715
Lease liabilities	50	125
Fixed rate senior bond (coupon: 5.30%)	125,000	-
Fair value adjustment relating to senior bond interest rate hedge	799	-
Unamortised capitalised costs on senior bond issuance	(384)	-
Current borrowings	125,465	43,840
Bank borrowings - interest rate: 2.74%	-	20,000
Lease liabilities	-	51
Fixed rate senior bond (coupon: 5.30%)	-	125,000
Fair value adjustment relating to senior bond interest rate hedge	-	723
Unamortised capitalised costs on senior bond issuance	-	(820)
Non current borrowings	-	144,954
Total borrowings	125,465	188,794
Net debt	76,168	162,339

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the net proceeds and the redemption amount is recognised in the income statement 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 12 months after the balance date.

Cash on hand and at bank

Cash on hand and at bank includes EFTPOS (electronic funds transfer point of sale) transactions which have not been cleared by the bank. The Group's balance date is always a Sunday which means the three previous day's store sales, which have been paid by EFTPOS, remain uncleared at balance date.

Fixed rate senior bond

The Group issued a 5 year fixed rate senior bond on the New Zealand Stock Exchange in June 2015 with interest payable every six months (15 June and 15 December) based on a 5.30% coupon. The bond is classified as a current liability as it matures in June 2020 which is less than 12 months following balance date. The Group has not yet decided if it will replace the bond when it matures as a number of working capital initiatives were implemented during the year which have reduced the Group's debt requirements. The lower debt levels will be factored into the Group's deliberations over the next few months as it considers its long term funding options before deciding the amount, if any, of a replacement bond issuance.

Based on the last quoted closing price of $1.02712 (2018: $1.03369) traded on the New Zealand Stock Exchange and a market yield of 2.90% (2018: 3.79%) the fair value of the Group's fixed rate senior bonds at balance date was $128.390 million (2018: $129.211 million). For accounting purposes (NZ IFRS 13) this is deemed a level 1 fair value measurement as it is derived from a quoted price, in an active market.

10.2 Net interest expense	NOTE	2019	2018
		$000	$000
Interest on deposits and use of money interest received		(436)	(1,494)
Interest on bank borrowings		2,254	3,968
Interest on finance leases		9	30
Interest on fixed rate senior bond		7,043	7,043
Net interest expense		8,870	9,547
Less interest attributable to discontinued operations	15.1	9	(382)
Net interest expense from continuing operations		8,879	9,165

10.3 Bank facilities	2019	2018
	$000	$000
Bank debt facilities	180,000	210,000
Bank facilities used	-	(63,715)
Unused bank debt facilities	180,000	146,285
Letters of credit facilities	28,000	28,000
Letters of credit	(2,467)	(5,516)
Unused letter of credit facilities	25,533	22,484
Total unused bank facilities	205,533	168,769

In addition to the $180.000 million (2018: $210.000 million) of committed bank debt facilities the Group has seasonal credit facilities (three months) of $50.000 million (2018: $50.000 million) to accommodate the increased funding demands during the Group's peak funding period.

Notes to the Financial Statements - Financing and Capital Structure

For the 52 week period ended 28 July 2019

11.0 EQUITY

11.1 Capital management

Capital is defined by the Group to be the total equity as shown in the balance sheet. The Group's capital management objectives are to safeguard the Group's ability to continue as a going concern, to provide an appropriate rate of return to shareholders and to optimise the Group's cost of capital. The Group regularly reviews its capital structure and may make adjustments by means including changes to the Group's dividend pay-out ratio, issue of new shares, debt issuance, sale of assets or a combination of these. The Group's current dividend policy is based on distributing between 75% to 85% of the adjusted net profit back to shareholders (refer note 7.0).

The Group monitors gearing which is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders (debt) versus shareholders (equity) and is comfortable to maintain gearing levels (except for the Group's first quarter peak funding period) at levels of between 20% to 40%. Current gearing levels are tracking below this band as the Group builds capacity in advance of expected future investment in planned transformation projects.

The introduction of the new NZ IFRS 16 lease accounting standard (refer note 20.0), which is effective for the Group from the 2020 financial year will significantly increase book gearing as operating lease liabilities will be recorded on the balance sheet. This new standard is non-cash in nature and for internal purposes and for testing debt covenant compliance with our external funding providers, these new lease liabilities and the associated interest expense will be excluded from our internal gearing and debt covenant calculations.

Externally imposed capital requirements

The trust deeds provide a guarantee that the parent and its guaranteeing Group companies will comply with certain quarterly debt ratios and restrictive covenants. The underlying basis for the calculation of these ratios remains unchanged when the new NZ IFRS 16 lease accounting standard is adopted next year with the impact of this new accounting standard carved out of the ratio calculations. The two principal covenants, which are the same for both trust deeds are:

DEBT COVENANT RATIOS AT BALANCE DATE	QUARTERLY COVENANT REQUIREMENT	2019	2018
Retail Group book gearing ratio (percentage)	will not exceed 60% in the first quarter ending October or exceed 50% in each of the remaining three quarters of the year	13.7	25.6
Retail Group book interest cover (times cover)	will not be less than 2 times operating profit	12.7	9.8

The Group was in compliance with the negative pledge covenants throughout the current and previous financial year. For the purposes of calculating debt covenant ratios an adjustment is made to exclude the discontinued financial services operations.

11.2 Contributed equity	CONTRIBUTED EQUITY		ORDINARY SHARES	
	2019	2018	2019	2018
	$000	$000	000s	000s
Share capital	365,517	365,517	346,843	346,843
Treasury shares	(5,456)	(6,060)	(1,557)	(1,793)
Contributed equity	360,061	359,457	345,286	345,050

Ordinary shares are classified as equity. Incremental costs, directly attributable to the issue of new shares, are shown in equity as a deduction from the proceeds of the share issue.

Where the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the shareholders until the shares are cancelled or reissued. Where such shares are reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to shareholders.

Treasury shares		TREASURY SHARES		ORDINARY SHARES	
	NOTE	2019	2018	2019	2018
		$000	$000	000s	000s
Opening balance		6,060	7,471	1,793	2,346
Ordinary shares issued to settle share rights plan obligations	14.0	(604)	(1,411)	(236)	(553)
Closing balance		5,456	6,060	1,557	1,793

Ordinary shares on issue are fully paid and carry one vote per share and participate equally in dividends, other distributions from equity and any surplus on a winding up of the Group. The Group retains its own ordinary shares which are used for employee share based payment arrangements. Voting rights attached to the shares are held by the trustees of the employee share plans, and dividends paid on the shares are retained by the trustee for the benefit of the Group.

Notes to the Financial Statements - Financing and Capital Structure

For the 52 week period ended 28 July 2019

11.3 Reserves	2019	2018
	$000	$000
Cash flow hedge reserve	(1,067)	11,292
De-designated derivative reserve	(163)	(581)
Hedge reserves	(1,230)	10,711
Foreign currency translation reserve	14	(5)
Share based payments reserve	-	766
Total reserves	(1,216)	11,472

Cash flow hedge reserve

This reserve records the portion of the gain or loss on a hedging derivative in a cash flow hedge that is determined to be an effective hedge. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the hedged transaction impacts the income statement, or depending on the nature of the hedge, is included in a non-financial hedged item when the hedged event occurs. (Refer to the consolidated statement of changes in equity and accounting policies detailed in note 12.2).

De-designated derivative reserve

The de-designated derivative reserve is used to record the after tax mark to market losses realised from realigning the Group's interest rate hedge portfolio in prior years which resulted in a number of interest rate swaps being monetised. The cost to close the interest rate swaps is recognised in the income statement over the effective period of the original interest rate swaps. (Refer to the consolidated statement of changes in equity and accounting policies detailed in note 12.2).

Foreign currency translation

Exchange differences arising on translation of the Group's subsidiary in India are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the income statement when the net investment is sold.

Share based payments reserve

Share rights were granted to employees in accordance with the Group's discontinued executive share rights plan. The fair value of share rights granted under the plan were measured at grant date and recognised as an employee expense over the vesting period with a corresponding increase in equity. The fair value at grant date of the share rights were independently determined using a valuation model that made allowance for the terms and conditions upon which they were granted. (Note 14.0 provides further details regarding the plan).

This reserve was used to record the accumulated value of the unvested shares rights, which have been recognised as an expense in the income statement. Upon the vesting of share rights, the balance of the reserve relating to the share rights is offset against the cost of treasury stock allotted to settle the obligation, with any difference in the cost of settling the commitment transferred to retained earnings. (Refer to the consolidated statement of changes in equity).

11.4 Minority interest	2019	2018
	$000	$000
Opening balance	879	867
Net profit attributable to minority interest	133	242
Share rights charged to the income statement	357	-
Share rights vested	(471)	-
Dividends paid to minority shareholders	(179)	(230)
Closing balance	719	879

Minority interest reserve

A minority interest is an ownership position in a Group subsidiary where the shareholder owns less than 50% of outstanding shares and has no control over decisions. Minority interests are measured based on the minority shareholders proportionate share of the net asset value of the subsidiary and also includes the accumulated value of unvested shares rights in the minority subsidiary which have been granted and recognised as an employee share based payment expense. (Note 14.0 provides further details regarding the plan).

The fair value of share rights granted in a subsidiary are measured at grant date and recognised as an employee share based payment expense over the vesting period with a corresponding increase in the minority interest reserve. Upon vesting of these share rights, the balance of the minority interest reserve relating to the share rights is offset against the proportionate share of the net asset value of the subsidiary acquired by the minority shareholder, with any difference in the value attributed to settling the commitment transferred to retained earnings.

At balance date the Group's minority interest represents a 50.0% (2018: 50.0%) minority shareholding held in Waikato Valley Chocolates and a 5.3% (2018: nil) shareholding and associated share rights in The Warehouse Group Investments (Digital Retail venture).

Notes to the Financial Statements - Financial Risk Management

For the 52 week period ended 28 July 2019

12.0 FINANCIAL RISK MANAGEMENT

12.1 Financial risk factors

The Group's activities expose it to various financial risks including, liquidity risk, credit risk and market risk (including currency risk and interest rate risk). The Group's overall risk management programme focuses on the uncertainty of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group enters into derivative transactions, principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency fluctuation risks arising from the Group's sources of finance and foreign currency purchases.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess cash.

12.2 Derivative financial instruments	CURRENCY CONTRACTS		INTEREST RATE SWAPS		TOTAL	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
	$000	$000	$000	$000	$000	$000
Current assets	7,071	19,030	877	-	7,948	19,030
Non-current assets	-	-	-	764	-	764
Current liabilities	(939)	-	-	-	(939)	-
Non-current liabilities	-	-	(7,055)	(3,394)	(7,055)	(3,394)
Total derivative financial instruments	6,132	19,030	(6,178)	(2,630)	(46)	16,400
Classified as:						
Cash flow hedges	5,518	19,030	(7,055)	(3,394)	(1,537)	15,636
Fair value hedges	614	-	877	764	1,491	764
Total derivative financial instruments	6,132	19,030	(6,178)	(2,630)	(46)	16,400

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. For the purposes of hedge accounting, hedges are classified as:

- Cash flow hedges when they hedge an exposure to a highly probable forecast transaction; or
- Fair value hedges when they hedge the exposure to changes in fair value of a recognised asset or liability.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transactions. An assessment, both at hedge inception and on an ongoing basis is also documented, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash flow hedge

The Group applies cash flow hedge accounting for hedging variable interest on borrowings and managing the currency risk associated with purchasing inventory in foreign currencies. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the Income Statement in the periods when the hedged item will affect profit or loss (for instance when the forecast interest payment that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Fair value hedge

The Group applies fair value hedge accounting for hedging fixed interest on borrowings and managing the currency risk associated with foreign currency trade creditors. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributed to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, or the hedge is not fully effective, then the hedge or portion of the hedge which is not effective is recognised immediately in the income statement as either an interest expense or foreign exchange gain or loss based on the nature of the hedged risk.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Significant judgements and estimates

The Group's derivatives are not traded in an active market which means quoted prices are not available to determine the fair value. To determine the fair value the Group uses valuation techniques which rely on observable market data. The fair value of forward exchange contracts are determined using the forward exchange market rates at the balance date and interest rate swaps are calculated as the present value of estimated future cash flows based on the applicable market interest yield rates at balance date. For accounting purposes (NZ IFRS 13) these valuations are deemed to be Level 2 fair value measurements as they are not derived from a quoted price in an active market but rather, a valuation technique that relies on other observable market data.

Notes to the Financial Statements - Financial Risk Management

For the 52 week period ended 28 July 2019

12.3 Liquidity risk

Liquidity risk arises from financial liabilities of the Group and the Group's subsequent ability to meet the obligation to repay these financial liabilities as and when they arise.

The Group's liquidity position fluctuates throughout the year. The months leading up to Christmas typically have the greatest demand for cash flows due to the build up of inventory, conversely the Group's liquidity position is at its strongest immediately after the Christmas trading period. The Group's maximum permitted gearing covenants increase during this period from 50% to 60% (refer note 11.1) to accommodate for the effect of seasonal funding.

The Group improved its working capital position during the year by increasing the payment terms of overseas creditors which resulted in a significant reduction in debt offset by a corresponding increase in overseas trade creditors. The Group is currently reviewing its funding requirements and mix ahead of the maturity of the fixed rate senior bond in June 2020 but has not yet determined its preferred funding solution. To ensure the Group has funding flexibility ahead of the bond maturity the Group is maintaining additional bank facility headroom (refer note 10.0).

The table below analyses the Group's financial liabilities and derivatives into relevant maturity bands, based on the remaining period from balance date to the contractual maturity date. The cash flow amounts disclosed in the table represent undiscounted cash flows liable for payment by the Group. The forward currency contracts "outflow" amounts disclosed in the table represent the gross amount payable by the Group for the purchase of foreign currency, whereas the "inflow" amounts represent the corresponding receipt of foreign currency arising from settlement of the contracts, converted using the spot rate at balance date.

Contractual maturity analysis	0 - 1 YEARS		1 - 3 YEARS		> 3 YEARS		TOTAL	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	$000	$000	$000	$000	$000	$000	$000	$000
Trade and other payables	(352,575)	(282,601)	-	-	-	-	(352,575)	(282,601)
Bank borrowings	-	(63,715)	-	-	-	-	-	(63,715)
Finance lease liabilities	(50)	(135)	-	(175)	-	(4)	(50)	(314)
Fixed rate senior bond	(130,774)	(5,808)	-	(138,250)	-	-	(130,774)	(144,058)
Financial liabilities	(483,399)	(352,259)	-	(138,425)	-	(4)	(483,399)	(490,688)
Forward currency contracts								
- outflow	(373,386)	(369,225)	-	-	-	-	(373,386)	(369,225)
- inflow	380,582	388,622	-	-	-	-	380,582	388,622
Interest rate swaps	382	(208)	(5,831)	(2,153)	(1,004)	(500)	(6,453)	(2,861)
Net derivatives	7,578	19,189	(5,831)	(2,153)	(1,004)	(500)	743	16,536

12.4 Credit risk

Credit risk arises from the financial assets of the Group which are exposed to potential counter-party default, with a maximum exposure equal to the carrying amount of these assets. In the normal course of business the Group incurs credit risk from trade and other receivables, derivatives and transactions with financial institutions.

The Group places its cash and short-term investments and derivatives with high credit quality financial institutions approved by directors and in accordance with specified treasury policy limits. The Group's treasury policy requires bank counter-parties to have a minimum Standard & Poor's credit rating of at least A (2018: A).

The Group controls its credit risk from trade and other receivables by the application of credit approval, limits and monitoring procedures. Receivable balances are monitored on an ongoing basis to ensure the Group's bad debt exposure is not significant. Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect the group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. As the Group transacts with a diversity of counterparties it does not have any significant exposure to any individual customers, industry or economic sector.

Notes to the Financial Statements - Financial Risk Management

For the 52 week period ended 28 July 2019

12.5 Market risk

Foreign exchange risk

The Group purchases inventory directly from overseas suppliers, primarily priced in US dollars. In order to protect against exchange rate movements and to manage the inventory costing process, the Group enters into forward exchange contracts to purchase foreign currencies. These contracts hedge highly probable forecast purchases and are timed to mature when the payments are scheduled to be settled. Management work to a board approved treasury policy to manage this foreign exchange risk. The policy parameters for hedging forecast currency exposures are:

- to hedge 40% to 100% of forecast US dollar commitments expected in the next 0 to 6 months
- to hedge 0% to 85% of forecast US dollar commitments expected in the next 7 to 12 months
- where exposures to other currencies arise, the Group hedges these risks once a firm commitment is in place
- where foreign currency hedging extends beyond a 12 month time horizon, this requires specific approval

Currency position at balance date	CARRYING VALUE		NOTIONAL AMOUNT (NZD)		AVERAGE EXCHANGE RATE		0 TO 12 MONTH HEDGE LEVEL	
	2019	2018	2019	2018	2019	2018	2019	2018
	$000	$000	$000	$000	CENTS	CENTS	PERCENTAGE	PERCENTAGE
Forward exchange contracts								
Buy US dollars/Sell New Zealand dollars	6,132	19,030	373,386	369,225	0.6759	0.7153	64.8	65.4

The Group did not hold any foreign exchange derivatives with a maturity exceeding 1 year at either the current or last year's balance date. The spot rate used to determine the mark-to-market carrying value of the US dollar forward contracts at balance date was $0.6631 (2018: $0.6795).

The following sensitivity table, based on foreign currency contracts in existence at balance date, shows the positive/(negative) effect of reasonably possible exchange rate movements on after tax profit and equity, with all other variables held constant.

Foreign currency sensitivity table			+ 10 PERCENT		- 10 PERCENT	
	NOTE	AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY
		$000	$000	$000	$000	$000
At 28 July 2019						
Foreign currency trade creditors	8.3	(76,869)	5,031	5,031	(6,150)	(6,150)
Derivative financial instruments						
Forward currency contracts - cash flow hedges	12.1	5,518	-	(19,657)	-	24,031
Forward currency contracts - fair value hedges	12.1	614	(5,013)	(5,013)	6,128	6,128
Total increase/(decrease)			18	(19,639)	(22)	24,009
At 29 July 2018						
Derivative financial instruments						
Forward currency contracts - cash flow hedges	12.1	19,030	-	(25,196)	-	30,796
Total increase/(decrease)			-	(25,196)	-	30,796

There is no profit and loss sensitivity, as the forward currency contracts have been designated as cash flow hedges and based on historical performance it has been assumed they will be 100% hedge effective.

Interest rate risk

The Group's exposure to market interest rates primarily relates to the Retail Group's core borrowings estimated to be $150 million (2018: $200 million) for treasury management purposes. The Group's treasury policy is to manage its finance costs using a mix of fixed and floating rate debt. The Group's treasury policy is to maintain between 50% to 90% of core borrowings at fixed rates. At balance date 77% (2018: 65%) of the Group's core borrowings were at fixed interest rates. The Group uses fixed rate debt and interest rate swaps to manage the fixed interest rate pricing and profile.

The following sensitivity table, based on interest rate risk exposures in existence at balance date shows the effect of reasonably possible interest rate movements on after tax profit and equity, with all other variables held constant.

Interest rate sensitivity table			+ 100 BASIS POINTS		- 100 BASIS POINTS	
	NOTE	AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY
		$000	$000	$000	$000	$000
At 28 July 2019						
Cash on hand and at bank	10.1	49,297	355	355	(355)	(355)
Fixed rate senior bond	10.1	(125,415)	371	371	(541)	(541)
Derivative financial instruments						
Interest rate swaps - cash flow hedges	12.2	(7,055)	108	2,012	(108)	(2,106)
Interest rate swaps - fair value hedges	12.2	877	(371)	(371)	541	541
Total increase/(decrease)			463	2,367	(463)	(2,461)
At 29 July 2018						
Finance business receivables	15.2	7,381	53	53	(53)	(53)
Cash on hand and at bank	10.1	(37,260)	(268)	(268)	268	268
Fixed rate senior bond	10.1	(124,903)	358	358	(432)	(432)
Derivative financial instruments						
Interest rate swaps - cash flow hedges	12.2	(3,394)	108	2,012	(108)	(2,066)
Interest rate swaps - fair value hedges	12.2	764	(358)	(358)	432	432
Total increase/(decrease)			(107)	1,797	107	(1,851)

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 28 July 2019

13.0 KEY MANAGEMENT

Key management includes the Directors of the Company and those employees deemed to have disclosure obligations under subpart 6 of the Financial Markets Conduct Act 2013, being the Group Chief Executive Officer and his 9 (2018: 8) direct reports.

Compensation made to Directors and other members of key management of the Group is set out in the two tables below:

Directors' Fees	2019	2018
	$000	$000
J Withers (Chair)	166	166
K R Smith (Deputy Chair)	115	115
A J Balfour	85	85
W K Easton (appointed October 2018)	65	-
J W M Journee	86	86
J H Ogden (retired November 2017)	-	39
J M Raue	107	86
V C M Stoddart (retired November 2017)	-	38
Sir Stephen Tindall	85	85
Total	709	700

In 2019 John Journee received an additional fee of $16,500 as a director of the Group's Digital Retail subsidiary. In the prior year K R Smith and J H Ogden both received $8,000 as additional fees as directors of the Group's discontinued Financial Services subsidiaries.

Key management	2019	2018
	$000	$000
Base salary	7,433	6,101
Annual performance based compensation	2,492	2,944
Three year performance based cash settled compensation	2,195	1,389
Equity settled share-based compensation (refer note: 14.0)	162	140
Termination benefits	-	666
Total	12,282	11,240

14.0 SHARE-BASED LONG TERM INCENTIVE PLANS (LTIP)

Executive share rights plan

The Groups legacy share based executive incentive plan ceased in October 2015 when the last two tranches of share rights were granted. The plan was subsequently replaced by a three year cash based incentive plan in November 2016. In this revised plan employee value creation was linked to company performance rather than share price performance. The legacy share right plan concluded in October 2018 when the last tranche of award shares (236,000 shares) vested and the last tranche of performance shares (392,000 shares) were forfeited as the total shareholder return performance target of $0.78 per share over the 3 year vesting period was not met.

Award shares provided participants with a conditional right to be allocated and transferred ordinary shares upon achieving certain company and individual performance targets. Performance shares provided participants with a conditional right to be transferred ordinary shares at the end of the vesting period if the Group achieved a specified total shareholder return on the vesting date. The award shares which vested and the performance share which were forfeited in October 2018 were valued at $2.16 and $0.81, respectively at the time they were granted.

Digital Retail share rights plan

Share rights were provided as a performance incentive to key executives in the Group's Digital Retail start-up venture, The Warehouse Group Investments Limited (TWGI). As part of the share plan participants were collectively transferred 53,333 TWGI shares in June 2019 (Tranche 1), and are entitled to receive the same number of shares in March 2020 (Tranche 2) and March 2021 (Tranche 3), subject to certain conditions, which include continued employment. The share rights were independently valued at $5.00 per share when they were granted in June 2019 and if the entitlements are fully vested would provide the participants with up to a 16% minority shareholding in TWGI.

Under the plan the Group also granted participants put options over a proportion of their Tranche 2 and Tranche 3 TWGI shares, exercisable within 4 weeks of the share transfer to fund the participants tax obligations arising under the plan; and a further put option over the participants entire TWGI shareholding, exercisable during the 3 years following March 2021 or within 3 months of certain 'good leaver' events, such as death or incapacity. If the put option is exercised, the Group is required to purchase the TWGI shares at a price based on the fair value of the shares at that time, in consideration for providing the participant with ordinary shares in the Group of equivalent value (using the volume weighted average market price of the Group's shares).

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 28 July 2019

15.0 DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group that represents a separate major line of business that is part of a disposal plan. The results of discontinued operations are presented separately as a single amount in the Income Statement.

The Group sold its Financial Services business (excluding Diners Club (NZ)) in September 2017 for a consideration of $17.291 million which was equivalent to the carrying value of the business assets at the time of sale. The sale was subject to a 9 month claw back provision to recover bad debts which exceeded the level of impairment provisions included in the carrying value of the finance receivables which were sold. A claim for recovery was made and settled for $1.421 million in August 2018.

The Diners Club (NZ) business was subsequently split between the merchant acquisition business and the card issuance business. A buyer was found for the card issuing business and the finance receivables were sold in April 2019 for $1.850 million realising a gain of $0.398 million. The sale is subject to a warranty claim period which expires in October 2019 and in line with industry practice the value of any claim is capped at the value of the consideration received.

The remaining Diners Club (NZ) merchant acquisition business is part of a network participation agreement (NPA) with Diners Club International. The NPA expired in December 2018 but as part of the transitional obligations contained in the NPA the Group is required to continue to provide franchise services for a further year through to December 2019.

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

15.1 Financial Services Group results and cash flows	NOTE	2019	2018
		$000	$000
Finance business revenue		1,262	4,729
Expenses		(4,383)	(8,188)
Gain/(Loss) on business disposal		398	(1,421)
Loss before interest and tax		(2,723)	(4,880)
Interest expense	10.2	9	(382)
Loss before tax		(2,714)	(5,262)
Income tax credit	4.1	786	876
Loss from discontinued operations		(1,928)	(4,386)
Cash flows from discontinued operations			
Net cash flows from operating activities		2,461	5,069
Net cash flows from investing activities		429	16,957
Net cash flows from financing activities		(3,327)	(28,753)

15.2 Financial Services Group assets classified as held for sale	2019	2018
	$000	$000
Finance business receivables	-	7,381
Property, plant and equipment	-	12
Computer software	-	37
Other assets	-	130
Total assets classified as held for sale	-	7,560
Other liabilities directly associated with assets held for sale	-	(3,886)

A group of assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits and financial assets which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less cost to sell of an asset, but not more than any cumulative impairment loss previously recognised. Non-current assets are not depreciated or amortised while they are classified as held for sale.

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 28 July 2019

16.0 COMMITMENTS

Operating leases

The Group's non-cancellable operating leases mainly relate to building occupancy leases and typically expire within ten years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Commitments for minimum lease payments in relation to non-cancellable operating leases at balance date are as follows:

Future minimum rentals payable	2019	2018
	$000	$000
0–1 years	127,142	121,473
1–2 years	108,034	107,531
2–5 years	240,375	249,550
5+ years	185,957	234,207
Operating leases	661,508	712,761

Capital expenditure contracted for at balance date, but not recognised as liabilities, is set out below:

Capital commitments	2019	2018
	$000	$000
Within one year	1,452	2,783

17.0 CONTINGENT LIABILITIES

	2019	2018
	$000	$000
Bank letters of credit issued to secure future purchasing requirements	2,467	5,516
Less included as a goods in transit creditor	(213)	(575)
	2,254	4,941
Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited	456	643
Total contingent liabilities	2,710	5,584

Contingent liabilities connected to the sale of the Group's Financial Services businesses are detailed in note 15.0.

18.0 RELATED PARTIES

During the period the Group has not entered into any material contracts involving related parties or Directors' interests which are not disclosed. No amounts owed by related parties have been written off or forgiven during the period.

Shareholdings

(i) Sir Stephen Tindall (Director) has a beneficial shareholding of 93,687,096 shares (2018: 93,687,096 shares) which carry the normal entitlement to dividends. Dividends of $14.054 million (2018: $14.990 million) were received on these shares during the year.

(ii) The Group's other Directors collectively had beneficial shareholdings of 198,964 shares (2018: 198,964 shares) at balance date which carry the normal entitlement to dividends.

(iii) Share transactions undertaken by the Directors during the year and Directors non-beneficial shareholdings are required to be disclosed in respect of section 148(2) of the Companies Act 1993. Details of these transactions can be found as part of the statutory disclosures in the annual report.

(iv) Key management (as detailed in note 13.0) collectively held 333,586 shares (2018: 263,166 shares) at balance date which carry the normal entitlement to dividends.

Notes to the Financial Statements - Other Disclosures

For the 52 week period ended 28 July 2019

19.0 NEW ACCOUNTING STANDARDS ADOPTED IN THE YEAR

The Group adopted two new accounting standards during the year, 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 the Group elected to use the modified retrospective approach to transition which means it was not required 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 the start of the current financial year. 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 of
trade receivables.

Hedge accounting

The Group was not required to make any changes to the way it hedges foreign currency and interest rate risks following the adoption of NZ IFRS 9. The Group was however required to make some minor changes to the way it internally documents hedge relationships when it enters a new derivative contract and was able to simplify the method used to demonstrate the effectiveness of the hedge relationships. The Group's hedge relationships continued to qualify as effective hedges when NZ IFRS 9 was adopted and the Group has not experienced any profit impact from implementing the new accounting treatment for its hedge relationships.

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 the start of the current financial year. 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 the Group's 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 profit 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.

Reclassifications

There were also two reclassifications which arose from the adoption of NZ IFRS 15, one related to the sales return provision in the balance sheet and the second related to the treatment of warranty sales revenue in the income statement. Receivables and the sales return provision were both grossed up ($1.818 million) to reflect supplier recoveries arising from predicted customer sales returns which had previously been netted against the sales return provision in prior years. Revenue from the sale of third party warranties was reduced in the current year to record the net warranty commission due from the suppliers rather than the full value of the sale. This change resulted in a reduction in both revenue and the cost of sales ($8.666 million) but did not change the reported gross profit.

20.0 NEW ACCOUNTING STANDARDS - EFFECTIVE NEXT YEAR

NZ IFRS 16: Leases

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17 and will be adopted by the Group next year commencing from 29 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 requires the Group, as a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for short term leases and leases of low value assets which the Group has elected to apply.

The income statement is 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 which included setting up a new lease accounting system, evaluating practical expedient and accounting policy elections, and assessing the overall financial statement impact. While the impact of NZIFR16 is non-cash in nature and will not impact the Group's cash flows it will have a material impact on the Group's reported financial position.

The new standard provides a choice of transition methods. The Group has decided to use a simplified transition approach to adopt NZ IFRS 16. The problem with using the 'modified retrospective approach' expedient is that it does not permit the Group to restate comparative amounts for the periods prior to adoption. The Group's estimate of the balance sheet impact at the date of transition of adopting NZ IFRS 16 based on the Group's current operating leases is detailed below.

- Recognition of a right of use asset of approximately $829 million;
- Recognition of a deferred taxation asset of approximately $44 million;
- Recognition of a lease liability of approximately $986 million; and
- Decrease in opening retained earnings of approximately $113 million.

The impact on the income statement for next year based on the same leases is expected to decrease occupancy expenses (approximately $130 million), increase amortisation expenses (approximately $91 million) and increase interest expenses (approximately $40 million). The overall impact on net profit attributable to shareholders is expected to be less than $1 million. To calculate these estimates management was required to make various key judgements which included determining:

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

The estimated potential financial adjustments are expected to be different from next year's actual result as the transition calculations are further refined, new lease contracts are entered into by the Group, changes are made to existing lease contracts and management's judgements regarding exercising rights of renewals under lease arrangements change.

The lease liabilities calculated in accordance with NZ IFRS 16 at transition are higher than the disclosed lease commitments of $661.508 million (refer note 16.0) calculated in accordance with NZ IAS 17 which are calculated using non-cancellable lease terms, undiscounted cash flows and do not allow for expected lease renewals.

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

We have audited the financial statements which comprise:

- the consolidated balance sheet as at 28 July 2019;
- the consolidated income statement for the 52 week period then ended;
- the consolidated statement of comprehensive income for the 52 week period then ended;
- the consolidated statement of changes in equity for the 52 week period then ended;
- the consolidated statement of cash flows for the 52 week period then ended; and
- the notes to the financial statements, which include significant accounting policies.

OUR OPINION

In our opinion, the accompanying financial statements of The Warehouse Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 28 July 2019, its financial performance and its cash flows for the 52 week period 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)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

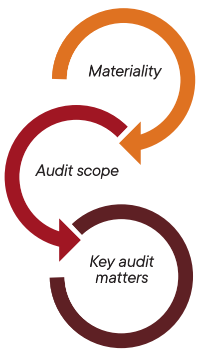
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of treasury related market analysis and equity scheme commentary, agreed upon procedures at the Annual Shareholders' Meeting and tax compliance services. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These relationships have not impaired our independence as auditor of the Group. The provision of these other services has not impaired our independence as auditor of the Group.

OUR AUDIT APPROACH

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $5.1 million, which represents approximately 5% of profit before tax from continuing operations, adjusted for the gain on property disposals, brand impairment and restructuring costs.

We chose this as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users.

We have determined that there is one key audit matter:

- Valuation of inventory

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the 52 week period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Valuation of inventory
 	
As at balance date, the Group's finished goods inventory amounted to \$478.2 million (2018: \$494.0 million) exclusive of inventory provisions of \$24.0 million (2018: \$29.0 million).
 	
Inventory is measured at the lower cost or net realisable value.
 	
The cost of finished goods is calculated using a weighted average method and includes expenditure incurred to purchase the inventory and transport it to its current location.
 	
The inventory provision which represents a deduction from cost to measure finished goods at the lower of cost and net realisable value is determined based on various factors inculding historical data, current trends and product information from buyers. Determining the appropriate level of provisioning involves judgements including management's expectations of future sales levels and estimation of selling price adjustments.
 	
Provision for rebates from suppliers are also recorded against the cost of finished goods and recognised in the consolidated income statement in accordance with supplier agreement terms.
 	
Because of the significance of the inventory balance and the judgements involved in estimating the inventory provisions, we considered this as an area of focus for the audit.
 	
Note 8.1 of the financial statements describes the accounting policy on inventory and the judgements and estimates applied by management in determining the inventory provision.
	Our audit procedures over inventory cost included:
	
	• Testing the accuracy of the weighted average cost calculation, on a sample basis, by reperforming the calculation.
	
	• Validating the cost of inventory, on a sample basis, to supplier and freight invoices.
	
	Our procedures over inventory provisions included:
	
	• Observing management's stocktake process at selected locations to confirm that aged and clearance items were identified and accounted for.
	
	• Holding discussions with management to understand and corroborate the assumptions used to estimate inventory provisions.
	
	• Testing on a sample basis,
	
	  • the net realisable value of finished goods by comparing the cost of finished goods against the most recent retail price less cost to sell; and
	
	  • that finished goods are valued at lower of cost or net realisable value.
	
	• Reviewing the inventory ageing schedules to check, on a sample basis, whether provisions were recorded for aged stock in accordance with Group policy.
	
	• Obtaining an understanding of specific inventory provisions calculated for certain inventory categories, such as discontinued and clearance items, and considering whether the additional provisions were appropriate based on review of aged stock and net realisable value.
	
	• Testing on a sample basis, the accounting treatment of supplier rebates relating to inventory by comparing the rebate recorded against the supplier agreement and the inventory levels held at balance date.
	
	• Comparing all inventory provisions for each finished goods category as a percentage of the gross carrying amount versus the prior year and obtaining and validating the rationale for material or unexpected changes.
	
	From the procedures performed, we have no matters to report.

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible 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 FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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) and ISAs 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 economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), the auditor exercises professional judgement and maintains professional scepticism throughout the audit. The auditor also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concludes on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. The auditor is responsible for the direction, supervision and performance of the Group audit. The auditor remains solely responsible for the audit opinion.

The auditor communicates with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

The auditor also provides the Directors with a statement that the auditor has complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

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

WHO WE REPORT TO

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants, Auckland

24 September 2019