

The Warehouse Group Limited
Interim Financial Statements

For the 26 weeks ended 31 January 2016

Consolidated Income Statements

	Note	Unaudited 26 Weeks Ended 31 January 2016 \$ 000	Unaudited 26 Weeks Ended 25 January 2015 \$ 000	Audited 53 Weeks Ended 2 August 2015 \$ 000
Retail sales	3	1,560,449	1,444,711	2,770,421
Finance business revenue		8,080	2,601	5,617
Total Revenue		1,568,529	1,447,312	2,776,038
Cost of retail goods sold		(1,047,617)	(971,407)	(1,854,669)
Other income		5,142	4,539	8,268
Employee expenses		(248,970)	(225,473)	(449,887)
Lease and occupancy expenses		(74,504)	(71,748)	(147,192)
Depreciation and amortisation expenses	3	(29,674)	(27,858)	(58,634)
Other operating expenses		(99,789)	(98,375)	(182,491)
Operating profit	3	73,117	56,990	91,433
Gain on disposal of property	4	5,391	5,021	5,533
Gain on business disposals	17	9,950	-	-
Contingent consideration		675	23	(977)
Direct costs relating to acquisitions	15	(479)	-	-
Goodwill impairment		-	-	(11,302)
Equity earnings of associate	14	723	1,350	2,802
Earnings before interest and tax		89,377	63,384	87,489
Net interest expense		(9,402)	(7,676)	(16,207)
Profit before tax		79,975	55,708	71,282
Income tax expense		(18,881)	(12,792)	(20,345)
Net profit for the period		61,094	42,916	50,937
Attributable to:				
Shareholders of the parent		57,201	43,280	52,433
Minority interests		3,893	(364)	(1,496)
		61,094	42,916	50,937
Basic earnings per share		16.6 cents	12.5 cents	15.2 cents
Diluted earnings per share		16.5 cents	12.4 cents	15.1 cents

Consolidated Statements of Comprehensive Income

		Unaudited 26 Weeks Ended 31 January 2016 \$ 000	Unaudited 26 Weeks Ended 25 January 2015 \$ 000	Audited 53 Weeks Ended 2 August 2015 \$ 000
Net profit for the period		61,094	42,916	50,937
Items that may be reclassified subsequently to the Income Statement				
Movement in cash flow hedge reserve net of tax		(22,260)	19,342	29,331
Total comprehensive income for the period		38,834	62,258	80,268
Attributable to:				
Shareholders of the parent		34,941	62,622	81,764
Minority interest		3,893	(364)	(1,496)
Total Comprehensive income		38,834	62,258	80,268

Consolidated Statements of Changes in Equity

(Unaudited)	Share Capital	Treasury Stock	Cash Flow Hedge Reserves	Employee Share Benefits Reserve	Retained Earnings	Minority Interest	Total Equity
For the 26 weeks ended 31 January 2016	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Balance at the beginning of the period	365,517	(7,302)	23,551	2,937	157,154	2,425	544,282
Profit for the half year	-	-	-	-	57,201	3,893	61,094
Net change in fair value of cash flow hedges	-	-	(22,477)	-	-	-	(22,477)
Net change in value of de-designated hedges	-	-	217	-	-	-	217
	-	-	(22,260)	-	57,201	3,893	38,834
Share rights charged to the income statement	-	-	-	1,876	-	-	1,876
Share rights exercised	-	1,789	-	(2,311)	522	-	-
Dividends paid	-	-	-	-	(17,342)	(142)	(17,484)
Treasury stock dividends received	-	-	-	-	89	-	89
Purchase of treasury stock	-	(1,127)	-	-	-	-	(1,127)
Balance at the end of the period	365,517	(6,640)	1,291	2,502	197,624	6,176	566,470

(Unaudited)	Share Capital	Treasury Stock	Cash Flow Hedge Reserve	Employee Share Benefits Reserve	Retained Earnings	Minority Interest	Total Equity
For the 26 weeks ended 25 January 2015	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Balance at the beginning of the period	365,517	(8,707)	(5,780)	3,709	164,861	4,317	523,917
Profit for the half year	-	-	-	-	43,280	(364)	42,916
Net change in fair value of cash flow hedges	-	-	19,342	-	-	-	19,342
Total comprehensive income	-	-	19,342	-	43,280	(364)	62,258
Share rights charged to the income statement	-	-	-	1,448	-	-	1,448
Share rights exercised	-	4,250	-	(2,113)	(2,137)	-	-
Dividends paid	-	-	-	-	(20,811)	(199)	(21,010)
Treasury stock dividends received	-	-	-	-	65	-	65
Purchase of treasury stock	-	(50)	-	-	-	-	(50)
Balance at the end of the period	365,517	(4,507)	13,562	3,044	185,258	3,754	566,628

(Audited)	Share Capital	Treasury Stock	Cash Flow Hedge Reserve	Employee Share Benefits Reserve	Retained Earnings	Minority Interest	Total Equity
For the 53 weeks ended 2 August 2015	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Balance at the beginning of the period	365,517	(8,707)	(5,780)	3,709	164,861	4,317	523,917
Profit for the year	-	-	-	-	52,433	(1,496)	50,937
Net change in fair value of cash flow hedges	-	-	31,220	-	-	-	31,220
Net change in value of de-designated hedges	-	-	(1,889)	-	-	-	(1,889)
Total comprehensive income	-	-	29,331	-	52,433	(1,496)	80,268
Contributions by and distributions to owners:							-
Share rights charged to the income statement	-	-	-	2,114	-	-	2,114
Share rights exercised	-	4,250	-	(2,886)	(1,364)	-	-
Dividends paid	-	-	-	-	(58,964)	(396)	(59,360)
Treasury stock dividends received	-	-	-	-	188	-	188
Purchase of treasury stock	-	(2,845)	-	-	-	-	(2,845)
Balance at the end of the period	365,517	(7,302)	23,551	2,937	157,154	2,425	544,282

Balance Sheets

	Note	CONSOLIDATED			RETAIL GROUP			FINANCIAL SERVICES		
		Unaudited As at 31 January 2016	Unaudited As at 25 January 2015	Audited As at 2 August 2015	Unaudited As at 31 January 2016	Unaudited As at 25 January 2015	Audited As at 2 August 2015	Unaudited As at 31 January 2016	Unaudited As at 25 January 2015	Audited As at 2 August 2015
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
ASSETS										
Current assets										
Cash and cash equivalents	8	43,737	28,251	32,195	39,098	28,568	28,327	4,639	-	3,868
Finance business receivables		73,496	17,022	14,228	-	-	-	73,496	17,022	14,228
Trade and other receivables	6	88,670	83,547	72,133	85,587	83,394	71,550	3,083	153	583
Available for sale property	4	7,394	-	-	7,394	-	-	-	-	-
Inventories		534,972	545,905	510,461	534,972	545,905	510,461	-	-	-
Derivative financial instruments	9	9,067	24,023	39,127	9,067	24,023	39,127	-	-	-
Taxation receivable		-	3,942	2,250	-	2,661	803	3,213	1,281	1,447
Total current assets		757,336	702,690	670,394	676,118	684,551	650,268	84,431	18,456	20,126
Non-current assets										
Property, plant and equipment	4	335,938	341,784	355,095	334,776	341,661	353,879	1,162	123	1,216
Intangible assets	5	162,637	148,962	147,432	118,437	130,173	120,482	44,200	18,789	26,950
Investments	14	-	1,326	2,778	-	1,326	2,778	-	-	-
Investment in finance business		-	-	-	66,810	34,703	45,527	-	-	-
Derivative financial instruments	9	296	-	164	296	-	164	-	-	-
Deferred taxation		37,933	26,695	22,935	35,390	24,535	20,692	2,543	2,160	2,243
Total non-current assets		536,804	518,767	528,404	555,709	532,398	543,522	47,905	21,072	30,409
Total assets		1,294,140	1,221,457	1,198,798	1,231,827	1,216,949	1,193,790	132,336	39,528	50,535
LIABILITIES										
Current liabilities										
Bank overdraft		-	-	-	-	-	-	-	317	-
Borrowings	8	123,751	101,528	117,164	123,751	101,510	117,164	-	18	-
Trade and other payables	11	274,992	406,718	256,499	268,717	402,584	252,113	6,275	4,134	4,386
Derivative financial instruments	9	1,871	-	51	1,871	-	51	-	-	-
Taxation payable		4,758	-	-	7,971	-	-	-	-	-
Provisions	7	53,677	42,194	44,423	52,911	41,838	43,801	766	356	622
Total current liabilities		459,049	550,440	418,137	455,221	545,932	413,129	7,041	4,825	5,008
Non-current liabilities										
Borrowings	8	189,372	81,343	214,604	189,372	81,343	214,604	-	-	-
Securitised borrowings	8	58,485	-	-	-	-	-	58,485	-	-
Derivative financial instruments	9	3,261	5,022	3,882	3,261	5,022	3,882	-	-	-
Trade and other payables	11	-	1,750	1,000	-	1,750	1,000	-	-	-
Provisions	7	17,503	16,274	16,893	17,503	16,274	16,893	-	-	-
Total non-current liabilities		268,621	104,389	236,379	210,136	104,389	236,379	58,485	-	-
Total liabilities		727,670	654,829	654,516	665,357	650,321	649,508	65,526	4,825	5,008
Net assets		566,470	566,628	544,282	566,470	566,628	544,282	66,810	34,703	45,527
EQUITY										
Contributed equity		358,877	361,010	358,215	358,877	361,010	358,215	-	-	-
Reserves		3,793	16,606	26,488	3,793	16,606	26,488	-	-	-
Retained earnings		197,624	185,258	157,154	197,624	185,258	157,154	-	-	-
Investment in finance business		-	-	-	-	-	-	66,810	34,703	45,527
Total equity attributable to shareholders		560,294	562,874	541,857	560,294	562,874	541,857	66,810	34,703	45,527
Minority interest		6,176	3,754	2,425	6,176	3,754	2,425	-	-	-
Total equity		566,470	566,628	544,282	566,470	566,628	544,282	66,810	34,703	45,527
Net assets per share		164.2 cents	164.2 cents	157.9 cents						

Consolidated Statements of Cash Flows

	Note	Unaudited 26 Weeks Ended 31 January 2016 \$ '000	Unaudited 26 Weeks Ended 25 January 2015 \$ '000	Audited 53 Weeks Ended 2 August 2015 \$ '000
Cash flows from operating activities				
Cash received from customers		1,563,921	1,440,607	2,774,126
Retail business interest income		66	76	138
Payments to suppliers and employees		(1,464,313)	(1,291,650)	(2,665,960)
Income tax paid		(18,264)	(16,712)	(22,398)
Interest paid		(8,875)	(7,820)	(18,662)
		72,535	124,501	67,244
Loans repaid by finance business customers		76,247	45,308	88,395
New loans to finance business customers		(72,952)	(41,124)	(79,170)
Net cash flows from operating activities		75,830	128,685	76,469
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		14,204	18,982	31,120
Dividend received from associate	14	2,695	5,565	5,565
Purchase of property, plant, equipment and software		(37,355)	(58,026)	(109,345)
Contingent and deferred consideration		(1,575)	(7,913)	(20,043)
Acquisition of subsidiaries, net of cash acquired	15	(4,363)	-	-
Other items		3	177	299
Net cash flows from investing activities		(26,391)	(41,215)	(92,404)
Cash flows from financing activities				
Proceeds from / (Repayment) short term borrowings		6,665	(3,410)	112,395
Net proceeds received on the repayment and reissuance of the fixed rate senior bond		-	-	22,811
Repayment of securitised borrowings		(144)	-	-
Repayment of term borrowings		(25,000)	(60,737)	(50,000)
Repayment of finance leases		(764)	(718)	(1,440)
Purchase of treasury stock		(1,127)	-	(2,754)
Treasury stock dividends received		89	65	188
Dividends paid to parent shareholders		(17,474)	(20,978)	(59,432)
Dividends paid to minority shareholders		(142)	(199)	(396)
Net cash flows from financing activities		(37,897)	(85,977)	21,372
Net cash flow		11,542	1,493	5,437
Opening cash position		32,195	26,758	26,758
Closing cash position		43,737	28,251	32,195
Reconciliation of Operating Cash Flows				
Profit after tax		61,094	42,916	50,937
Non-cash items				
Depreciation and amortisation expenses		29,674	27,858	58,634
Goodwill impairment		-	-	11,302
Share based payment expense		1,876	1,448	2,114
Interest capitalisation		321	(61)	235
Movement in deferred tax		(5,626)	(3,372)	(4,230)
Movement in de-designated derivative hedges		217	-	(1,889)
Share of surplus retained by associate		(723)	(1,350)	(2,802)
Total non-cash items		25,739	24,523	63,364
Items classified as investing or financing activities				
Net gain on sale of property, plant and equipment		(5,010)	(4,774)	(4,842)
Gain on business disposal	17	(9,950)	-	-
Direct costs relating to acquisitions	15	479	-	-
Contingent consideration		(675)	(23)	977
Supplementary dividend tax credit		132	167	468
Total investing and financing adjustments		(15,024)	(4,630)	(3,397)
Changes in assets and liabilities				
Trade and other receivables		(7,880)	(16,772)	(10,290)
Finance business receivables		(2,258)	2,014	4,808
Inventories		(25,408)	(53,796)	(18,352)
Trade and other payables		23,486	141,395	(8,176)
Provisions		9,887	(6,249)	(3,401)
Income tax		6,194	(716)	976
Total changes in assets and liabilities		4,021	65,876	(34,435)
Net cash flows from operating activities		75,830	128,685	76,469

Notes to the Financial Statements

1. GENERAL INFORMATION

The Warehouse Group Limited and its subsidiaries (together the "Group") operates in the New Zealand Retail and Financial Services sectors.

The Warehouse Group Limited is a limited liability company incorporated and domiciled in New Zealand and registered under the New Zealand Companies Act 1993. The address of its registered office is Level 8, 120 Albert Street, PO Box 2219, Auckland. The Group is listed on the New Zealand stock exchange.

The interim financial statements of the Group have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Companies Act 1993 and the New Zealand Stock Exchange (NZX). The Warehouse Group Limited is registered under the Companies Act 1993 and is an FMC Reporting Entity under Part 7 of the Financial Markets Conduct Act 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and consequently, do not include all the information required for full financial statements. These Group interim financial statements should be read in conjunction with the annual report for the year ended 2 August 2015.

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

The accounting policies that materially affect the measurement of the interim financial statements have been applied on a consistent basis with those used in the audited financial statements for the 53 weeks ended 2 August 2015 and the unaudited interim financial statements for the 26 weeks ended 25 January 2015.

While there have been no changes in accounting policies applied by the Group during the current half year period the release of the new NZ IFRS 16 'Lease' accounting standard in January 2016 will have a significant impact on the Group's presentation of its financial performance and position and those of other retailers in the future.

NZ IFRS 16: Leases (effective for the Group in the 2020 Financial Year)

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IAS 17, a lessee is required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 does not make any distinction between operating and finance leases and will require a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The standard is effective for the Group's 2020 financial year. The Group does not intend to adopt NZ IFRS 16 until its effective date and has yet to assess its full impact. In anticipation of this new accounting standard in April 2015 the Group changed its borrowing covenants to carve out the effect of the new accounting standard from the calculation of the Group's debt covenants.

Seasonality

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

Approval of Financial Statements

These consolidated interim financial statements were approved for issue by the Board of Directors on 10 March 2016. Unless as otherwise stated, the financial statements have been reviewed by our Auditors, but are not audited.

3. SEGMENT INFORMATION

(a) Operating segments

The Group has four main operating segments trading in the New Zealand retail sector and one in the financial services sector. The operating segments are managed separately with their own management, stores and infrastructure. 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.

The Warehouse

The Warehouse is predominantly a general merchandise and apparel retailer, with 93 stores located throughout New Zealand.

Warehouse Stationery

Warehouse Stationery is a stationery retailer, with 66 stores located throughout New Zealand.

Noel Leeming

Noel Leeming is a consumer electronics and home appliances retailer, with 77 stores located throughout New Zealand.

Torpedo7

Torpedo7 is a multi-channel retailer operating both online through a variety of websites and through 12 stores located throughout New Zealand.

Finance Business

The Financial Services Group is a credit card business offering credit to customers through various branded credit cards. In September 2015 the Group gained control over The Warehouse Financial Services Limited (TWFS) when it acquired 100% of the company's share capital and significantly increased the scale of this business (refer note 15).

Other Group operations

This segment includes the Group's property operations, which owns a number of stores and distribution centres occupied by the other business segments. This segment also includes the Group's corporate function and Waikato Valley Chocolates, which supplies products to The Warehouse.

Transfer prices between business segments are set on an arm's length basis in a manner similar to third parties. Segment revenues and expenses include transfers between segments, which are eliminated on consolidation.

Notes to the Financial Statements - continued

3. SEGMENT INFORMATION - (Continued)

	REVENUE			OPERATING PROFIT		
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	26 Weeks	26 Weeks	53 Weeks	26 Weeks	26 Weeks	53 Weeks
	Ended	Ended	Ended	Ended	Ended	Ended
	31 January	25 January	2 August	31 January	25 January	2 August
	2016	2015	2015	2016	2015	2015
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
SEGMENT PERFORMANCE						
The Warehouse	973,081	928,699	1,718,307	65,486	54,105	79,600
Warehouse Stationery	137,789	124,415	262,780	6,009	4,787	12,723
Noel Leeming	379,844	330,404	665,628	6,390	2,344	6,424
Torpedo7	76,126	64,247	131,231	1,712	(227)	34
Other Group operations	10,114	8,729	9,276	(3,801)	(2,615)	(5,555)
Inter-segment eliminations	(16,505)	(11,783)	(16,801)	-	-	-
Retail Group	1,560,449	1,444,711	2,770,421	75,796	58,394	93,226
Financial Services Group	8,080	2,601	5,617	(2,679)	(1,404)	(1,793)
	1,568,529	1,447,312	2,776,038	73,117	56,990	91,433
Unallocated revenue/(expenses)						
Gain on disposal of property				5,391	5,021	5,533
Gain on business disposals				9,950	-	-
Contingent consideration				675	23	(977)
Direct costs relating to acquisitions				(479)	-	-
Goodwill impairment (Torpedo7)				-	-	(11,302)
Equity earnings of associate				723	1,350	2,802
Earnings before interest and tax				89,377	63,384	87,489
Net interest expense				(9,402)	(7,676)	(16,207)
Net profit before taxation for the period				79,975	55,708	71,282
Attributable to:						
Retail Group				84,186	57,689	74,159
Finance business				(4,211)	(1,981)	(2,877)
Net profit before taxation for the period				79,975	55,708	71,282
				-	-	-
Operating margin						
The Warehouse (%)				6.7	5.8	4.6
Warehouse Stationery (%)				4.4	3.8	4.8
Noel Leeming (%)				1.7	0.7	1.0
Torpedo7 (%)				2.2	(0.4)	0.0
Total Retail Group (%)				4.9	4.0	3.4
	DEPRECIATION & AMORTISATION			CAPITAL EXPENDITURE		
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
	26 Weeks	26 Weeks	53 Weeks	26 Weeks	26 Weeks	53 Weeks
	Ended	Ended	Ended	Ended	Ended	Ended
	31 January	25 January	2 August	31 January	25 January	2 August
	2016	2015	2015	2016	2015	2015
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
The Warehouse	20,612	19,811	41,072	16,730	19,995	35,844
Warehouse Stationery	3,206	3,139	6,713	2,491	3,831	6,739
Noel Leeming	3,567	2,894	6,342	2,578	8,129	13,152
Torpedo7	627	635	1,286	332	3,236	3,866
Other Group operations	1,055	989	2,357	5,566	12,027	43,816
Retail Group	29,067	27,468	57,770	27,697	47,218	103,417
Finance business	607	390	864	6,102	5,098	14,827
4	29,674	27,858	58,634	33,799	52,316	118,244

Notes to the Financial Statements - continued

3. SEGMENT INFORMATION - (Continued)

	Note	TOTAL ASSETS			TOTAL LIABILITIES		
		(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Audited)
		As at	As at	As at	As at	As at	As at
		31 January 2016	25 January 2015	2 August 2015	31 January 2016	25 January 2015	2 August 2015
		\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
The Warehouse		494,939	523,152	491,532	188,189	246,298	165,841
Warehouse Stationery		89,316	94,772	83,298	37,748	42,850	32,742
Noel Leeming		164,467	154,347	152,841	92,249	142,474	92,682
Torpedo7		53,161	52,307	50,804	11,861	26,897	14,843
Other Group operations		176,956	160,449	173,093	9,084	3,926	7,699
Retail Group		978,839	985,027	951,568	339,131	462,445	313,807
Finance business		99,227	25,073	31,963	7,041	4,491	5,008
Operating assets / liabilities		1,078,066	1,010,100	983,531	346,172	466,936	318,815
Unallocated assets / liabilities							
Cash and borrowings	8	43,737	28,251	32,195	371,608	182,871	331,768
Derivative financial instruments	9	9,363	24,023	39,291	5,132	5,022	3,933
Investments	14	-	1,326	2,778	-	-	-
Intangible Goodwill and Brands	5	125,041	127,120	115,818	-	-	-
Taxation		37,933	30,637	25,185	4,758	-	-
Total		1,294,140	1,221,457	1,198,798	727,670	654,829	654,516

4. PROPERTY, PLANT, EQUIPMENT AND COMPUTER SOFTWARE

	Note	(Unaudited)	(Unaudited)	(Audited)
		As at	As at	As at
		31 January 2016	25 January 2015	2 August 2015
		\$ 000	\$ 000	\$ 000
Available for sale property		7,394	-	-
Property, plant and equipment		335,938	341,784	355,095
Computer software	5	37,596	21,842	31,614
Net book value		380,928	363,626	386,709
Movement in property, plant, equipment and software				
Balance at the beginning of the period		386,709	353,376	353,376
Disposal of business	15	(706)	-	-
Capital expenditure	3	33,799	52,316	118,244
Depreciation and amortisation	3	(29,674)	(27,858)	(58,634)
Disposals		(9,200)	(14,208)	(26,277)
Balance at the end of the period		380,928	363,626	386,709

Property Sales

During the current half year the Group sold two store properties, the first located in South Dunedin and a parcel of land located in Timaru, for a combined net consideration of \$14.132 million realising a pre-tax profit of \$5.391 million.

During the first half of the comparative year the Group sold a store in Whangarei and in the second half year a store in Gisborne, together the sale of these two properties realised a pre-tax profit of \$5.533 million (H1 2015: \$5.021 million).

Available for sale property

The Group's store property at Kaitaia has been classified as available for sale at balance date. The sale of this property was almost complete at balance date subject to satisfying a few pre sale conditions which are required before title is transferred and consideration received. It is anticipated that this sale will be completed by the end of March 2016.

Notes to the Financial Statements - continued

5. INTANGIBLE ASSETS

		(Unaudited) As at 31 January 2016 \$ '000	(Unaudited) As at 25 January 2015 \$ '000	(Audited) As at 2 August 2015 \$ '000
	Note			
Computer software	4	37,596	21,842	31,614
Brands		23,523	23,523	23,523
Goodwill		101,518	103,597	92,295
Net book value		162,637	148,962	147,432
Movement in Goodwill				
Balance at the beginning of the period		92,295	103,597	103,597
Goodwill impairment		-	-	(11,302)
Disposal of business - Goodwill	17	(2,477)	-	-
Acquisition of businesses - Goodwill	15	11,700	-	-
Balance at the end of the period		101,518	103,597	92,295

The Group performs a detailed impairment assessment annually of the Group's intangible assets and considers if there has been any indicators of impairment at each interim reporting date. The Group's interim review did not identify any meaningful indicators of impairment in any of the Group's significant Cash Generating Units which would require an impairment charge.

6. TRADE AND OTHER RECEIVABLES

		(Unaudited) As at 31 January 2016 \$ '000	(Unaudited) As at 25 January 2015 \$ '000	(Audited) As at 2 August 2015 \$ '000
	Note			
Trade receivables		49,380	48,509	44,139
Allowance for impairment		(1,527)	(1,346)	(1,488)
		47,853	47,163	42,651
Other debtors and prepayments		32,406	31,884	29,482
Landlord advances		-	4,500	-
Business disposal proceeds receivable	17	8,411	-	-
		88,670	83,547	72,133

7. PROVISIONS

		(Unaudited) As at 31 January 2016 \$ '000	(Unaudited) As at 25 January 2015 \$ '000	(Audited) As at 2 August 2015 \$ '000
Current liabilities		53,677	42,194	44,423
Non-current liabilities		17,503	16,274	16,893
		71,180	58,468	61,316
Provisions consist of:				
Performance based compensation		13,562	2,836	5,221
Annual leave		29,984	29,093	29,136
Long service leave		7,405	7,439	7,394
Other employee benefits		7,386	6,408	7,384
Employee benefits		58,337	45,776	49,135
Make good provision		7,279	6,428	6,745
Sales returns provision		4,171	3,974	3,580
Onerous lease		1,393	2,290	1,856
		71,180	58,468	61,316

Provision movements:

	MAKE GOOD			ONEROUS LEASE		
	(Unaudited) 26 Weeks Ended 31 January 2016 \$ '000	(Unaudited) 26 Weeks Ended 25 January 2015 \$ '000	(Audited) 53 Weeks Ended 2 August 2015 \$ '000	(Unaudited) 26 Weeks Ended 31 January 2016 \$ '000	(Unaudited) 26 Weeks Ended 25 January 2015 \$ '000	(Audited) 53 Weeks Ended 2 August 2015 \$ '000
Opening balance	6,745	6,207	6,207	1,856	4,920	4,920
Arising / (released) during the period	1,145	761	1,786	89	(932)	(679)
Net settlements	(611)	(540)	(1,248)	(552)	(1,698)	(2,385)
Closing balance	7,279	6,428	6,745	1,393	2,290	1,856

Notes to the Financial Statements - continued

8. DEBT

		(Unaudited) As at 31 January 2016 \$ 000	(Unaudited) As at 25 January 2015 \$ 000	(Audited) As at 2 August 2015 \$ 000
	Note			
Cash on hand and at bank		43,737	28,251	32,195
Bank borrowings		122,470	-	115,805
Lease liabilities		1,281	1,451	1,359
Fixed rate senior bond (coupon: 7.37%)		-	100,000	-
Fair value adjustment relating to effective interest		-	197	-
Unamortised capitalised costs on senior bond		-	(120)	-
Current borrowings		123,751	101,528	117,164
Bank borrowings		65,000	79,263	90,000
Lease liabilities		988	2,080	1,571
Fixed rate senior bond (coupon: 5.30%)		125,000	-	125,000
Fair value adjustment relating to effective interest		296	-	163
Unamortised capitalised costs on senior bond		(1,912)	-	(2,130)
Non-current borrowings		189,372	81,343	214,604
Non-current securitised borrowings	16	58,485	-	-
Total borrowings		371,608	182,871	331,768
Net debt		327,871	154,620	299,573
Committed bank credit facilities at balance date are:				
Bank debt facilities		340,000	300,000	330,000
Bank facilities used		(187,470)	(79,263)	(205,805)
Unused bank debt facilities		152,530	220,737	124,195
Securitised debt facility		225,000	-	-
Securitised facility used		(58,485)	-	-
Unused securitised debt facility		166,515	-	-
Letter of credit facilities		28,000	28,000	28,000
Letters of credit		(11,295)	(5,941)	(21,145)
Unused letter of credit facilities		16,705	22,059	6,855
Total unused bank facilities		335,750	242,796	131,050

9. DERIVATIVE FINANCIAL INSTRUMENTS

		(Unaudited) As at 31 January 2016 \$ 000	(Unaudited) As at 25 January 2015 \$ 000	(Audited) As at 2 August 2015 \$ 000
Current assets		9,067	24,023	39,127
Non-current assets		296	-	164
Current liabilities		(1,871)	-	(51)
Non-current liabilities		(3,261)	(5,022)	(3,882)
		4,231	19,001	35,358
Derivative financial instruments consist of:				
Current assets		9,067	23,767	39,127
Current liabilities		(1,002)	-	(51)
Foreign exchange contracts		8,065	23,767	39,076
Current assets		-	256	-
Current liabilities		(869)	-	-
Non-current assets		296	-	164
Non-current liabilities		(3,261)	(5,022)	(3,882)
Interest rate swaps		(3,834)	(4,766)	(3,718)
		4,231	19,001	35,358

The Group continues to manage its foreign exchange and interest rate risks in accordance with the policies and parameters detailed in the 2015 Annual Report.

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

US Dollar forward contracts - cash flow hedges

Notional amount (NZ\$000)	316,560	233,051	275,304
Average contract rate (\$)	0.6582	0.8117	0.7462
Spot rate used to determine fair value (\$)	0.6476	0.7467	0.6586

Notes to the Financial Statements - continued

9. DERIVATIVE FINANCIAL INSTRUMENTS - (Continued)

	(Unaudited) As at 31 January 2016 \$ '000	(Unaudited) As at 25 January 2015 \$ '000	(Audited) As at 2 August 2015 \$ '000
Cash flow hedges	(4,130)	(5,022)	(3,882)
Fair value hedges	296	256	164
Interest rate swaps	(3,834)	(4,766)	(3,718)

Interest rate swaps - cash flow hedge

In order to protect against interest rate volatility the Group has interest rate swap contracts which have a right to receive interest at variable rates and to pay interest at fixed rates. The interest rate swaps currently have terms of up to 8.5 years and provide a hedge against a notional principal of \$50.000 million of the Group's core variable interest bank borrowings. The Group has also entered forward start interest rate swap contracts with a notional principal of \$55.000 million to provide a partial hedge against the rollover of Group's fixed rate senior bond when it matures in June 2015.

Interest rate swaps - fair value hedge

At balance date the Group held interest rate swaps where it receives a fixed rate of interest and pays a variable rate on a notional amount of \$40.000 million. The interest rate swaps are designated as fair value hedges and transform a series of known future fixed interest cash flows on the fixed rate senior bond to variable interest cash flows.

10. FAIR VALUE MEASUREMENT

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

Level 1 - fair value measurements derived from quoted prices in active markets for identical assets.

Level 2 - fair value measurements derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

Asset / (Liability)		(Unaudited) As at 31 January 2016 \$ '000	(Unaudited) As at 25 January 2015 \$ '000	(Audited) As at 2 August 2015 \$ '000
Derivatives used for hedging	Note			
Foreign exchange contracts (Level 2)	9	8,065	23,767	39,076
Interest rate swaps (Level 2)	9	(3,834)	(4,766)	(3,718)
Senior bond fair value adjustment relating to effective interest (Level 2)	8	(296)	(197)	(163)

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

Specific valuation techniques used to value financial instruments are:

- Forward exchange contracts determined using forward exchange market rates at the balance date (refer note 9).
- Interest rate swaps calculated as the present value of the estimated future cash flows based on the applicable market interest yield rates at balance date.

Except for the Group's fixed rate senior bond (refer note 9) and derivatives (detailed above) the carrying value of the Group's financial assets and liabilities approximate fair value. The fixed rate senior bond is listed on the NZX and measured at amortised cost. The fair value of fixed rate senior bonds at balance date, based on the last price traded on the New Zealand stock exchange (level 1 valuation), were as follows.

Fixed Rate Senior Bond	(Unaudited) As at 31 January 2016	(Unaudited) As at 25 January 2015	(Audited) As at 2 August 2015
Face value (\$'000)	125,000	100,000	125,000
Coupon (%)	5.30	7.37	5.30
Market yield (%)	4.30	5.35	4.45
Maturity	June 2020	June 2015	June 2020
NZX quoted closing price	1.04659	1.01629	1.04411
Fair value (\$'000)	130,824	101,629	130,514

Notes to the Financial Statements - continued

11. TRADE AND OTHER PAYABLES

		(Unaudited) As at 31 January 2016 \$ '000	(Unaudited) As at 25 January 2015 \$ '000	(Audited) As at 2 August 2015 \$ '000
	Note			
Trade creditors		215,036	316,387	189,512
Goods in transit creditors		14,728	18,293	16,522
Goods and services tax		10,679	28,673	11,208
Capital expenditure creditors		7,634	1,056	11,165
Unearned income (includes layby's, gift vouchers and Christmas club deposits)		16,284	15,887	16,508
Contingent and deferred consideration		1,000	14,380	3,250
Interest accruals		1,698	1,266	1,426
Payroll accruals		7,933	12,526	7,908
		274,992	408,468	257,499
Less: Non-current contingent and deferred consideration		-	(1,750)	(1,000)
Current trade and other payables		274,992	406,718	256,499

12. COMMITMENTS

		(Unaudited) As at 31 January 2016 \$ '000	(Unaudited) As at 25 January 2015 \$ '000	(Audited) As at 2 August 2015 \$ '000
(a) Capital commitments				
Capital expenditure contracted for at balance date but not recognised as liabilities is set out below:				
Within one year		7,677	26,214	9,957
(b) Operating lease commitments				
Commitments for minimum lease payments in relation to non-cancellable operating leases at balance date are as follows:				
Future minimum rentals payable				
0-1 Years		114,876	104,172	111,406
1-2 Years		104,932	90,351	103,687
2-5 Years		240,923	210,751	239,656
5+ Years		291,407	280,378	298,809
		752,138	685,652	753,558

13. ADJUSTED NET PROFIT RECONCILIATION

		(Unaudited) 26 Weeks Ended 31 January 2016 \$ '000	(Unaudited) 26 Weeks Ended 25 January 2015 \$ '000	(Audited) 53 Weeks Ended 2 August 2015 \$ '000
	Note			
Net profit attributable to shareholders of the parent		57,201	43,280	52,433
Less: Unusual items				
Gain on business disposals	17	9,950	-	-
Direct costs relating to acquisitions	15	(479)	-	-
Goodwill impairment (Torpedo7)		-	-	(11,302)
Contingent consideration		675	23	(977)
Gain on disposal of property	4	5,391	5,021	5,533
		15,537	5,044	(6,746)
Income tax relating to unusual items		(1,509)	(1,406)	(1,549)
Income tax expense related to depreciation recovered on building disposals		1,234	2,405	2,490
		15,262	6,043	(5,805)
Add back minority interests	17	(3,614)	-	1,104
Adjusted net profit		45,553	37,237	57,134

Certain transactions can make the comparisons of profits between periods difficult. The Group monitors adjusted net profit as a key indicator of performance and uses it as the basis for determining dividends and believe it helps improve the understanding of underlying business performance.

Adjusted net profit makes allowance for the after tax effect of unusual items. Unusual items include profits from the disposal of properties and businesses, goodwill impairment, direct costs relating to the acquisition of subsidiaries and changes in the value of contingent consideration recognised in the income statement.

Notes to the Financial Statements - continued

14. INVESTMENT

		(Unaudited) As at 31 January 2016 \$ 000	(Unaudited) As at 25 January 2015 \$ 000	(Audited) As at 2 August 2015 \$ 000
	Note			
Investment at beginning of the year		2,778	5,541	5,541
Share of associates profit before taxation		1,004	1,875	3,892
Less taxation		(281)	(525)	(1,090)
Equity earnings of associate		723	1,350	2,802
Dividend received from associate		(2,695)	(5,565)	(5,565)
Acquisition of majority shareholder	15	(806)	-	-
Investment at end of the period		-	1,326	2,778

The Warehouse Financial Services Limited

The Group ceased accounting for The Warehouse Financial Services Limited (TWFSL) as an equity investment when it acquired 100% of the share capital of TWFSL in September 2015. Prior to the acquisition the Group held a 49% interest, and Westpac a 51% interest in TWFSL. Following the acquisition the income statement and balance sheet of TWFSL have been fully consolidated and included within the Financial Services Group segment. Further information regarding the details of the acquisition are provided in note 15.

15. BUSINESS COMBINATIONS

In September 2015 the Group gained control over The Warehouse Financial Services Limited (TWFSL) when it acquired 100% of the company's share capital. The Group had previously held a non-controlling 49% interest in TWFSL which was accounted for as an equity investment (refer note 14). Based on the best information available the Group has initially recognised the following identifiable acquisition assets and liabilities for the business acquired.

For the 26 weeks ended 31 January 2016	Note	(Unaudited) \$ 000
Cash and cash equivalents		3,453
Finance business receivables		57,010
Trade and other receivables		346
Deferred taxation		640
		61,449
Trade and other payables		(357)
Provision for tax		(820)
Borrowings	16	(58,629)
Provisional fair value of identifiable net assets		1,643
Goodwill arising on acquisition	5	11,700
Total consideration		13,343
The acquisition consideration is as follows:		
Cash paid for Westpac's 51% interest in TWFSL		7,337
Value attributed to the Group's previously held 49% equity investment in TWFSL		6,006
		13,343
The cash outflow on acquisitions is as follows:		
Cash and cash equivalents acquired		(3,453)
Direct costs relating to the acquisition		479
Purchase consideration settled in cash		7,337
Net consolidated cash outflow		4,363
Equity investment		
Value attributed to the Group's previously held 49% equity investment in TWFSL		6,006
Carrying value	14	806
Gain on disposal recognised in the income statement	17	5,200

The acquisition of TWFSL represents the next step in the Group's development of an in-house financial services business and follows the earlier acquisition of Diners Club (NZ) Limited in March 2014. TWFSL currently offers credit and risk related products that include credit cards and insurance cover. The increase in the Finance Receivable loan book following the acquisition helps provide scale and enables the Group to leverage its current infrastructure, core systems and people capability to grow this business segment cost effectively.

16. SECURED BORROWINGS

Contemporaneously with the acquisition (refer note 15) of The Warehouse Financial Services Limited (TWFSL), the Group replaced the TWFSL borrowings with a securitisation programme. The programme is funded by Westpac under a \$225 million borrowing facility. The facility permits the Finance Services Group (FSG) to borrow up to 80% of the value of qualifying securitised finance business receivables which form part of the borrowing base. The borrowing base is set with reference to how promptly the securitised receivables are collected.

The FSG is separately financed from the Retail Group (RG) which allows FSG to have higher gearing levels than RG. To accommodate the separate funding structures for RG and FSG the Group changed its debt covenants in April 2015 to carve out FSG from the RG debt covenants. RG borrowings are subject to a negative pledge contained in two separate trust deeds and held for the benefit of the Group's banking institutions and bondholders.

Notes to the Financial Statements - continued

17. BUSINESS DISPOSALS

For the 26 weeks ended 31 January 2016	Note	(Unaudited) \$ '000
Pet.co.nz Limited asset disposal		
Consideration	11	8,411
Net assets sold		1,184
Goodwill		2,477
Carrying value of net assets sold		3,661
Gain on business disposal		4,750
Minority interest		(3,614)
Gain on business disposal (after minority interests)		1,136
Gain on business disposals (before minority interests)		
Pet.co.nz		4,750
The Warehouse Financial Services Limited	15	5,200
Gain on business disposal recognised in the income statement		9,950

Pet.co.nz Limited business disposal

At the end of January 2016 the Group sold the business assets of Pet.co.nz (formerly Shop HQ Limited) for a consideration of \$8.411 million. The consideration was comprised of an initial payment of \$6.411 million, received in February 2016 and deferred and contingent consideration of \$2.000 million, which is receivable in December 2016.

Sale and Purchase of The Warehouse Financial Services Limited

In September 2015 the Group gained control of The Warehouse Financial Services Limited (TWFS) by increasing its shareholding from 49% to 100% of TWFS's share capital. For accounting purposes this single transaction is treated as having two distinct components, the first being the sale by the Retail Group (RG) of its 49% TWFS associate investment, and the second, the purchase by the Financial Services Group (FSG) of TWFS's share capital from both Westpac as the majority 51% shareholder and RG as the 49% associate shareholder. Details of the second part of the transaction regarding the acquisition can be found in note 15. In respect of the first part and the intercompany sale transaction between the RG and FSG for the 49% associate investment, this resulted in a notional gain on sale of \$5.200 million. This gain was calculated with reference to the premium above net assets paid to Westpac for its 51% TWFS shareholding and is included as a component of goodwill arising on the acquisition.

18. POST BALANCE DATE MINORITY INTEREST ACQUISITION

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%. The consideration had two components, a cash component of \$7.500 million settled in March 2016 and the transfer of the Groups interest in a parcel of surplus land located in Hamilton (valued at \$2.300 million).

19. DIVIDENDS

	CENTS PER SHARE			DIVIDENDS PAID		
	(Unaudited) 26 Weeks Ended 31 January 2016	(Unaudited) 26 Weeks Ended 25 January 2015	(Audited) 53 Weeks Ended 2 August 2015	(Unaudited) 26 Weeks Ended 31 January 2016 \$ '000	(Unaudited) 26 Weeks Ended 25 January 2015 \$ '000	(Audited) 53 Weeks Ended 2 August 2015 \$ '000
Prior year final dividend	5.0	6.0	6.0	17,342	20,811	20,811
Interim dividend	-	-	11.0	-	-	38,153
Total dividends paid	5.0	6.0	17.0	17,342	20,811	58,964

On 10 March 2016 the Board declared a fully imputed interim dividend of 11.0 cents per ordinary share to be paid on 15 April 2016 to all shareholders on the Group's share register at the close of business on 4 April 2016.

20. RELATED PARTIES

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

21. CONTINGENT LIABILITIES

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