The Warehouse Group Limited
Financial Statements

For the 52 week period ended 30 July 2017

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 grey 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.

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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.

These financial statements have been approved for issue by the Board of Directors on 21 September 2017.

Consolidated Income Statement

For the 52 week period ended 30 July 2017

	Note	(52 weeks) 2017 $ 000	(52 weeks) 2016 $ 000
Continuing operations			
Retail sales	2.1	2,980,771	2,924,682
Cost of retail goods sold	8.1	(2,008,859)	(1,966,510)
Gross profit		971,912	958,172
Other income	3.1	8,144	8,858
Lease and occupancy expense	3.2	(156,659)	(148,404)
Employee expense	3.3	(486,196)	(475,788)
Depreciation and amortisation expense	2.2	(58,376)	(58,210)
Other operating expenses	3.4	(170,988)	(173,463)
Operating profit from continuing operations	2.1	107,837	111,165
Unusual items	5.0	(605)	16,158
Equity earnings of associate		-	723
Earnings before interest and tax from continuing operations		107,232	128,046
Net interest expense	10.2	(12,527)	(14,154)
Profit before tax from continuing operations		94,705	113,892
Income tax expense	4.1	(23,691)	(25,890)
Net profit for the period from continuing operations		71,014	88,002
Discontinued operations			
Loss from discontinued operations (net of tax)	15.1	(50,283)	(5,526)
Net profit for the period		20,731	82,476
Attributable to:			
Shareholders of the parent		20,429	78,338
Minority interests	11.4	302	4,138
		20,731	82,476
Profit attributable to shareholders of the parent relates to:			
Profit from continuing operations		70,712	83,864
Loss from discontinued operations		(50,283)	(5,526)
		20,429	78,338
Earnings per share attributable to shareholders of the parent			
Basic earnings per share	6.0	5.9 cents	22.7 cents
Diluted earnings per share	6.0	5.9 cents	22.6 cents
Earnings per share attributable to shareholders of the parent from continuing operations			
Basic earnings per share	6.0	20.5 cents	24.3 cents
Diluted earnings per share	6.0	20.4 cents	24.2 cents

Consolidated Statement of Comprehensive Income

For the 52 week period ended 30 July 2017

	Note	(52 weeks) 2017 $ 000	(52 weeks) 2016 $ 000
Net profit for the period		20,731	82,476
Items that may be reclassified subsequently to the Income Statement			
Movement in derivative cash flow hedges		9,484	(64,480)
Movement in de-designated derivative hedges		606	605
Tax relating to movement in hedge reserve		(2,825)	17,885
Other comprehensive income		7,265	(45,990)
Total comprehensive income		27,996	36,486
Attributable to:			
Shareholders of the parent		27,694	32,348
Minority interest	11.4	302	4,138
Total comprehensive income		27,996	36,486
Attributable to:			
Total comprehensive income from continuing operations		78,279	42,012
Total comprehensive loss from discontinued operations		(50,283)	(5,526)
Total comprehensive income		27,996	36,486
Total comprehensive income from continuing operations attributable to:			
Shareholders of the parent		77,977	37,874
Minority interest	11.4	302	4,138
Total comprehensive income		78,279	42,012

Consolidated Balance Sheets

As at 30 July 2017

		CONSOLIDATED		CONTINUING RETAIL GROUP		DISCONTINUED FINANCIAL SERVICES GROUP	
	Note	2017	2016	2017	2016	2017	2016
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
ASSETS							
Current assets							
Cash and cash equivalents	10.1	47,492	49,881	40,179	36,531	7,313	13,350
Finance business receivables		-	73,565	-	-	-	73,565
Trade and other receivables	8.2	71,088	77,059	71,088	72,434	-	4,625
Inventories	8.1	491,818	501,713	491,818	501,713	-	-
Derivative financial instruments	12.2	-	621	-	621	-	-
Taxation receivable	4.2	4,959	-	-	-	5,972	3,352
		615,357	702,839	603,085	611,299	13,285	94,892
Assets held for sale	16, 9.1	77,142	52,277	-	52,277	77,142	-
Total current assets		692,499	755,116	603,085	663,576	90,427	94,892
Non-current assets							
Property, plant and equipment	9.1	252,175	271,043	252,175	269,791	-	1,252
Intangible assets	9.2	127,726	170,668	127,726	124,492	-	46,176
Investment in discontinued finance business		-	-	28,186	76,797	-	-
Derivative financial instruments	12.2	541	738	541	738	-	-
Deferred taxation	4.3	40,911	43,011	40,992	40,718	-	2,293
Total non-current assets		421,353	485,460	449,620	512,536	-	49,721
Total assets	2.3	1,113,852	1,240,576	1,052,705	1,176,112	90,427	144,613
LIABILITIES							
Current liabilities							
Borrowings	10.1	49,593	125,202	49,593	125,202	-	-
Trade and other payables	8.3	267,304	271,308	267,304	264,424	-	6,884
Derivative financial instruments	12.2	17,299	25,133	17,299	25,133	-	-
Taxation payable	4.2	-	2,068	1,013	5,420	-	-
Provisions	8.4	49,769	58,915	49,769	58,108	-	807
		383,965	482,626	384,978	478,287	-	7,691
Securitised borrowings associated with assets held for sale	10.1	56,717	-	-	-	56,717	-
Other liabilities directly associated with assets held for sale	16	5,443	-	-	-	5,443	-
Total current liabilities		446,125	482,626	384,978	478,287	62,160	7,691
Non-current liabilities							
Borrowings	10.1	159,453	164,534	159,453	164,534	-	-
Securitised borrowings	10.1	-	60,125	-	-	-	60,125
Derivative financial instruments	12.2	2,507	4,845	2,507	4,845	-	-
Provisions	8.4	19,378	17,850	19,378	17,850	-	-
Deferred taxation	4.3	-	-	-		81	-
Total non-current liabilities		181,338	247,354	181,338	187,229	81	60,125
Total liabilities	2.3	627,463	729,980	566,316	665,516	62,241	67,816
Net assets		486,389	510,596	486,389	510,596	28,186	76,797
EQUITY							
Contributed equity	11.2	358,046	357,685	358,046	357,685	-	-
Reserves	11.3	(13,036)	(18,816)	(13,036)	(18,816)	-	-
Retained earnings		140,512	171,560	140,512	171,560	-	-
Investment in finance business		-	-	-	-	28,186	76,797
Total equity attributable to shareholders		485,522	510,429	485,522	510,429	28,186	76,797
Minority interest	11.4	867	167	867	167	-	-
Total equity		486,389	510,596	486,389	510,596	28,186	76,797
		-	-	-	-	-	-

Consolidated Statement of Cash Flows

For the 52 week period ended 30 July 2017

	Note	(52 weeks) 2017 $ 000	(52 weeks) 2016 $ 000
Cash flows from operating activities			
Cash received from customers		2,996,090	2,944,555
Payments to suppliers and employees		(2,841,679)	(2,745,746)
Income tax paid		(27,454)	(28,037)
Interest paid		(16,008)	(16,495)
		110,949	154,277
Loans repaid by finance business customers		171,188	148,306
New loans to finance business customers		(154,049)	(140,123)
Net cash flows from operating activities		128,088	162,460
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment and computer software		79,714	39,488
Proceeds from business disposal		-	6,382
Minority interest capital contribution		750	-
Dividend received from associate		-	2,695
Purchase of property, plant & equipment and computer software		(70,575)	(75,180)
Contingent and deferred acquisition consideration		(1,000)	(1,575)
Acquisition of minority interest	11.4	-	(9,800)
Acquisition of subsidiaries, net of cash acquired		-	(4,363)
Other items		(327)	3
Net cash flows from investing activities		8,562	(42,350)
Cash flows from financing activities			
Proceeds from / (Repayment of) retail borrowings		(79,821)	(41,825)
Proceeds from / (Repayment of) securitised borrowings		(3,408)	1,496
Repayment of finance leases		(1,196)	(1,402)
Purchase of treasury stock	11.2	(2,148)	(2,531)
Treasury stock dividends received		290	280
Dividends paid to parent shareholders		(52,404)	(55,920)
Dividends paid to minority shareholders		(352)	(2,522)
Net cash flows from financing activities		(139,039)	(102,424)
Net cash flow		(2,389)	17,686
Opening cash position		49,881	32,195
Closing cash position	10.1	47,492	49,881
		-	-

Reconciliation of Operating Cash Flows

For the 52 week period ended 30 July 2017

	Note	(52 weeks) 2017 $ 000	(52 weeks) 2016 $ 000
Net profit		20,731	82,476
Non-cash items			
Depreciation and amortisation expense	2.2	60,191	59,660
Intangible asset impairment	9.2	40,061	-
Share based payment expense	3.3	1,283	3,208
Interest capitalisation		524	621
Movement in deferred tax	4.3	(555)	(7,977)
Movement in de-designated derivative hedges		436	436
Share of profit from associate		-	(723)
Total non-cash items		101,940	55,225
Items classified as investing or financing activities			
Gain on sale of property, plant and equipment		(9,979)	(4,392)
Gain on business disposal		-	(9,950)
Direct costs relating to business acquisitions and disposals		946	479
Contingent consideration		-	(675)
Supplementary dividend tax credit	4.2	378	425
Total investing and financing adjustments		(8,655)	(14,113)
Changes in assets and liabilities			
Trade and other receivables		4,248	(3,681)
Finance business receivables		6,210	(2,327)
Inventories		9,895	7,851
Trade and other payables		7,557	18,054
Provisions		(6,811)	15,471
Income tax		(7,027)	3,504
Total changes in assets and liabilities		14,072	38,872
Net cash flows from operating activities		128,088	162,460
		-	-

Consolidated Statement of Changes in Equity

For the 52 week period ended 30 July 2017

	Note	Share Capital	Treasury Shares	Hedge Reserves	Employee Share Benefits Reserve	Retained Earnings	Minority Interest	Total Equity
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
For the 52 week period ended 30 July 2017								
Balance at the beginning of the period		365,517	(7,832)	(22,439)	3,623	171,560	167	510,596
Net profit for the period		-	-	-	-	20,429	302	20,731
Movement in derivative cash flow hedges		-	-	9,484	-	-	-	9,484
Movement in de-designated derivative hedges		-	-	606	-	-	-	606
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	(2,825)	-	-	-	(2,825)
Total comprehensive income		-	-	7,265	-	20,429	302	27,996
Contributions by and distributions to owners								
Share rights charged to the income statement		-	-	-	1,283	-	-	1,283
Minority interest capital contribution		-	-	-	-	-	750	750
Share rights vested		-	2,509	-	(2,768)	259	-	-
Dividends paid	7.1, 11.4	-	-	-	-	(52,026)	(352)	(52,378)
Treasury stock dividends received		-	-	-	-	290	-	290
Purchase of treasury stock		-	(2,148)	-	-	-	-	(2,148)
Balance at the end of the period		365,517	(7,471)	(15,174)	2,138	140,512	867	486,389
		(note: 11.2)	(note: 11.2)	(note: 11.3)	(note: 11.3)		(note: 11.4)	
For the 52 week period ended 31 July 2016								
Balance at the beginning of the period		365,517	(7,302)	23,551	2,937	155,357	1,910	541,970
Profit for the period		-	-	-	-	78,338	4,138	82,476
Movement in derivative cash flow hedges		-	-	(64,480)	-		-	(64,480)
Movement in de-designated derivative hedges		-	-	605	-		-	605
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	17,885	-	-	-	17,885
Total comprehensive income		-	-	(45,990)	-	78,338	4,138	36,486
Contributions by and distributions to owners								
Share rights charged to the income statement		-	-	-	3,208	-	-	3,208
Share rights vested		-	2,001	-	(2,522)	521	-	-
Dividends paid	7.1, 11.4	-	-	-	-	(55,495)	(3,522)	(59,017)
Treasury stock dividends received		-	-	-	-	280	-	280
Purchase of treasury stock		-	(2,531)	-	-	-	-	(2,531)
Purchase of minority interest	11.4	-	-	-	-	(7,441)	(2,359)	(9,800)
Balance at the end of the period		365,517	(7,832)	(22,439)	3,623	171,560	167	510,596
		(note: 11.2)	(note: 11.2)	(note: 11.3)	(note: 11.3)		(note: 11.4)	

1. BASIS OF PREPARATION

1.1 REPORTING ENTITY

The Warehouse Group Limited (the Company) and its subsidiaries (together the Group) trade in the New Zealand retail and financial services sectors. 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.

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 does 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.

Since balance date the Group has sold most of the Financial Services Group and is actively seeking a buyer for the remaining part of this business segment. 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. The Group has presented separate balance sheets for the retail segment and discontinued finance segment as part of the primary financial statements. This is a non GAAP financial disclosure however the Group has presented the information to provide clarity regarding the balance sheet for the continuing business. The consolidated balance sheet is the sum of each of the balance sheet line items for the continuing retail group and discontinued financial services group adjusted for intergroup elimination entries.

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

Name of entity	Principal Activity	Change	Note	Percentage Ownership 2017	Percentage Ownership 2016
The Warehouse Limited	Retail			100	100
Warehouse Stationery Limited	Retail			100	100
Noel Leeming Group Limited	Retail			100	100
Torpedo7 Limited	Retail			100	100
RRS 2013 Limited	Retail	Amalgamated with Torpedo7 Limited		N/A	100
Torpedo7 Fitness Limited	Retail			100	100
Torpedo7 Supplements Limited	Retail			100	100
TW Financial Services Operations Limited	Financial Services	Classified as discontinued operations	15	100	100
The Warehouse Financial Services Limited	Financial Services	Classified as discontinued operations	15	100	100
Diners Club (NZ) Limited	Financial Services	Classified as discontinued operations	15	100	100
TW Money Limited	Financial Services	Classified as discontinued operations	15	100	100
Eldamos Investments Limited	Property			100	100
The Warehouse Nominees Limited	Investment			100	100
TWP No.3 Limited	Retail / Wholesale			100	100

1.4 REPORTING PERIOD

These financial statements are for the 52 week period 1 August 2016 to 30 July 2017. The comparative period is for the 52 week period 3 August 2015 to 31 July 2016. The Group operates on a weekly trading and reporting cycle which means most financial years represent a 52 week period. However a 53 week year will occur once every 5 to 6 years.

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) Inventories (note 8.1)
(b) Derivative financial instruments (note 12.2)
(c) Intangible assets (note 9.2)
(d) Financial Services Group impairment of assets (note 15.2)

1.6 RESTATEMENT OF PRIOR YEAR

Discontinued operations
The prior year comparative numbers in the Income statement have been restated to present the results of discontinued operations as a single amount. The prior year comparative information also provided in notes 3 and 5 which reference to the Income Statement have similarly been restated to exclude discontinued operations.

Brand intangible assets and deferred taxation
Guidance was released in November 2016 by the IFRS Interpretations Committee (IFRIC) clarifying its position regarding indefinite life intangible assets and deferred taxation arising as part of a business acquisition. Because of this guidance the Group has been required to recognise a previously unrecognised deferred tax liability on the Brand Assets acquired as part of the acquisitions of the Noel Leeming Group and Torpedo 7 businesses during the 2013 financial year. The impact of this change means the Group recognised a deferred tax liability of $6.586 million, an increase in goodwill of $5.463 million and a reduction in minority interests of $1.123 million at the date of acquisition. Further information regarding the impact of the restatement during the periods since the acquisition's through to the prior year are detailed in note 20.

2.0 SEGMENT INFORMATION

2.1 Operating performance	Note	Revenue 2017	Revenue 2016	Operating Profit 2017	Operating Profit 2016	Retail Operating Margin 2017	Retail Operating Margin 2016
		$ 000	$ 000	$ 000	$ 000	%	%
The Warehouse		1,761,399	1,760,708	84,531	89,376	4.8 %	5.1 %
Warehouse Stationery		278,181	279,155	15,743	14,288	5.7 %	5.1 %
Noel Leeming		810,705	752,137	19,264	12,050	2.4 %	1.6 %
Torpedo7		157,726	148,660	2,675	3,380	1.7 %	2.3 %
Other Group operations		8,603	13,201	(14,376)	(7,929)		
Inter-segment eliminations		(35,843)	(29,179)	-	-		
Retail Group		2,980,771	2,924,682	107,837	111,165	3.6 %	3.8 %
Unusual items	5.0			(605)	16,158		
Equity earnings of associate				-	723		
Earnings before interest and tax from continuing operations				107,232	128,046		
Net interest expense	10.2			(12,527)	(14,154)		
Profit before tax from continuing operations				94,705	113,892		

Operating segments
The Group has four operating segments trading in the New Zealand retail sector. These segments form the basis of internal reporting used by management and the Board of Directors to monitor and assess performance and assist with strategy decisions.

Each of the four retail segments represent a distinct retail chain, synonymous with its segment name. Customers can purchase product from the retail chains either on-line or through the Group's physical retail store network. The Group's store network currently has 92 (2016: 92) The Warehouse stores , 69 (2016: 66) Warehouse Stationery stores, 77 (2016: 75) Noel Leeming stores and 12 (2016: 11) Torpedo7 stores. The Warehouse predominantly sells general merchandise and apparel, Noel Leeming sell technology and appliance products, Torpedo7 sells sporting equipment and as the name indicates Warehouse Stationery sells stationery.

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

2.2 Capital expenditure, depreciation and amortisation	Note	Capital Expenditure 2017	Capital Expenditure 2016	Depreciation & Amortisation 2017	Depreciation & Amortisation 2016
		$ 000	$ 000	$ 000	$ 000
The Warehouse		36,374	41,301	40,819	41,105
Warehouse Stationery		3,861	5,296	6,722	6,578
Noel Leeming		10,382	6,875	8,421	7,484
Torpedo7		581	781	1,059	1,240
Other Group operations		10,253	10,156	1,355	1,803
Continuing Retail Group		61,451	64,409	58,376	58,210
Discontinued operations		2,513	9,017	1,815	1,450
Total Group		63,964	73,426	60,191	59,660
Comprising					
Property, plant and equipment	9.1	51,833	56,360	52,626	53,135
Computer software	9.2	12,131	17,066	7,565	6,525
Total Group		63,964	73,426	60,191	59,660

2.3 Balance sheet information	Note	Total Assets 2017	Total Assets 2016	Total Liabilities 2017	Total Liabilities 2016
		$ 000	$ 000	$ 000	$ 000
The Warehouse		461,772	481,322	182,389	183,502
Warehouse Stationery		72,176	78,021	32,746	33,084
Noel Leeming		160,287	154,374	108,008	103,548
Torpedo7		51,742	49,504	11,269	10,870
Other Group operations		90,229	150,886	2,039	9,378
Continuing Retail Group		836,206	914,107	336,451	340,382
Discontinued operations		77,142	102,903	5,443	7,691
Operating assets / liabilities		913,348	1,017,010	341,894	348,073
Unallocated assets / liabilities					
Cash and borrowings	10.1	47,492	49,881	265,763	349,861
Derivative financial instruments	12.2	541	1,359	19,806	29,978
Intangible goodwill and brands	9.2	106,601	129,315	-	-
Taxation assets / liabilities	4.2, 4.3	45,870	43,011	-	2,068
Total Group		1,113,852	1,240,576	627,463	729,980

3.0 INCOME AND EXPENSES

Retail sales
Retail sales are recognised at the point of sale when the customer receives the goods or delivery takes place. 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	2017	2016
	$ 000	$ 000
Tenancy rents received	5,032	5,621
Other	3,112	3,237
Other income	8,144	8,858

3.2 Lease and occupancy expense	2017	2016
	$ 000	$ 000
Operating lease costs	124,150	115,535
Other occupancy costs	32,509	32,869
Lease and occupancy expense	156,659	148,404

3.3 Employee expense	2017	2016
	$ 000	$ 000
Wages and salaries	469,342	448,743
Directors' fees	798	754
Performance based compensation	14,773	23,127
Equity settled share based payments expense	1,283	3,164
Employee expense	486,196	475,788

3.4 Other operating expenses	2017	2016
	$ 000	$ 000
Other operating expenses include		
Provision for bad and doubtful debts	1,293	484
Loss on disposal of plant and equipment	716	1,135
Donations	634	747
Net foreign currency exchange loss	105	117

3.5 Auditors' fees	2017	2016
	$ 000	$ 000
Auditing the Group financial statements	579	562
Reviewing the half year financial statements	90	90
Other services	43	274
Total fees paid to PricewaterhouseCoopers	712	926

Audit Fees - Corporate Governance
Fees paid to PricewaterhouseCoopers for other services related to treasury policy advice, executive remuneration benchmarking advice and in the prior year digital services advice. In accordance with the Group's policies regarding audit governance and independence this work was approved by the Group’s Audit Committee. The Group’s policy permits the audit firm to provide non-audit services that are considered to be not in conflict with the preservation of the independence of the auditor subject to Audit Committee approval.

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	2017	2016
		$ 000	$ 000
Profit before tax from continuing operations		94,705	113,892
Loss before tax from discontinued operations	15.1	(53,894)	(7,596)
Profit before tax from continuing operations		40,811	106,296
Taxation calculated at 28%		11,427	29,763
Adjusted for the tax effect of:			
Intangible asset impairment		11,217	-
Capital gain on business disposals		-	(2,652)
Contingent consideration		-	(189)
Equity earnings of associate		-	(202)
Share based payments		(343)	339
Non deductible expenditure		1,336	1,039
Depreciation adjustments on building disposals and prior year business acquisitions	5.0	(2,963)	(3,708)
Income tax over provided in prior year		(594)	(570)
Income tax expense		20,080	23,820
Adjust for income tax expense attributable to losses from discontinued operations	15.1	3,611	2,070
Income tax expense attributable to continuing operations		23,691	25,890
Income tax expense comprises:			
Current year income tax payable	4.2	20,635	31,797
Deferred taxation	4.3	(555)	(7,977)
Income tax expense		20,080	23,820

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	2017	2016
		$ 000	$ 000
Opening balance		(2,068)	2,250
Current year income tax payable	4.1	(20,635)	(31,797)
Acquisition of subsidiary		-	(814)
Net taxation paid		27,454	28,037
Transfer from cash flow hedge reserve		(170)	(169)
Supplementary dividend tax credit		378	425
Closing balance		4,959	(2,068)

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 and Equipment	Employee Provisions	Derivatives	Other	Total
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
For the 52 week period ended 30 July 2017								
Opening balance		(6,586)	12,604	9,001	12,844	8,161	6,987	43,011
Charged / (credited) to the income statement	4.1	-	(74)	(900)	258	-	1,271	555
Net charged to other comprehensive income		-	-	-	-	(2,655)	-	(2,655)
Closing balance		(6,586)	12,530	8,101	13,102	5,506	8,258	40,911
For the 52 week period ended 31 July 2016								
Opening balance		(6,586)	11,118	2,809	12,295	(9,893)	6,606	16,349
Charged / (credited) to the income statement	4.1	-	1,486	6,192	549	-	(250)	7,977
Net charged to other comprehensive income		-	-	-	-	18,054	-	18,054
Acquisition of subsidiary		-	-	-	-	-	631	631
Closing balance		(6,586)	12,604	9,001	12,844	8,161	6,987	43,011

5.0 ADJUSTED NET PROFIT

Adjusted net profit reconciliation	Note	2017 $ 000	2016 $ 000
Adjusted net profit from continuing operations		68,185	69,157
Add back: Unusual items			
Gain on business disposals		-	9,950
Gain on property disposals		11,455	5,533
Restructuring costs		(12,060)	-
Contingent consideration		-	675
Unusual items before taxation		(605)	16,158
Income tax relating to unusual items		169	(1,545)
Income tax expense related to depreciation adjustments on building disposals and prior year business acquisitions	4.0	2,963	3,708
Unusual items after taxation		2,527	18,321
Minority interest		-	(3,614)
Net profit from continuing operations attributable to shareholders of the parent		70,712	83,864

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

Unusual Items

(a) The prior year gain on business disposals represents a gain on the sale of the business assets of Pet.co.nz ($4.750 million), and secondly a gain on the notional sale of the Group's 49% interest in The Warehouse Financial Services Limited (TWFSL) in September 2015 ($5.200 million). The notional gain and sale occurred when the Group's acquired the 51% majority shareholding in TWFSL from its joint venture partner.

(b) Property disposals during the year related to 3 store (2016: 3) properties and surplus land sold for a combined consideration of $79.304 million (2016: $37.426 million) and realising a pre-tax profit of $11.455 million (2016: $5.533 million).

(c) In January 2017 the Group announced plans to restructure its operating model which largely impacted teams in the Group's support offices. The objective of the restructure was to integrate operating structures and executive leadership across the segments and strengthen the Group's shared support functions. Redundancy costs represent over 50 percent of the expense. The remaining costs include contracted transition costs relating to changes to the number of roles that qualify for the Group's incentive schemes, transition costs and asset write-off costs incurred to integrate systems and processes.

(d) Adjustments to the amount of contingent consideration payable or paid are treated as gains and losses in the income statement. The prior year gain represents the lower than estimated final deferred payment relating to the Insight acquisition (acquired September 2012).

6.0 EARNINGS PER SHARE

Earnings per share calculation	Note	2017	2016
Net profit attributable to shareholders of the parent ($000s)		20,429	78,338
Net profit from continuing operations attributable to shareholders of the parent ($000s)		70,712	83,864
Adjusted net profit ($000s)	5.0	68,185	69,157
Basic			
Weighted average number of ordinary shares (net of treasury stock) on issue (000s)		344,802	344,737
Basic earnings per share (cents)		5.9	22.7
Basic earnings per share from continuing operations (cents)		20.5	24.3
Adjusted basic earnings per share (cents)		19.8	20.1
Diluted			
Weighted average number of ordinary shares (net of treasury stock) on issue adjusted for unvested share rights (000s)		346,355	347,086
Diluted earnings per share (cents)		5.9	22.6
Diluted earnings per share from continuing operations (cents)		20.4	24.2
Adjusted diluted earnings per share (cents)		19.7	19.9

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 stock) outstanding during the year.

Diluted EPS adjusts for any commitments the Group has to issue shares in the future that would decrease the basic EPS. The Group has two types of dilutive potential ordinary shares (performance share rights and award share rights - refer note 14.0). Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the share rights.

Adjusted basic EPS and adjusted diluted EPS are similarly calculated using adjusted net profit as the numerator.

7.0 DIVIDENDS

7.1 Dividends paid	2017	2016	2017	2016
	$ 000	$ 000	Cents per Share	Cents per Share
Prior year final dividend	17,342	17,342	5.0	5.0
Interim dividend	34,684	38,153	10.0	11.0
Total dividends paid	52,026	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	2017	2016	2017	2016
		$ 000	$ 000	Cents per Share	Cents per Share
Interim dividend		34,684	38,153	10.0	11.0
Final dividend (declared after balance date)		20,811	17,342	6.0	5.0
Total dividends paid and declared in respect of the current and prior financial years		55,495	55,495	16.0	16.0
Group adjusted net profit	5.0	68,185	69,157		
Pay-out ratio (%)		81.4 %	80.2 %		

On 21 September 2017 the Board declared a final fully imputed ordinary dividend of 6.0 cents per share to be paid on 7 December 2017 to all shareholders on the Group's share register at the close of business on 24 November 2017.

7.3 Imputation credit account	2017	2016
	$ 000	$ 000
Imputation credits at balance date available for future distribution	120,296	113,682

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".

8.0 WORKING CAPITAL

8.1 Inventory	2017	2016
	$ 000	$ 000
Finished goods	457,455	469,592
Inventory adjustments	(22,547)	(19,676)
Retail stock	434,908	449,916
Goods in transit from overseas	56,910	51,797
Inventory	491,818	501,713

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	2017	2016
	$ 000	$ 000
Trade receivables	45,207	41,131
Prepayments	9,453	11,092
Rebate accruals and other debtors	16,428	24,836
Trade and other receivables	71,088	77,059

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 initially recognised at the value of the invoice sent to the customer and subsequently at the amount considered recoverable. Collectability of trade and other receivables is reviewed on an ongoing basis and debts that are known to be uncollectible are either impaired or written off when they are identified.

8.3 Trade and other payables	2017	2016
	$ 000	$ 000
Trade creditors and accruals	204,784	198,828
Goods in transit creditors	21,187	19,673
Capital expenditure creditors	2,802	9,412
Goods and services tax	10,768	11,109
Reward schemes, Lay-bys, Christmas club deposits and gift vouchers	15,820	18,010
Contingent consideration	-	1,000
Interest accruals	1,089	1,597
Payroll accruals	10,854	11,679
	267,304	271,308

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 days of recognition. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

8.4 Provisions	Current		Non-current		Total	
	2017	2016	2017	2016	2017	2016
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Employee entitlements	43,720	53,395	11,973	10,861	55,693	64,256
Make good provision	1,123	1,142	6,889	6,471	8,012	7,613
Sales return provision	3,708	3,689	-	-	3,708	3,689
Onerous lease	1,218	689	516	518	1,734	1,207
Total Provisions	49,769	58,915	19,378	17,850	69,147	76,765

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.

Onerous lease
A provision for an onerous lease is recognised when the Group retains a lease obligation after vacating a property before the expiry of the lease term.

9.0 NON CURRENT ASSETS

9.1 Property, plant and equipment		Land and Buildings		Plant and Equipment		Work in Progress		Total	
	Note	2017	2016	2017	2016	2017	2016	2017	2016
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Cost		145,647	172,828	570,260	550,739	23,606	15,264	739,513	738,831
Accumulated depreciation		(10,318)	(11,875)	(405,875)	(371,861)	-	-	(416,193)	(383,736)
Opening carrying amount		135,329	160,953	164,385	178,878	23,606	15,264	323,320	355,095
Additions	2.2	10,803	7,188	44,617	40,830	(3,587)	8,342	51,833	56,360
Disposals		(67,820)	(31,374)	(1,488)	(3,626)	-	-	(69,308)	(35,000)
Depreciation	2.2	(1,129)	(1,438)	(51,497)	(51,697)	-	-	(52,626)	(53,135)
Closing carrying amount		77,183	135,329	156,017	164,385	20,019	23,606	253,219	323,320
Cost		87,833	145,647	603,888	570,260	20,019	23,606	711,740	739,513
Accumulated depreciation		(10,650)	(10,318)	(447,871)	(405,875)	-	-	(458,521)	(416,193)
Closing carrying amount		77,183	135,329	156,017	164,385	20,019	23,606	253,219	323,320
Less: Assets held for sale		-	(49,982)	(1,044)	-	-	(2,295)	(1,044)	(52,277)
Property, plant and equipment		77,183	85,347	154,973	164,385	20,019	21,311	252,175	271,043

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
Freehold buildings	50 - 100 years
Plant and equipment	3 - 12 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.

Held for sale
Current year assets held for sale form part of a disposal group associated with the Group's exit from its discontinued Financial Services operations (refer note 16.0). The prior year asset held for sale related to the Group's Newmarket store property, which was sold in July 2017 and is part of the gain from property disposals (refer note 5 (b)) in the current year.

9.2 Intangible assets	Note	Goodwill 2017	Goodwill 2016	Brand Names 2017	Brand Names 2016	Computer Software 2017	Computer Software 2016	Total 2017	Total 2016
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Cost		117,094	107,871	23,523	23,523	124,401	110,088	265,018	241,482
Impairment & accumulated amortisation		(11,302)	(11,302)	-	-	(83,048)	(78,474)	(94,350)	(89,776)
Opening carrying amount		105,792	96,569	23,523	23,523	41,353	31,614	170,668	151,706
Acquisition of subsidiaries		-	11,700	-	-	-	-	-	11,700
Additions	2.2	-	-	-	-	12,131	17,066	12,131	17,066
Disposals		-	(2,477)	-	-	(427)	(802)	(427)	(3,279)
Impairment	15.2	(22,714)	-	-	-	(17,347)	-	(40,061)	-
Amortisation	2.2	-	-	-	-	(7,565)	(6,525)	(7,565)	(6,525)
Closing carrying amount		83,078	105,792	23,523	23,523	28,145	41,353	134,746	170,668
Cost		117,094	117,094	23,523	23,523	133,178	124,401	273,795	265,018
Impairment & accumulated amortisation		(34,016)	(11,302)	-	-	(105,033)	(83,048)	(139,049)	(94,350)
Closing carrying amount		83,078	105,792	23,523	23,523	28,145	41,353	134,746	170,668
Less: Assets held for sale	16	-	-	-	-	(7,020)	-	(7,020)	-
Intangible assets		83,078	105,792	23,523	23,523	21,125	41,353	127,726	170,668

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 band 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.

Financial Services Group impairment
The Group fully impaired all the goodwill attributed to the Financial Services Group when it released its 2017 half year results following a review by the Board of forecast strategies and after assessing the length of time required to achieve profitability. Since this initial review the Board have decided to sell its investment in the Financial Services Group. Following balance date the Group reached an agreement to sell the business except for Diners Club (NZ), to Finance Now, a subsidiary of SBS Bank (refer note 15.3). Based on management's assessment of the expected net proceeds to be realised as part of the business sale the Group has made a further impairment, this time to the carrying value of computer software to reduce its carrying amount to its anticipated net realisable value (refer note 15.2).

Prior year acquisition and business disposal
In the prior year the goodwill arising from the acquisition of subsidiaries ($11.700 million) relates to the Group's acquisition of the 51% majority shareholding in The Warehouse Financial Services Limited from its joint venture partner in September 2015. The goodwill linking to disposals relates to the sale of the Pet.co.nz business ($2.477 million) in January 2016.

Significant judgements and estimates - impairment testing
Impairment of indefinite life intangible assets is assessed by comparing the recoverable amount of a cash generating unit with its carrying value. Assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units) which also represent the lowest level within the Group at which these assets are monitored for internal management purposes. The allocation of the Group's significant carrying amounts of Goodwill and Brand names to cash generating units at balance date are set out in the table below.

The recoverable amount of a cash generating unit is calculated as the higher of 'value in use' or its 'fair value less costs to sell'. The recoverable amounts are determined using either of these two prescribed discounted cashflow valuation methods which require the use of estimates and projections regarding future business unit 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 future cashflow projections. The Group also engages external advisors to determine appropriate discount rates and long term growth rates, integral to the valuations. Cashflows beyond the projection period are extrapolated using the estimated growth rates stated below. These growth rates do not exceed the long term average growth rate for the sector in which the business unit operates.

Impairment testing	Noel Leeming 2017	Noel Leeming 2016	Torpedo7 2017	Torpedo7 2016	TWP No.3 2017	TWP No.3 2016
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Goodwill	31,776	31,776	25,622	25,622	21,450	21,450
Brand names	15,500	15,500	8,023	8,023	-	-
Closing carrying amount	47,276	47,276	33,645	33,645	21,450	21,450
Key assumptions						
EBIT margin (%)	2.6	2.3	6.0	7.6	6.3	5.7
Terminal growth rate (%)	1.7	1.6	1.7	1.6	1.7	1.6
Post-tax discount rate (%)	10.9	10.7	11.7	11.6	12.6	12.4

Noel Leeming and Torpedo7 cash generating units refer to the business segments detailed in note 2.0. TWP No.3 represents the amalgamation of the trading activities of the Insight business acquired in September 2012 and CES business acquired in February 2013 and forms part of The Warehouse reporting segment. The trading activities of TWP No.3 include the sourcing and wholesaling of product for other group companies. The impairment tests have been prepared using a 5 year model.

With the exception of the impairment of the Financial Services business referred to above the current year impairment testing did not indicate the carrying amounts of either goodwill or brand names to be impaired. The recoverable amount of the Torpedo7 CGU exceeded its carrying amount by $5.683 million. The cash flow projections in the Torpedo7 model assumes an average annual growth rate in sales of 7.6% and an increase in gross margins from 24% to 28% over the 5 year projection period. A reduction of more than 100 basis points in any of the key assumptions, taken in isolation, could result in the recoverable amount being less than the carrying amount.

10.0 BORROWINGS

10.1 Net debt	2017	2016
	$ 000	$ 000
Cash on hand and at bank	47,492	49,881
Bank borrowings at call - interest rate: 2.96% (2016: 3.18%)	49,159	123,980
Lease liabilities	434	1,222
Current borrowings	49,593	125,202
Bank borrowings - interest rate: 2.48% (2016: 2.98%)	35,000	40,000
Lease liabilities	169	490
Fixed rate senior bond (coupon: 5.30%)	125,000	125,000
Fair value adjustment relating to senior bond interest rate hedge	541	738
Unamortised capitalised costs on senior bond issuance	(1,257)	(1,694)
Non-current borrowings	159,453	164,534
Securitised borrowings - interest rate 2.68% (2016: 3.06%)	56,717	60,125
Total borrowings	265,763	349,861
Net debt	218,271	299,980

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.

Securitised borrowings
The Group used a securitised borrowing facility to fund part of the Group's discontinued Financial Services operations. The facility permitted the Finance Services Group to borrow up to 80% of the value of qualifying securitised finance business receivables. The Group's securitised borrowing facility was included as part of the sale of the Financial Services businesses (refer note 15.3) on 9 September 2017.

Fixed rate senior bond
The Group issued a 5 year fixed rate senior bond on the New Zealand stock exchange in June 2015 with a 5.30% coupon. Interest on the bond is payable every six months (15 June and 15 December) and has a final maturity in June 2020. Based on the last quoted closing price of $1.04087 (2016: $1.06261) traded on the New Zealand stock exchange and a market yield of 4.03% (2016: 3.74%) the fair value of the Group's fixed rate senior bonds at balance date was $130,109 million (2016: $132.826 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	2017	2016
		$ 000	$ 000
Interest on bank overdrafts		266	36
Interest on deposits and use of money interest received		(150)	(204)
Interest on bank borrowings		9,330	10,850
Interest on finance leases		87	184
Interest on fixed rate senior bond		7,043	7,025
Net interest expense		16,576	17,891
Less interest attributable to discontinued operations	15.1	(4,049)	(3,737)
Net interest expense from continuing operations		12,527	14,154

10.3 Bank facilities	2017	2016
	$ 000	$ 000
Bank debt facilities	280,000	340,000
Bank facilities used	(84,159)	(163,980)
Unused bank debt facilities	195,841	176,020
Securitised debt facility	150,000	225,000
Securitised facility used	(56,717)	(60,125)
Unused securitised bank debt facility	93,283	164,875
Letters of credit facilities	32,389	32,566
Letters of credit	(13,153)	(21,370)
Unused letter of credit facilities	19,236	11,196
Total unused bank facilities	308,360	352,091

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 has previously viewed the funding of the balance sheet as having two distinct parts, with the discontinued Financial Services Group being separately financed from the Retail Group which allowed the Financial Services Group to have higher gearing levels. Gearing 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). The Financial Services Group was primarily financed by a debt securitisation programme which allowed it to borrow up to 80% of the value of its qualifying securitised finance business receivables. The debt securitisation facility was sold after balance date as part of the Financial Services Group business sale as referred to in note 15.3.

The Retail Group is financed through a mixture of bank borrowings and a fixed rate senior bond. The Retail Group currently aims to maintain gearing levels, with the exception of the Group's first quarter peak funding period, at levels of between 30% to 40%. The Group's longer term target is to reduce gearing below 30% within a 3 year time frame.

The Group's dividend policy is based on distributing between 75% to 85% of the adjusted net profit of the Retail Group back to shareholders (refer note 7.0).

Externally imposed capital requirements
Retail Group borrowings are subject to a negative pledge contained in two separate trust deeds held for the benefit of the Group's banking institutions and bondholders. 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 two principal covenants, which are the same for both trust deeds are:

Debt covenant ratios at balance date	Quarterly covenant requirement	2017	2016
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	26.9	36.9
Retail Group book interest cover (times cover)	will not be less than 2 times operating profit	7.7	7.3

The Group was in compliance with the negative pledge covenants throughout the current and previous financial year.

11.2 Contributed equity	Contributed equity		Ordinary shares	
	2017	2016	2017	2016
	$ 000	$ 000	000s	000s
Share capital	365,517	365,517	346,843	346,843
Treasury shares	(7,471)	(7,832)	(2,346)	(2,348)
Contributed equity	358,046	357,685	344,497	344,495

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	2017	2016	2017	2016
		$ 000	$ 000	000s	000s
Opening balance		7,832	7,302	2,348	2,134
Ordinary shares issued to settle share rights plan obligations	14.0	(2,509)	(2,001)	(902)	(708)
Ordinary shares purchased (average purchase price $2.39 - 2016: $2.74)		2,148	2,531	900	922
Closing balance		7,471	7,832	2,346	2,348

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.

11.3 Reserves	2017	2016
	$ 000	$ 000
Cash flow hedge reserve	(14,157)	(20,986)
De-designated derivative reserve	(1,017)	(1,453)
Hedge reserves	(15,174)	(22,439)
Share based payments reserve	2,138	3,623
Total reserves	(13,036)	(18,816)

Cashflow 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 also to the consolidated statement of changes in equity and policy notes 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 June 2015 which resulted in 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 also to the consolidated statement of changes in equity and policy notes detailed in note 12.2).

Share based payments reserve
Share rights are granted to employees in accordance with the Group's executive share rights plan. The fair value of share rights granted under the plan are 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 right's are independently determined using an appropriate valuation model that takes into account the terms and conditions upon which they were granted. (Note 14.0 provides further details regarding the plan and fair value calculations).

This reserve is 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 also to the consolidated statement of changes in equity).

11.4 Minority interest	2017	2016
	$ 000	$ 000
Opening balance	167	1,910
Purchase of minority interest	-	(2,359)
Minority interest capital contribution	750	-
Net profit attributable to minority interest	302	4,138
Dividends paid to minority shareholders	(352)	(3,522)
Closing balance	867	167

At balance date the Group's minority interest represent's the 50% minority shareholding held in Waikato Valley Chocolates. In March 2017 both the Group and the Waikato Valley Chocolates minority shareholders each invested an additional $0.750 million of share capital of the business.

Prior year Torpedo7 minority purchase
In March 2016 the Group acquired the remaining 20% of the share capital of Torpedo7 Limited for a consideration of $9.800 million, increasing the Group's interest in the Torpedo7 group of companies from 80% to 100%.

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 operations and sources of finance.

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	
	2017	2016	2017	2016	2017	2016
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Current assets	-	621	-	-	-	621
Non-current assets	-	-	541	738	541	738
Current liabilities	(16,899)	(24,263)	(400)	(870)	(17,299)	(25,133)
Non-current liabilities	-	-	(2,507)	(4,845)	(2,507)	(4,845)
Total Derivative financial instruments	(16,899)	(23,642)	(2,366)	(4,977)	(19,265)	(28,619)
Classified as:						
Cash flow hedges	(16,899)	(23,642)	(2,907)	(5,715)	(19,806)	(29,357)
Fair value hedges	-	-	541	738	541	738
Total Derivative financial instruments	(16,899)	(23,642)	(2,366)	(4,977)	(19,265)	(28,619)

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.

Cashflow hedge
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
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. The Group only applies fair value hedge accounting for hedging fixed interest on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings and changes in the fair value of the fixed rate borrowings attributable to interest rate risk are recognised in the income statement within net interest expense.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item, for which the effective interest method is used, is amortised over the period to maturity.

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.

The Group uses an independent advisor to help determine the fair value of its derivatives.

12.0 FINANCIAL RISK MANAGEMENT

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 divided its funding requirements between funding for its retail operations and funding for the discontinued financial services business. The funding for the financial services business was provided by means of a debt securitisation programme (refer note 10.1). The debt securitisation facility was sold after balance date as part of the Financial Services Group business sale (note 15.3).

The Retail Group's liquidity position fluctuates throughout the year. The months leading up to the Christmas trading period typically put the greatest strain on cash flows due to the build up of inventory, conversely the Retail Group's liquidity position is at its strongest immediately after the Christmas trading period. The Retail Group's gearing covenants increase from 50% to 60% for the first quarter of each financial year to allow for the effect of seasonal funding. To accommodate the increased funding requirements during the peak funding period the Group has committed three month seasonal credit facilities commencing in mid September of $50.000 million (2016: $50.000 million) which are in addition to the $280.000 million (2016: $340.000 million) of committed credit facilities (refer note 10.3). The Group has set treasury policy limits to ensure it maintains and operates within its available funding facilities.

Liquidity position at balance date	**Treasury policy requirement**	2017	2016
Retail Group unused debt facilities (refer note: 10.3)	committed credit facilities to be maintained at an amount of at least 115% of peak funding requirements projected for the next 2 years.	69.9%	51.8%
Retail Group funding tenor	at least 30% of the committed credit facilities have a maturity of greater than 3 years (includes retail bond)	30.0%	35.5%
Retail Group funding diversity (number of counterparties)	funding to be sourced from a minimum of four counterparties (includes retail bond)	6	6

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	
	2017	2016	2017	2016	2017	2016	2017	2016
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Trade and other payables	(271,443)	(271,308)	-	-	-	-	(271,443)	(271,308)
Bank borrowings	(84,159)	(163,980)	-	-	-	-	(84,159)	(163,980)
Securitised borrowings	(56,717)	(60,125)	-	-	-		(56,717)	(60,125)
Finance lease liabilities	(464)	(1,303)	(175)	(489)	(4)	(29)	(643)	(1,821)
Fixed rate senior bond	(5,790)	(5,771)	(138,250)	(13,250)	-	(131,625)	(144,040)	(150,646)
Financial liabilities	(418,573)	(502,487)	(138,425)	(13,739)	(4)	(131,654)	(557,002)	(647,880)
				-				
Forward currency contracts				-				
- outflow	(331,674)	(363,291)	-	-	-	-	(331,674)	(363,291)
- inflow	313,851	337,438	-	-	-	-	313,851	337,438
Interest rate swaps	(667)	(1,667)	(73)	(1,036)	(1,693)	(2,728)	(2,433)	(5,431)
Net derivatives	(18,490)	(27,520)	(73)	(1,036)	(1,693)	(2,728)	(20,256)	(31,284)

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 finance business receivables, 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 (2016: A).

The Group controls its credit risk from finance business receivables, 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.

12.0 FINANCIAL RISK MANAGEMENT

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

	Carrying value		Notional amount (NZD)		Average exchange rate		0 to 12 month hedge level	
Currency position at balance date	2017	2016	2017	2016	2017	2016	2017	2016
	$ 000	$ 000	$ 000	$ 000	Cents	Cents	Percentage	Percentage
Forward exchange contracts								
Buy US dollars/Sell New Zealand dollars	(16,899)	(23,642)	331,674	363,291	0.7115	0.6714	72.1	74.6

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 $0.7520 (2016: $0.7228).

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.

	Net profit after tax		Equity	
Currency position at balance date	2017	2016	2017	2016
	$ 000	$ 000	$ 000	$ 000
10% appreciation in the New Zealand dollar	-	-	(20,424)	(22,006)
10% depreciation in the New Zealand dollar	-	-	24,965	26,889

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 $200 million (2016: $250 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 80% (2016: 76%) 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.

			+ 100 basis points		- 100 basis points	
Interest rate sensitivity table	Note	Amount	Profit	Equity	Profit	Equity
At 30 July 2017		$ 000	$ 000	$ 000	$ 000	$ 000
Finance business receivables	16.0	67,355	485	485	(485)	(485)
Securitised borrowings	10.1	(56,717)	(408)	(408)	408	408
Net bank borrowings	10.1	(36,667)	(264)	(264)	264	264
Fixed rate senior bond	10.1	(124,284)	295	295	(308)	(308)
Derivative financial instruments						
Interest rate swaps - cash flow hedges	12.2	(2,907)	252	1,472	(252)	(1,558)
Interest rate swaps - fair value hedges	12.2	541	(295)	(295)	308	308
Total increase / (decrease)		(152,679)	65	1,285	(65)	(1,371)
At 31 July 2016						
Finance business receivables		73,565	530	530	(530)	(530)
Securitised borrowings	10.1	(60,125)	(433)	(433)	433	433
Net bank borrowings	10.1	(114,099)	(822)	(822)	822	822
Fixed rate senior bond	10.1	(124,044)	294	294	(260)	(260)
Derivative financial instruments						
Interest rate swaps - cash flow hedges	12.2	(5,715)	468	2,058	(468)	(2,174)
Interest rate swaps - fair value hedges	12.2	738	(294)	(294)	260	260
Total increase/(decrease)		(229,680)	(257)	1,333	257	(1,449)

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 (2016: 11) 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	2017	2016
	$ 000	$ 000
J Withers (Chair - appointed September 2016)	128	-
K R Smith (Deputy Chair)	115	115
E K van Arkel (retired September 2016)	42	166
A J Balfour	85	85
J W M Journee	86	86
J H Ogden	94	101
J M Raue (appointed September 2016)	72	-
V C M Stoddart	91	116
Sir Stephen Tindall	85	85
Total	798	754

In addition to the directors fees stated above K R Smith received fees of $43,000 (2016: $43,000) and J H Ogden also received fees of $43,000 (2016: $43,000) in their capacity as directors of the Group's Financial Services business.

Key Management	2017	2016
	$ 000	$ 000
Base salary	6,934	6,934
Annual performance based compensation	1,470	2,881
Equity settled share-based compensation (refer note: 14.0)	987	1,520
Termination benefits	981	-
Total	10,372	11,335

14.0 EXECUTIVE LONG TERM INCENTIVE PLAN (LTIP)

Share rights were granted to key management and other senior executives, selected by the Group's Remuneration Committee as a component of each participants remuneration package. There will be no further share rights granted under this plan as it has been replaced by a new cash based incentive plan. At balance date this legacy share based plan has 53 (2016: 66) participants.

The plan was divided into medium term (Award shares) and long term (Performance shares) share plans.

Award shares
Award shares provide participants with a conditional right to be allocated and transferred ordinary shares upon the satisfaction of certain company performance targets and individual performance targets, measured during the initial vesting period. The number of ordinary shares which are allocated is determined by reference to the percentage achievement of these targets, with one third of the allocated shares being transferred to each participant at the end of the initial vesting period and a further third at the end of each of the next two vesting dates.

Performance shares
Performance shares provide participants with a conditional right to be transferred ordinary shares at the end of the vesting period if the Group has achieved a specified total shareholder return on the vesting date. The target total shareholder return represents the increase in Group's share price over the period between the grant date and the vesting date, inflated from the grant date using the Group's cost of equity.

Share rights		Performance Shares		Award Shares		Total Share Rights	
	Note	2017	2016	2017	2016	2017	2016
		000	000	000	000	000	000
Outstanding at the beginning of the year		1,695	2,005	2,269	2,234	3,964	4,239
Granted during the year		-	726	-	1,725	-	2,451
Vested during the year	11.2	-	-	(902)	(708)	(902)	(708)
Forfeited during the year		(741)	(1,036)	(526)	(982)	(1,267)	(2,018)
Outstanding at the end of the year		954	1,695	841	2,269	1,795	3,964
Expected vesting dates							
October 2016		-	351	-	920	-	1,271
October 2017		408	617	502	780	910	1,397
October 2018		546	727	339	569	885	1,296
Outstanding at the end of the year		954	1,695	841	2,269	1,795	3,964

Fair Values
The fair value of performance shares at grant date have been estimated using a variant of the Binomial Options Pricing Model. The fair value of award shares has been calculated as the present value of the rights at grant date discounted using the Group's estimated cost of equity and allowing for expected future dividends. The following table lists the fair value of the share rights and key inputs used in the pricing models to determine the values:

Performance shares		
Date granted	October 2015	October 2014
Vesting date	October 2018	October 2017
Target total shareholder return ($)	0.78	1.00
Risk free interest rate (%)	2.64	3.73
Average expected volatility (%)	21.50	21.60
Average share price at measurement date ($)	2.58	3.09
Estimated fair value at grant date ($)	0.81	0.97
Award shares		
Date granted	October 2015	October 2014
First vesting date (then annually on the next two anniversaries)	October 2016	October 2015
Weighted average cost of equity capital (%)	8.72	9.83
Average share price at measurement date ($)	2.58	3.09
Average estimated fair values at grant date ($)	2.30	2.77

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.

On 24 July 2017, the Group announced it had approved the conditional sale of the Group's Financial Services business except for Diners Club (NZ), to Finance Now, a subsidiary of SBS Bank. Final agreement was reached on 9 September 2017 and a sale and purchase agreement was executed on that date (refer note 15.3). The Group also has plans in place to exit the Diners Club (NZ) business. As a result, the Financial Services Group has been reported as a discontinued operation.

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

15.1 Financial Services Group results and cashflows	Note	2017	2016
		$ 000	$ 000
Finance business revenue		20,392	20,352
Expenses		(28,893)	(23,732)
Business acquisition, disposal and restructuring costs		(1,283)	(479)
Impairment of assets	15.2	(40,061)	-
Loss before interest and tax		(49,845)	(3,859)
Interest expense	10.2	(4,049)	(3,737)
Loss before tax		(53,894)	(7,596)
Income tax expense	4.1	3,611	2,070
Loss from discontinued operations		(50,283)	(5,526)
Cash flows from discontinued operations			
Net cash flows from operating activities		(169)	(9,154)
Net cash flows from investing activities		(3,208)	(19,387)
Net cash flows from financing activities		(2,660)	38,023

As a result of the Group's planned exit as a Financial Services credit card issuer, the recoverable amount of assets and recognition and measurement of liabilities of the Financial Services Group segment were reassessed at balance date based on management's best estimate of the expected net proceeds to be realised as part of the business sale and payments to be incurred upon an orderly exit from this business segment. The Group had previously fully impaired all goodwill attributed to the segment when it released its 2017 half year results following a review by the Board of forecast strategies and the length of time required to achieve profitability. A summary of impairments recognised at balance date are stated below.

15.2 Financial Services Group impairment of assets	Note	2017
		$ 000
Computer software	9.2	17,347
Goodwill	9.2	22,714
Total impairment of assets		40,061

Significant judgements and estimates
The estimates and judgements applied with respect to the recognition of impairment of the Financial Services Group assets and associated costs involve a high level of complexity and carry a significant risk of adjustment in subsequent periods as sale proceeds and associated costs from the disposal plans are realised. Any changes to carrying amounts in subsequent periods due to a revision to estimates or as a result of the final realisation of the Financial Services Group assets and liabilities upon the exit of the business will be recognised in the Income Statement as part of discontinued operations.

15.3 Financial Services Group subsequent events

The Group confirmed the sale of the financial services business on 9 September 2017, to Finance Now, a subsidiary of SBS Bank, for a consideration of $18.0 million. The consideration is subject to an asset adjustment referenced to certain net assets acquired relative to a target position specified in the sale and purchase agreement. It is expected that the Group will receive a further $2.0 million to $3.0 million of additional sale proceeds because of the asset adjustment once the completion financial statements have been agreed and finalised.

The sale exposes the Group to a number of contingent liabilities connected with a claw back provision and warranties contained in the sale and purchase agreement. The Group will be required to pay up to an aggregate of $3.0 million (termed claw back) if the Group's Finance receivable's impairment provisions are less than the actual write-offs experienced during the 9 month period following completion. The Group was also required to make warranties, which are typical for a transaction of this nature. These warranties are largely covered by an insurance contract, however there are some items which are not covered, such as tax claims. These warranty claims are capped at $18.0 million (representing the purchase consideration) and expire after 18 months.

16.0 HELD FOR SALE

Non-current assets or 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.

The Group has committed to a plan to exit its Financial Services credit card businesses and has executed the first part of the disposal plan when it sold the Group's Financial Services business excluding Diners Club (NZ) 6 weeks after balance date (refer note 15.3). Accordingly, assets and liabilities relating to the Financial Services Group are classified as held for sale at balance date as detailed in the following table.

Financial Services Group assets classified as held for sale	Note	2017
		$ 000
Finance business receivables		67,355
Property, plant and equipment	9.1	1,044
Computer software	9.2	7,020
Other assets		1,723
Total assets classified as held for sale		77,142
Other liabilities directly associated with assets held for sale		(5,443)

17.0 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	2017	2016
	$ 000	$ 000
0-1 Years	120,363	120,636
1-2 Years	105,533	111,731
2-5 Years	242,456	254,246
5+ Years	270,975	325,121
Operating leases	739,327	811,734

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

Capital commitments	2017	2016
	$ 000	$ 000
Within one year	7,339	12,666

18.0 CONTINGENT LIABILITIES

	2017	2016
	$ 000	$ 000
Bank letters of credit issued to secure future purchasing requirements	8,764	16,804
Less included as a goods in transit creditor	(586)	(1,394)
	8,178	15,410
Standby letter of credit issued to Visa Worldwide	4,389	4,566
Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited	643	643
Total contingent liabilities	13,210	20,619

19.0 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
At balance date directors and other key executives held ordinary shares in the Group and received fully imputed dividends during the year as set out below.

(i) Sir Stephen Tindall (Director) has a beneficial shareholding of 93,687,096 shares (2016: 93,687,096 shares) which carry the normal entitlement to dividends. Dividends of $14.053 million (2016: $14.990 million) were received on these shares during the year.

(ii) The Group's other Directors collectively had beneficial shareholdings of 215,052 shares (2016: 221,066 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 524,069 shares (2016: 672,563 shares) at balance date which carry the normal entitlement to dividends.

20.0 PRIOR YEAR RESTATEMENT

When the Group acquired the Noel Leeming business in December 2012 and the Torpedo 7 business in April 2013 it recognised two indefinite life brand intangible assets of $15.500 million and $8.023 million respectively. No deferred tax was recognised in relation to these assets at the time of the acquisition. This assumed that the carrying amount of the brand assets would be recovered through sale as these assets are not amortised. In November 2016, the IFRS Interpretations Committee (IFRIC) clarified its position regarding indefinite life intangible assets indicating that just because an asset is not amortised does not necessarily mean that an entity will recover the carrying amount of the asset only through sale and not through use. Further, the IFRIC implied that the generation of economic benefits is the recovery of the carrying value.

Following this additional guidance, the Group has reviewed the expected recovery of the carrying amount of its indefinite life brand intangible assets and concluded that the carrying amounts are expected to be recovered through use of the brand within the businesses. As a result, the Group has recognised a deferred tax liability of $6.586 million, an increase in goodwill of $5.463 million and a reduction in minority interests of $1.189 million at the date of acquisition.

In the years that followed the initial acquisitions, the Group impaired the goodwill in the Torpedo7 group in July 2015, as a result of this adjustment the goodwill impairment is increased by $1.123 million. Between the acquisition date and July 2016 the Group also increased its shareholding in the Torpedo7 group from 51% to 100%. A summary of the effect of these changes on impacted balance sheet line items is detailed below:

Prior year restatement	Goodwill	Deferred Taxation	Minority Interest	Retained Earnings
	$ 000	$ 000	$ 000	$ 000
Closing balance at 28 July 2013	5,463	(6,586)	1,123	-
Acquisition of Torpedo7 minority interest (March 2014 - shareholding increased from 51% to 80%)	-	-	(674)	674
Closing balance at 27 July 2014	5,463	(6,586)	449	674
Torpedo 7 Goodwill impairment (July 2015)	(1,189)	-	66	1,123
Closing balance at 2 August 2015	4,274	(6,586)	515	1,797
Acquisition of Torpedo7 minority interest (March 2016 - shareholding increased from 80% to 100%)	-	-	(515)	515
Closing balance at 31 July 2016	4,274	(6,586)	-	2,312

21.0 NEW ACCOUNTING STANDARDS WHICH ARE RELEVANT TO THE GROUP BUT ARE NOT YET EFFECTIVE

NZ IFRS 16: Leases (Effective date: periods beginning on or after 1 January 2019)
NZ IFRS 16, ‘Leases’, replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting for leases under NZ IFRS 16 is almost the same as NZ IAS 17. However, because the guidance on the definition of a lease has been updated (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, ‘Revenue from contracts with customers'. The Group intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact. Based on preliminary assessments, the Group has determined that there will be a significant impact on the consolidated balance sheet and income statement. A right of use asset and a corresponding lease liability will be recognised on the balance sheet. The income statement will be affected by the recognition of an interest expense and an amortisation expense and the removal of the current lease and occupancy expense.

NZ IFRS 15: Revenue from contracts with customers (Effective date: periods beginning on or after 1 January 2018)
NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact.

NZ IFRS 9: Financial Instruments (Effective date: periods beginning on or after 1 January 2018)
NZ IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. This standard is not expected to materially impact the Group.