
Free

Financial Statements

For the 52 week period ended 1 August 2021

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 blue text boxes applied in producing the relevant notes, along with details of any key judgements and estimates used. The purpose of this format is to provide readers with a clearer understanding of what drives financial performance of the Group.

These financial statements have been approved for issue by the Board of Directors on 28 September 2021.

Joan Withers
Board Chair
28 September 2021

Dean Hamilton
Audit and Risk Committee Chair
28 September 2021

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

Consolidated Income Statement

For the 52 week period ended 1 August 2021

	Note	(52 weeks) 2021 $000	(53 weeks) 2020 $000
Continuing operations			
Retail sales	2.1	3,414,601	3,172,830
Cost of retail goods sold	8.1	(2,173,245)	(2,137,950)
Gross profit		1,241,356	1,034,880
Other income	3.1	7,050	16,369
Employee expense	3.2	(573,734)	(559,299)
Depreciation and amortisation expense	2.2	(149,303)	(154,652)
Other operating expenses	3.3	(244,255)	(247,087)
Operating profit from continuing operations	2.1	281,114	90,211
Unusual items	5.0	(86,955)	14,471
Earnings before interest and tax from continuing operations		194,159	104,682
Net interest expense	3.5	(37,458)	(46,710)
Profit before tax from continuing operations		156,701	57,972
Income tax expense	4.1	(40,491)	(14,305)
Net profit for the period from continuing operations		116,210	43,667
Discontinued operations			
Gain from discontinued operations (net of tax)		-	31
Net profit for the period		116,210	43,698
Attributable to:			
Shareholders of the parent		117,651	44,472
Minority interests	11.5	(1,441)	(774)
		116,210	43,698
Profit attributable to shareholders of the parent relates to:			
Profit from continuing operations		117,651	44,441
Gain from discontinued operations		-	31
		117,651	44,472
Earnings per share attributable to shareholders of the parent			
Basic earnings per share	6.0	34.1 cents	12.9 cents
Basic earnings per share - continuing operations	6.0	34.1 cents	12.9 cents

Consolidated Statement of Comprehensive Income

For the 52 week period ended 1 August 2021

	Note	(52 weeks) 2021 $000	(53 weeks) 2020 $000
Net profit for the period		116,210	43,698
Items that may be reclassified subsequently to the income statement			
Movement in foreign currency translation reserve		55	(184)
Movement in derivative cash flow hedges		26,651	(16,598)
Movement in de-designated derivative hedges		-	226
Tax relating to movement in hedge reserve		(7,463)	4,585
Other comprehensive income		19,243	(11,971)
Total comprehensive income		135,453	31,727
Attributable to:			
Shareholders of the parent		136,894	32,501
Minority interest	11.5	(1,441)	(774)
Total comprehensive income		135,453	31,727
Attributable to:			
Total comprehensive income from continuing operations		135,453	31,696
Total comprehensive gain from discontinued operations		-	31
Total comprehensive income		135,453	31,727
Total comprehensive income from continuing operations attributable to:			
Shareholders of the parent		136,894	32,470
Minority interest	11.5	(1,441)	(774)
Total comprehensive income		135,453	31,696

Consolidated Balance Sheet

As at 1 August 2021

	Note	2021	2020
		$ 000	$ 000
ASSETS			
Current assets			
Cash and cash equivalents	11.1	160,526	168,068
Trade and other receivables	8.2	79,277	84,263
Inventories	8.1	457,151	393,610
Derivative financial instruments	12.2	8,837	243
Total current assets		705,791	646,184
Non current assets			
Derivative financial instruments	12.2	1,310	-
Property, plant and equipment	9.1	194,619	197,131
Intangible assets	9.2	166,991	135,566
Right of use assets	10.1	736,524	774,175
Deferred taxation	4.3	86,120	101,805
Total non current assets		1,185,564	1,208,677
Total assets	2.4	1,891,355	1,854,861
LIABILITIES			
Current liabilities			
Trade and other payables	8.3	436,579	420,805
Derivative financial instruments	12.2	4,353	27,091
Taxation payable	4.2	10,878	10,982
Lease liabilities	10.3	97,812	106,467
Provisions	8.4	74,515	60,991
Total current liabilities		624,137	626,336
Non current liabilities			
Lease liabilities	10.3	794,379	828,321
Provisions	8.4	23,371	23,865
Total non current liabilities		817,750	852,186
Total liabilities	2.4	1,441,887	1,478,522
Net assets		449,468	376,339
EQUITY			
Contributed equity	11.3	360,235	360,061
Reserves	11.4	6,056	(13,187)
Retained earnings		85,871	30,259
Total equity attributable to shareholders		452,162	377,133
Minority interest	11.5	(2,694)	(794)
Total equity		449,468	376,339

Consolidated Statement of Cash Flows

For the 52 week period ended 1 August 2021

	Note	(52 weeks) 2021	(53 weeks) 2020
		$ 000	$ 000
Cash flows from operating activities			
Cash received from customers		3,425,114	3,182,879
COVID–19 wage subsidy		(67,550)	67,550
Payments to suppliers and employees		(3,040,261)	(2,775,928)
Income tax paid		(32,132)	(19,879)
Interest paid		(37,910)	(46,616)
Net cash flows from operating activities		247,261	408,006
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment and computer software		190	12,008
Purchase of property, plant & equipment and computer software		(83,180)	(64,513)
Purchase of minority interest		(239)	-
Net cash flows from investing activities		(83,229)	(52,505)
Cash flows from financing activities			
Repayment of fixed rate senior bond	3.5	-	(125,000)
Early termination of interest rate swaps		(9,767)	-
Lease principal repayments		(99,383)	(83,833)
Treasury stock dividends received		254	115
Dividends paid to parent shareholders		(62,678)	(27,883)
Dividends paid to minority shareholders		-	(129)
Net cash flows from financing activities		(171,574)	(236,730)
Net cash (outflow)/inflow		(7,542)	118,771
Opening cash position		168,068	49,297
Closing cash position	11.1	160,526	168,068

Reconciliation of Operating Cash Flows

For the 52 week period ended 1 August 2021

	Note	(52 weeks) 2021	(53 weeks) 2020
		$ 000	$ 000
Net profit		116,210	43,698
Non cash items			
Depreciation and amortisation expense	2.2	149,303	154,652
Intangible asset impairment	9.2	-	8,028
Property, plant and equipment impairment	9.1	-	8,659
Right of use asset impairment	10.1	1,582	1,576
Share based payment expense	3.2	93	350
Interest capitalisation		-	384
COVID–19 landlord rent relief	10.2	-	(8,246)
Movement in deferred tax	4.3	8,219	(15,907)
Interest rate hedge derivatives write-off	5.0	3,340	6,427
Movement in de-designated derivative hedges		-	163
Total non cash items		162,537	156,086
Items classified as investing or financing activities			
Loss on disposal of property, plant and equipment		637	1,206
Gain on lease terminations	2.5	(1,237)	(1,023)
Supplementary dividend tax credit	4.2	246	136
Total investing and financing adjustments		(354)	319
Changes in assets and liabilities			
Trade and other receivables		4,986	(4,643)
Inventories		(63,541)	124,148
Trade and other payables		14,497	75,314
Provisions		13,030	2,815
Income tax		(104)	10,269
Total changes in assets and liabilities		(31,132)	207,903
Net cash flows from operating activities		247,261	408,006

Consolidated Statement of Changes in Equity

For the 52 week period ended 1 August 2021

	Note	Share Capital	Treasury Shares	Hedge Reserves	Foreign Currency Translation Reserve	Retained Earnings	Minority Interest	Total Equity
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
For the 52 week period ended 1 August 2021								
Balance at the beginning of the period		365,517	(5,456)	(13,017)	(170)	30,259	(794)	376,339
Profit for the period		-	-	-	-	117,651	(1,441)	116,210
Movement in foreign currency translation reserve		-	-	-	55	-	-	55
Movement in derivative cash flow hedges		-	-	26,651	-	-	-	26,651
Tax relating to movement in hedge reserve	4.3	-	-	(7,463)	-	-	-	(7,463)
Total comprehensive income		-	-	19,188	55	117,651	(1,441)	135,453
Contributions by and distributions to owners								
Share rights charged to the income statement		-	-	-	-	-	93	93
Share rights vested		-	-	-	-	1,697	(1,697)	-
Minority put options exercised		-	174	-	-	(1,558)	1,145	(239)
Dividends paid	7.1, 11.5	-	-	-	-	(62,432)	-	(62,432)
Treasury stock dividends received		-	-	-	-	254	-	254
Balance at the end of the period		365,517	(5,282)	6,171	(115)	85,871	(2,694)	449,468
		(note: 11.3)	(note: 11.3)	(note: 11.4)	(note: 11.4)		(note: 11.5)	
For the 53 week period ended 2 August 2020								
Balance at the beginning of the period		365,517	(5,456)	(1,230)	14	122,469	719	482,033
Adjustment on adoption of NZ IFRS 16		-	-	-	-	(109,972)	(38)	(110,010)
Restated balance at the beginning of the period		365,517	(5,456)	(1,230)	14	12,497	681	372,023
Profit for the period		-	-	-	-	44,472	(774)	43,698
Movement in foreign currency translation reserve		-	-	-	(184)	-	-	(184)
Movement in derivative cash flow hedges		-	-	(16,598)	-	-	-	(16,598)
Movement in de-designated derivative hedges		-	-	226	-	-	-	226
Tax relating to movement in hedge reserve	4.2, 4.3	-	-	4,585	-	-	-	4,585
Total comprehensive income		-	-	(11,787)	(184)	44,472	(774)	31,727
Contributions by and distributions to owners								
Share rights charged to the income statement		-	-	-	-	-	350	350
Share rights vested		-	-	-	-	922	(922)	-
Dividends paid	7.1, 11.5	-	-	-	-	(27,747)	(129)	(27,876)
Treasury stock dividends received		-	-	-	-	115	-	115
Balance at the end of the period		365,517	(5,456)	(13,017)	(170)	30,259	(794)	376,339
		(note: 11.3)	(note: 11.3)	(note: 11.4)	(note: 11.4)		(note: 11.5)	

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

1.2 Compliance statement

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice (GAAP), FMCA 2013 and NZX listing rules. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other applicable Financial Reporting Standards, and authoritative notes as appropriate for a for-profit entity. 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 historical cost, as modified by the revaluation of certain assets and liabilities at fair value. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand, unless otherwise stated. Certain comparative amounts have been reclassified to conform with the current year's presentation.

The principal accounting policies applied in the preparation of these financial statements are set out in the accompanying notes where an accounting choice is provided by NZ IFRS, is new or has changed, is specific to the Group's operations or is significant or material. Where NZ IFRS 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.

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

		Percentage Ownership	
Name of Entity	Principal Activity	2021	2020
The Warehouse Limited	Retail	100	100
Noel Leeming Group Limited	Retail	100	100
Torpedo7 Limited	Retail	100	100
1-day Limited	Online retail	100	100
TheMarket.Com Limited	Online Market-place	88	89
Eldamos Investments Limited	Property	100	100
The Warehouse Nominees Limited	Investment	100	100

1.4 Reporting period

These financial statements are for the 52 week period 3 August 2020 to 1 August 2021. The comparative period is for the 53 week period 29 July 2019 to 2 August 2020. The Group operates on a weekly trading and reporting cycle which means most financial years represent a 52 week period, a 53 week catch-up year occurs once every 5 to 6 years as happened last year.

1.5 Significant transactions and events in the financial year

The following significant transactions and events affected the financial performance and financial position of the Group for the year ended 1 August 2021.

Group structure

TheMarket.com

The Group structure was unchanged during the year, except for the Group's interest in TheMarket.com which decreased from 89.3% to 88.5%. In accordance with an employee share right plan (refer note 11.4) a final tranche of shares vested to plan participants in March 2021 increasing their minority shareholdings in TheMarket.com by 5.3%. Participants also exercised put options in accordance with the same plan which reduced (4.5%) their shareholdings.

1-day reclassification

The 1-day business was moved from Torpedo7 to TheMarket.com as a result of an organisational change and is now reported as part of TheMarket.com segment (refer note 2) with the comparative segment information reclassified to reflect the change. Subsequent to balance date the Group legally amalgamated 1-day Limited with TheMarket.com Limited.

Diners Club (NZ) – discontinued operation

The Group's discontinued Diners Club (NZ) business which ceased operating in April 2020 was placed into a formal solvent liquidation following balance date.

Impact of COVID-19

The impact of the ongoing COVID-19 pandemic during the first half year had a number of positive impacts on the retail sector. In contrast to market expectations, post 2020 year end the retail sector continued to experience high customer demand, above what was expected from pent up demand post lockdown, buoyed by government support packages and spend benefit from the cancellation of overseas holidays among a number of other contributing factors. The strong demand meant that the Group did not need to carry out the level of clearance and promotional activity that had been anticipated, which allowed certain judgemental inventory provisions estimated in the previous period to be reversed (refer note 8.1). These positive factors in combination with the Group's transformation initiatives, contributed to a record half year result for the Group with operating profit up 98% to $173.4 million compared to the previous half year.

The increased profit during the half year enabled the Group to pay a special dividend of 5.0 cps in March 2021 and an interim dividend of 13.0 cps in April 2021 (refer note 7).

This strong trading performance has continued through into the second half of the year and has ensured the Group maintained a sound balance sheet. Since balance date, the Delta variant of COVID-19 has been detected in New Zealand and a Level 4 lockdown was put in place. The Group made policy changes during the year regarding its liquidity and dividend policies which were designed to enhance the Group's balance sheet resilience and provide the Group with options to withstand periods without revenue when the Group's stores are closed to customers.

1.5 Significant transactions and events in the financial year (Continued)

Liquidity Policy

The Group revised its liquidity policy in response to last year's COVID pandemic and now operates to a preferred liquidity range of between $350 million to $450 million (refer note 11.1). The Group had cash on hand of $160.5 million (2020: $168.1 million) at balance date that provided liquidity of $490.5 million (2020: $498.1 million).

Dividend Policy

The Group also changed its dividend policy (refer note 7) to incorporate the Group's liquidity position as a relevant factor in the calculation of dividend distributions. The new policy is to distribute at least 70% of the Group's full year adjusted net profit, at the discretion of the Board and subject to trading performance, market conditions and liquidity requirements (previously the distribution range was set between 75% to 85%).

COVID–19 wage subsidy

In December 2020, due to strong trading through the weeks leading up to Christmas, the Group made the voluntary decision to repay the Government COVID–19 wage subsidy it received of $67.6 million. The Group classified the repayment of the wage subsidy as an unusual item as it did not relate to the Group's normal trading activities and similarly restated last year's result to classify the initial receipt of the subsidy in March 2020 as an unusual item. The reclassification has the effect of reducing 'other income' and decreasing the 'unusual item' expense on the Income Statement by $67.6 million for last year. The reclassification also reduced the Group's adjusted net profit (refer note 5) from $80.7 million to $32.1 million for last year.

Agile Restructuring Costs

The Group concluded its move to an agile way of working, incurring redundancy and professional services costs during the year of $16.1 million (refer note 5).

1.6 Changes in accounting policies, interpretations and agenda decisions

Cloud Computing Arrangements

The Group has capitalised costs incurred in configuring and customising supplier's software in cloud computing arrangements as intangible software assets, as the Group considered that it would benefit from the costs to implement the cloud-based software over the expected terms of the cloud computing arrangements.

In March 2021, the International Financial Reporting Interpretation Committee (IFRIC) issued an agenda decision clarifying the accounting treatment for software implementation costs in cloud computing arrangements. IFRIC concluded that costs incurred in configuring or customising software in cloud computing arrangements can be recognised as intangible assets only if the activities create an intangible asset that the Group controls. Costs that do not result in intangible assets are expensed as incurred, unless they are paid to the suppliers of the cloud-based software to significantly customise the cloud-based software for the Group, in which case the costs paid upfront are recorded as prepayments and amortised over the expected terms of the cloud computing arrangements. Making this change will require a retrospective restatement of prior period financial statements in the year in which the revised accounting policy is adopted.

This is a complex area and the Group is in the process of evaluating and reassessing the nature of the software costs incurred and to understand the Group's contractual rights in relation to customisation and configuration expenditure. This will enable the Group to determine how these costs should be treated for accounting purposes as outlined in the March 2021 IFRIC agenda decision. The Group's review has identified more than 70 different cloud-based software arrangements, which have an approximate combined carrying value at balance date of between $45 million to $55 million. At the time of finalising the 2021 financial statements the review process is still continuing.

It is expected to take many more months for the Group to properly evaluate its cloud-based software arrangements and identify which costs have been appropriately capitalised from those that should be recognised as an expense or prepayment. Whilst not impacting actual cash flows the change could reduce intangible assets and associated amortisation, increase operating expenses, and reclassify the relevant spend from an investing to an operating cash flow. The change may also result in the recognition of prepayments or an adjustment to opening retained earnings. We expect to have a clear understanding of the situation in the following financial year.

1.7 Critical accounting judgements, estimates and assumptions

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

(a) Inventory (note 8.1)

(b) Lease liabilities and right of use assets (notes 10.1 and 10.2)

(c) Derivative financial instruments (note 12.2)

(d) Intangible assets (note 9.2)

1.8 Non-GAAP financial information

The Group uses operating profit, earnings before tax and interest, unusual items and adjusted net profit to describe financial performance as it considers these line items provide a better measure of underlying business performance. These non-GAAP measures are not prepared in accordance with NZ IFRS and may not be comparable to similarly titled amounts reported by other companies. The Group's policy regarding unusual items and adjusted net profit is detailed in note 5.0.

1.9 Subsequent Events

Since year end New Zealand went into a country wide Alert Level 4 COVID–19 lockdown on 18 August 2021 and while the rest of the country shifted to Alert Level 2 on 8 September 2021, Auckland remains at Alert Level 3. Level 3 and 4 lockdown restrictions severely reduce the Group's ability to trade and the Group's sales for the first 8 weeks were down 22% compared to the same period last year. The Group's cash on hand has reduced significantly since balance date as a result of the decreased sales but the Group's bank debt facilities (refer note 11.2) remain undrawn. The Group expects to recover some of these lost sales once lock down restrictions are eased throughout the country and has declared a final dividend of 17.5 cents per share (refer note 7.0) to be paid in December 2021 on the basis that New Zealand is predominantly at Alert Level 2 or below from the end of October 2021

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 1 August 2021

2.0 SEGMENT INFORMATION

2.1 Operating performance	Note	Revenue		Operating Profit		Retail Operating Margin	
		2021	2020	2021	2020	2021	2020
		$ 000	$ 000	$ 000	$ 000	%	%
The Warehouse		1,804,861	1,706,036	187,621	54,903	10.4	3.2
Warehouse Stationery		274,646	268,845	34,325	17,513	12.5	6.5
Warehouse Segment		2,079,507	1,974,881	221,946	72,416	10.7	3.7
Noel Leeming		1,128,184	1,009,975	64,879	34,160	5.8	3.4
Torpedo7		158,706	129,901	3,287	(17,708)	2.1	(13.6)
TheMarket.com[1]		54,455	62,520	(20,704)	(14,820)		
Other Group operations		7,141	6,673	(28,803)	(24,796)		
Inter-segment eliminations		(13,392)	(11,120)	-	-		
Group		3,414,601	3,172,830	240,605	49,252	7.0	1.6
Adjustments for NZ IFRS 16	2.5			40,509	40,959		
Operating profit from continuing operations				281,114	90,211		
Unusual items	5.0			(86,955)	14,471		
Earnings before interest and tax from continuing operations				194,159	104,682		

1. TheMarket includes 1-day sales of $49.8 million (2020: $61.1 million) and an operating loss of $4.5 million (2020: nil).

Retail Sales
Retail sales are recognised when the customer receives the goods which typically occurs at the point of sale for instore sales or where the goods are purchased online when the goods have been delivered to the customer. 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.

Operating segments
The Group has four operating segments trading in the New Zealand retail sector and a start-up online market-place venture. These segments form the basis of internal reporting used by senior management and the Board of Directors to monitor and assess performance and assist with strategy decisions. The Group has disclosed its segment operating profit performance on a basis that excludes the impact of implementing NZ IFRS 16 (Leases - refer note 10), which is consistent with the Group's internal reporting.

Each of the four main retail segments represent a distinct retail brand that operate throughout New Zealand. Customers can purchase product from the retail chains either online or through the Group's physical retail store network. The Group's store network currently has 90 (2020: 92) The Warehouse stores, 70 (2020: 71) Warehouse Stationery stores, 71 (2020: 74) Noel Leeming stores and 21 (2020: 20) Torpedo7 stores. The Warehouse predominantly sells general merchandise and apparel, Noel Leeming sells technology and appliance products, Torpedo7 sells sporting equipment and the Warehouse Stationery sells stationery products.

Group support office functions, such as Information Systems, Finance, Brand Executives and People Support were operated using a shared services model which allocated the costs of these 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 Depreciation and amortisation	Note	PPE & Software		Right of Use Assets		Total	
		2021	2020	2021	2020	2021	2020
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
The Warehouse segment		40,595	44,340	67,675	70,414	108,270	114,754
Noel Leeming		8,446	8,624	18,246	18,990	26,692	27,614
Torpedo7		2,131	1,846	6,966	6,503	9,097	8,349
TheMarket.com		2,598	1,924	850	150	3,448	2,074
Other Group operations		1,441	1,502	355	359	1,796	1,861
Depreciation and amortisation expense		55,211	58,236	94,092	96,416	149,303	154,652
Comprising							
Property, plant and equipment (PPE)	9.1	41,396	45,366				
Computer Software	9.2	13,815	12,870				
		55,211	58,236				

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 1 August 2021

2.3 Asset impairment and capital expenditure		Asset Impairment		Capital Expenditure	
	Note	2021	2020	2021	2020
		$ 000	$ 000	$ 000	$ 000
The Warehouse segment		1,582	11,581	64,703	47,829
Noel Leeming		-	1,599	11,812	8,349
Torpedo7		-	5,083	2,722	3,138
TheMarket.com		-	-	5,462	3,362
Other Group operations		-	-	256	444
		1,582	18,263	84,955	63,122
Reclassified as an unusual item		-	(6,912)	-	-
Asset impairment and capital expenditure		1,582	11,351	84,955	63,122
Comprising					
Property, plant and equipment	9.1	-	8,659	39,715	32,162
Intangible assets	9.2	-	8,028	45,240	30,960
Right of use assets	10.1	1,582	1,576	-	-
		1,582	18,263	84,955	63,122

Last year's asset impairment expense reclassified as an unusual item related to the impairment of the Torpedo 7 brand name ($2.5 million) and asset impairments ($4.4 million) related to store closures included as part of the agile restructure costs (refer note 5.0).

2.4 Balance sheet information		Total Assets		Total Liabilities	
	Note	2021	2020	2021	2020
		$ 000	$ 000	$ 000	$ 000
The Warehouse segment		477,210	425,015	353,595	319,992
Noel Leeming		189,241	169,297	149,077	161,367
Torpedo7		52,281	39,627	20,761	16,656
TheMarket.com		21,288	18,761	9,009	6,704
Other Group operations		85,062	84,914	2,023	942
Operating assets/liabilities		825,082	737,614	534,465	505,661
Unallocated assets/liabilities					
Cash and borrowings		160,526	168,068	-	-
Derivative financial instruments	12.2	10,147	243	4,353	27,091
Right of use assets/Lease liabilities		736,524	774,175	892,191	934,788
Intangible goodwill and brands	9.2	72,956	72,956	-	-
Taxation assets/liabilities	4.2, 4.3	86,120	101,805	10,878	10,982
Total Group		1,891,355	1,854,861	1,441,887	1,478,522

2.5 Adjustment for NZ IFRS 16 (Leases)		Total Assets	
	Note	2021	2020
		$ 000	$ 000
Pre NZ IFRS 16 Rent		134,946	136,352
Right of use asset amortisation	10.1	(94,092)	(96,416)
Lease impairments		(1,582)	-
Gain on lease terminations		1,237	1,023
Impact on operating profit	2.1	40,509	40,959
Lease liability interest	3.5	(38,497)	(41,113)
Impact on net profit before tax (excluding unusual items)		2,012	(154)

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 1 August 2021

3.0 INCOME AND EXPENSES

3.1 Other income	Note	2021	2020
		$ 000	$ 000
COVID-19 landlord rent relief	10.2	-	8,246
Tenancy rents received		2,251	2,734
Other		4,799	5,389
Other income		7,050	16,369

3.2 Employee expense	2021	2020
	$ 000	$ 000
Wages and salaries	534,477	549,522
Directors' fees	787	703
Performance based compensation	38,377	8,724
Equity settled share based payments expense	93	350
Employee expense	573,734	559,299

3.3 Other operating expenses	Note	2021	2020
		$ 000	$ 000
Other operating expenses include:			
Provision for bad and doubtful debts		767	3,221
Loss on disposal of plant and equipment		637	1,294
Asset impairments	2.3	1,582	11,351
Donations		499	134
Net foreign currency exchange (gain)/loss		105	(16)

3.4 Auditors' fees	2021	2020
	$ 000	$ 000
Auditing the Group financial statements	697	620
Reviewing the half year financial statements	97	93
Other services	82	46
Total fees paid to PricewaterhouseCoopers	876	759

Audit fees

Fees paid to PricewaterhouseCoopers for other services related to treasury market analysis, executive remuneration analysis, director remuneration benchmarking, tax audit of an overseas subsidiary and agreed upon procedures at the Annual Shareholders' Meeting and over negative pledge calculations. In accordance with the Group's policies regarding audit governance and independence this work was approved by the Group's Audit and Risk Committee. The Group's policy permits the audit firm to provide non-audit services that are not considered to be in conflict with the preservation of the independence of the auditor, subject to Audit and Risk Committee approval.

3.5 Net interest expense	Note	2021	2020
		$ 000	$ 000
Interest on deposits and use of money interest received		(1,048)	(713)
Interest on bank borrowings		9	127
Interest on fixed rate senior bond		-	6,210
Interest on leases	10.2	38,497	41,113
		37,458	46,737
Less interest attributable to discontinued operations		-	(27)
Net interest expense from continuing operations		37,458	46,710

Fixed rate senior bond

The Group issued a $125 million, 5-year fixed rate senior bond on the New Zealand stock exchange in June 2015 with interest payable every six months (15 June and 15 December) based on a 5.30% coupon. The bond was fully repaid from cash reserves in June 2020 when the bond matured.

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 1 August 2021

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	2021	2020
		$ 000	$ 000
Profit before tax from continuing operations		156,701	57,972
Gain before tax from discontinued operations		-	43
Profit before tax		156,701	58,015
Taxation calculated at 28%		43,876	16,244
Adjusted for the tax effect of:			
Non deductible expenditure		504	693
Income tax relating to prior year property disposals and building depreciation	5.0	(3,295)	(2,025)
Income tax over provided in prior year		(594)	(595)
Income tax expense		40,491	14,317
Adjust for income tax expense attributable to losses from discontinued operations		-	(12)
Income tax expense attributable to continuing operations		40,491	14,305
Income tax expense comprises:			
Current year income tax payable	4.2	32,272	30,224
Deferred taxation	4.3	8,219	(15,907)
Income tax expense		40,491	14,317

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 Balance sheet - Current taxation liability	Note	2021	2020
		$ 000	$ 000
Opening balance		(10,982)	(713)
Foreign exchange movement		(2)	3
Current year income tax payable	4.1	(32,272)	(30,224)
Net taxation paid		32,132	19,879
Transfer from cash flow hedge reserve		-	(63)
Supplementary dividend tax credit		246	136
Closing balance		(10,878)	(10,982)

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

4.3 Balance sheet - Deferred taxation asset	Note	Inventory	Leases	Property, Plant Equipment and Software	Employee Provisions	Derivatives	Other	Total
For the 52 week period ended 1 August 2021		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Opening balance		15,713	42,211	9,226	19,348	6,744	8,563	101,805
Charged/(credited) to the income statement	4.1	(2,772)	(563)	(2,045)	(1,865)	(1,681)	707	(8,219)
Net charged to other comprehensive income		-	-	-	-	(7,463)	(3)	(7,466)
Closing balance		12,941	41,648	7,181	17,483	(2,400)	9,267	86,120
For the 53 week period ended 2 August 2020								
Opening balance		11,843	-	6,128	13,425	415	6,664	38,475
Adjustment on adoption of NZ IFRS 16		-	42,782	-	-	-	-	42,782
Charged/(credited) to the income statement	4.1	3,870	(571)	3,098	5,923	1,681	1,906	15,907
Net charged to other comprehensive income		-	-	-	-	4,648	(7)	4,641
Closing balance		15,713	42,211	9,226	19,348	6,744	8,563	101,805

5.0 ADJUSTED NET PROFIT

Adjusted net profit reconciliation	Note	2021	2020
		$ 000	$ 000
Adjusted net profit		175,515	32,108
Add back: Unusual items			
Gain on property disposals		-	88
Restructuring costs - Rise		-	(22,006)
Restructuring costs - Agile		(16,065)	(22,189)
Interest rate hedge derivatives write-off	12.5	(3,340)	(6,427)
Brand impairment (Torpedo7)	9.2	-	(2,545)
COVID-19 wage subsidy		(67,550)	67,550
Unusual items before taxation and NZ IFRS 16 adjustments		(86,955)	14,471
Adjustments for NZ IFRS 16	2.5	2,012	(154)
Income tax on the unusual items above		23,784	(4,009)
Income tax relating to prior year property disposals and building depreciation	4.1	3,295	2,025
Unusual items after taxation		(57,864)	12,333
Net profit from continuing operations attributable to shareholders of the parent		117,651	44,441

Certain transactions can make the comparison of profits between years difficult. The Group uses adjusted net profit as a key indicator of performance and considers it a better measure of underlying business performance. The Group's also uses adjusted net profit as the basis for determining dividend distributions. Adjusted net profit makes allowance for the after tax effect of unusual items which are not directly connected with the Group's normal trading activities. The Group defines unusual items as any gains or losses from property disposals, goodwill and brand impairment, costs relating to business acquisitions or disposals, ineffective hedge derivatives and costs connected with restructuring the Group. Following the implementation of NZ IFRS 16 (Leases - refer note 10.0) the non-cash impact relating to the new lease accounting standard is also excluded from adjusted net profit. The repayment of the COVID-19 wage subsidy during the year is considered a non-trading item, together with the corresponding receipt in the prior year and are classified as unusual items.

Unusual items

Restructuring costs - Agile

In February 2020 the Group commenced an 18-month plan to move the Group to an agile way of working with the aim of improving productivity by shifting the Group from a traditional hierarchical organisation structure to a flatter structure. The plan included rationalising the Group's store network by combining The Warehouse and Warehouse Stationery stores within one location and closing underperforming stores. The Group incurred redundancy costs of $5.6 million (2020: $13.7 million) and asset impairment costs last year connected with the store closures (2020: $4.4 million) as part of the transition process. The Group partnered with the same consultancy firm which helped with the "Rise' transformation program to assist with the agile transition and incurred consultancy fees which were linked to the achievement of specified outcomes.

COVID-19 wage subsidy

In December 2020, the Group made the voluntary decision to repay the Government COVID-19 wage subsidy it received in March 2020.

Income tax

The Group has recently resolved an uncertain tax position regarding the tax treatment of a gain arising from the sale of surplus land in 2019, resulting in a reduction in the current tax liability and tax expense of $3.3 million.

Last year depreciation on buildings was reintroduced for tax purposes allowing the Group to claim a tax deduction during the current year on its buildings based on a straight-line basis depreciation rate set at 1.5%. This increased the tax base of the Group's buildings by $7.2 million last year and reduced the difference between the accounting carrying value and the tax base, resulting in an increase in deferred tax assets and a reduction in the tax expense of $2.0 million.

6.0 EARNINGS PER SHARE

Earnings per share calculation	Note	2021	2020
Net profit attributable to shareholders of the parent ($000s)		117,651	44,472
Net profit from continuing operations attributable to shareholders of the parent ($000s)		117,651	44,441
Adjusted net profit ($000s)	5.0	175,515	32,108
Basic			
Weighted average number of ordinary shares (net of treasury shares) on issue (000s)		345,301	345,286
Basic earnings per share (cents)		34.1	12.9
Basic earnings per share from continuing operations (cents)		34.1	12.9
Adjusted basic earnings per share (cents)		50.8	9.3

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

The Group has not calculated a dilutive earnings per share as it has no dilutive potential ordinary shares which entitle a holder to ordinary shares in the Group. Minority shareholders in TheMarket.com hold put options (refer note 11.5) which are not dilutive but entitle the minority shareholders to receive ordinary shares in the Group if they exercise the options based on a settlement value equivalent to the fair value of the minority shareholding sold.

Notes to the Financial Statements - Financial Performance

For the 52 week period ended 1 August 2021

7.0 DIVIDENDS

7.1 Dividends paid	2021	2020	2021	2020
	$ 000	$ 000	CENTS PER SHARE	CENTS PER SHARE
Prior year final dividend	-	27,747	-	8.0
Special dividend	17,342	-	5.0	-
Interim dividend	45,090	-	13.0	-
Total dividends paid	62,432	27,747	18.0	8.0

Dividend policy

The Group did not declare a final dividend and cancelled its interim dividend relating to the last financial year due to the uncertainties around the impact of the COVID-19 pandemic. The Group's financial position has since improved as a result of a stronger than expected trading performance throughout this year's Christmas trading period, prompting the Board to declare a special dividend in February 2021. The Board would typically only declare two dividends annually, the first in respect of the half year (interim dividend) and the second in respect of the full year results (final dividend).

Following the uncertainty of last year's trading conditions and being wary of the necessity to have a strong balance sheet the Board reviewed the dividend policy, which included benchmarking the Group's dividend policy against the policies of other listed retailers. As a result of this review the Board approved a new dividend policy in March 2021. The new policy is to distribute at least 70% of the Group's full year adjusted net profit, at the discretion of the Board and subject to trading performance, market conditions and liquidity requirements (previously the distribution range was set between 75% to 85%).

In accordance with this new policy the Board declared a fully imputed final dividend of 17.5 cents per ordinary share on 28 September 2021 to be paid on 3 December 2021 to all shareholders on the Group's share register at the close of business on 18 November 2021. The final dividend was declared on the basis that New Zealand is predominantly at Alert Level 2 or below from the end of October 2021..

7.2 Dividend policy reconciliation	Note	2021	2020	2021	2020
		$ 000	$ 000	CENTS PER SHARE	CENTS PER SHARE
Special dividend		17,342	-	5.0	-
Interim dividend		45,090	-	13.0	-
Final dividend (declared after balance date)		60,698	-	17.5	-
Total dividends declared in respect of the current financial year		123,130	-	35.5	-
Group adjusted net profit	5.0	175,515	32,108		
Pay-out ratio (%)		70.2 %	0.0 %		

7.3 Imputation credit account	2021	2020
	$ 000	$ 000
Imputation credits at balance date available for future distribution	142,492	133,689

The above amounts represent the balance of the Group's imputation credit account at balance date adjusted for imputation credits that would arise from the payment of the amount of the remaining current year provision for income taxation.

8.0 WORKING CAPITAL

8.1 Inventory	2021	2020
	$ 000	$ 000
Finished goods	413,352	382,380
Inventory provisions	(21,966)	(36,943)
Retail stock	391,386	345,437
Goods in transit from overseas	65,765	48,173
Inventory	457,151	393,610

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 period 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	2021	2020
	$ 000	$ 000
Trade receivables	36,193	40,035
Prepayments	12,528	14,764
Rebate accruals and other debtors	30,556	29,464
Trade and other receivables	79,277	84,263

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

8.3 Trade and other payables	2021	2020
	$ 000	$ 000
Local trade creditors and accruals	266,486	285,226
Foreign currency trade creditors	93,524	55,810
Goods in transit creditors	17,883	19,669
Capital expenditure creditors	3,018	1,250
Goods and services tax	10,155	14,329
Reward schemes, Lay-bys, Christmas Club deposits and gift vouchers	22,036	20,503
Payroll accruals	23,477	24,018
Trade and other payables	436,579	420,805

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 local creditors typically settled within 60 days and foreign creditors up to 120 days of recognition. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

Notes to the Financial Statements - Operating Assets and Liabilities

For the 52 week period ended 1 August 2021

8.4 Provisions	Current		Non-current		Total	
	2021	2020	2021	2020	2021	2020
	$000	$000	$000	$000	$000	$000
Employee entitlements	67,603	53,568	15,667	16,048	83,270	69,616
Make good provision	1,471	834	7,704	7,817	9,175	8,651
Sales return provision	5,441	6,589	-	-	5,441	6,589
Total provisions	74,515	60,991	23,371	23,865	97,886	84,856

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) Annual leave and sick leave

Liabilities for 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.

9.0 NON CURRENT ASSETS

9.1 Property, plant and equipment		Land and Buildings		Plant and Equipment		Work in Progress		Total	
	Note	2021	2020	2021	2020	2021	2020	2021	2020
		$000	$000	$000	$000	$000	$000	$000	$000
Cost		93,527	93,498	638,450	651,544	10,785	9,702	742,762	754,744
Accumulated depreciation		(14,193)	(13,086)	(531,438)	(520,497)	-	-	(545,631)	(533,583)
Opening carrying amount		79,334	80,412	107,012	131,047	10,785	9,702	197,131	221,161
Additions	2.2	-	229	39,111	30,850	604	1,083	39,715	32,162
Disposals		-	(200)	(831)	(1,967)	-	-	(831)	(2,167)
Impairment	2.2	-	-	-	(8,659)	-	-	-	(8,659)
Depreciation	2.2	(1,100)	(1,107)	(40,296)	(44,259)	-	-	(41,396)	(45,366)
Closing carrying amount		78,234	79,334	104,996	107,012	11,389	10,785	194,619	197,131
Cost		93,527	93,527	657,409	638,450	11,389	10,785	762,325	742,762
Impairment & accumulated depreciation		(15,293)	(14,193)	(552,413)	(531,438)	-	-	(567,706)	(545,631)
Closing carrying amount		78,234	79,334	104,996	107,012	11,389	10,785	194,619	197,131

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 inclusive of directly attributable costs incurred to bring 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 - 15 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.

Notes to the Financial Statements - Operating Assets and Liabilities

For the 52 week period ended 1 August 2021

9.2 Intangible assets		Goodwill		Brand Names		Computer Software		Total	
	Note	2021	2020	2021	2020	2021	2020	2021	2020
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Cost		94,380	94,380	23,523	23,523	151,597	149,035	269,500	266,938
Impairment & accumulated amortisation		(36,924)	(36,924)	(8,023)	(5,478)	(88,987)	(99,024)	(133,934)	(141,426)
Opening carrying amount		57,456	57,456	15,500	18,045	62,610	50,011	135,566	125,512
Additions	2.2	-	-	-	-	45,240	30,960	45,240	30,960
Disposals		-	-	-	-	-	(8)	-	(8)
Impairment		-	-	-	(2,545)	-	(5,483)	-	(8,028)
Amortisation	2.2	-	-	-	-	(13,815)	(12,870)	(13,815)	(12,870)
Closing carrying amount		57,456	57,456	15,500	15,500	94,035	62,610	166,991	135,566
Cost		94,380	94,380	23,523	23,523	196,336	151,597	314,239	269,500
Impairment & accumulated amortisation		(36,924)	(36,924)	(8,023)	(8,023)	(102,301)	(88,987)	(147,248)	(133,934)
Closing carrying amount		57,456	57,456	15,500	15,500	94,035	62,610	166,991	135,566

Goodwill

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

Brand names

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

Impairment of goodwill and brand names

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

Computer software

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

Torpedo7 brand impairment

Last year the Group made the decision to fully write off the brand name held by Torpedo7 of $2.545 million after several years of underperformance relative to plan.

Goodwill and brand impairment testing

The Group performs an annual impairment test of its brand and goodwill intangible assets which involves comparing the recoverable amount of the assets to the carrying values. The recoverable amounts are calculated using the 'fair value less costs to sell' method. The discounted cash flow valuation method is based on projections regarding future operating performance. The Group considers a wide range of factors including the Group's financial budgets, strategic plans, external benchmarks and historical performance to formulate the future cash flow projections. The Group also engages external advisors to determine appropriate discount rates and long term growth rates, integral to the valuations. The valuations are then scaled back to align with the average values assessed by a selection of the Group's external equity research analysts.

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

Impairment testing	Noel Leeming		The Warehouse	
	2021	2020	2021	2020
	$ 000	$ 000	$ 000	$ 000
Goodwill	31,776	31,776	25,680	25,680
Brand names	15,500	15,500	-	-
Closing carrying amount	47,276	47,276	25,680	25,680
Key assumptions				
Operating margin (%)	5.0	4.0	8.0	6.0
Terminal growth rate (%)	1.5	1.3	1.5	1.3
Pre-tax discount rate (%)	14.3	13.5	13.2	11.8
Post-tax discount rate (%)	10.3	9.7	9.5	8.5

Operating margin represents earnings before interest, taxation, unusual items and the impact of NZ IFRS 16. The Warehouse segment also includes the Warehouse Stationery business; the operating margin assumptions for this business division are different from those of The Warehouse business at 11.3% (2020: 7.0%). The annual impairment testing for both Noel Leeming and The Warehouse cash generating units indicated ample headroom and that the carrying amounts of the attributed goodwill and brand assets were not impaired.

10.0 LEASE LIABILITIES AND RIGHT OF USE ASSETS

10.1 Right of use assets	Note	Cost 2021	Cost 2020	Accumulated Depreciation 2021	Accumulated Depreciation 2020	Carrying Amount 2021	Carrying Amount 2020
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Opening balance	10.4	1,498,007	1,510,584	(723,832)	(676,093)	774,175	834,491
Additions		55,494	66,202	-	-	55,494	66,202
Depreciation		-	-	(94,092)	(96,416)	(94,092)	(96,416)
Reassessment of lease terms	10.2	5,271	(21,960)	-	-	5,271	(21,960)
Lease impairments		-	-	(1,582)	(1,576)	(1,582)	(1,576)
Lease surrenders and terminations		(53,635)	(56,819)	50,893	50,253	(2,742)	(6,566)
Closing carrying amount		1,505,137	1,498,007	(768,613)	(723,832)	736,524	774,175

A 'lease liability' and a corresponding 'right of use' asset is recognised when the Group commences a lease with a term exceeding 12 months and has sufficient value to not be characterised as a low value lease. The initial lease liability and corresponding 'right of use' asset represents the present value of future lease payments discounted using the Group's incremental borrowing rate over the lease term including any contractual lease extension options considered reasonably certain to be exercised. The future lease payments adjust for contractual fixed rate lease payment adjustments but no adjustment is made for inflation indexed lease payment increases.

Lease payments are allocated between the lease liability and the finance cost. The finance cost is charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

The Group leases various warehouses, retail stores, equipment and vehicles. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Property leases represent around 98% of the carrying value of the Group's 'right of use assets'. The property leases are typically made for an initial period of 6 to 10 years and usually include extension options. Extension options provide the Group with operational flexibility in terms of managing the Group's retail intensity within different catchment areas. The majority of extension and termination options held are exercisable only by the Group and not by the landlords.

10.2 Lease liabilities	Note	2021	2020
		$ 000	$ 000
Opening balance		934,788	990,213
Additions		55,494	66,202
Interest for the period	3.5	38,497	41,113
Reassessment of lease terms	10.1	5,271	(21,960)
COVID-19 Landlord rent relief	3.1	-	(8,246)
Lease repayments		(137,880)	(124,946)
Lease surrenders and terminations		(3,979)	(7,588)
Closing balance		892,191	934,788

COVID-19 landlord rent relief

Last year the Group negotiated rent concessions with its landlords as a result of the temporary store closures caused by the COVID-19 pandemic. These concessions included reduced rents and payment deferrals. In May 2020 the International Accounting Standards Board issued an amendment to NZ IFRS 16 which allowed the Group not to account for rent concessions as lease modifications if they are a consequence of COVID-19. The Group applied this practical expedient to account for all the landlord rent concessions which meant the rent reductions were accounted for as negative variable lease payments ($8.246 million note 3.1) and the payment deferrals ($1.713 million) as timing differences reducing the amount of lease repayments.

10.3 Lease liability maturity analysis	Gross Lease Payments 2021	Gross Lease Payments 2020	Interest 2021	Interest 2020	Carrying Amount 2021	Carrying Amount 2020
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Within one year	133,653	143,950	(35,841)	(37,483)	97,812	106,467
One to two years	125,275	116,756	(32,157)	(33,871)	93,118	82,885
Two to five years	330,591	329,939	(75,942)	(80,767)	254,649	249,172
Beyond five years	524,906	591,554	(78,294)	(95,290)	446,612	496,264
Total lease liability	1,114,425	1,182,199	(222,234)	(247,411)	892,191	934,788
Current lease liability					97,812	106,467
Non-current lease liability					794,379	828,321
Total lease liability					892,191	934,788

Significant judgements and estimates

The calculation of lease liabilities and right of use values requires the Group to use estimates and judgements to determine the incremental borrowing rate and the appropriate lease term. The Group engages an independent valuation expert to establish the incremental borrowing rates applied during the year. The average incremental borrowing rate used to calculate the value of lease liabilities at balance date was 4.32% (2020: 4.28%).

The Group uses judgement to assess lease terms at the inception of a lease or when a significant event or significant change in circumstances within the control of Group affects the prospect that a right of renewal contained in a lease will be exercised. The Group's shift to an Agile operating model triggered an ongoing review programme to reassess the viability of under performing stores within the store network, resulting in some leases being terminated earlier than previously planned.

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, optimise the Group's cost of capital and maintain a liquidity buffer.

The Group has made a number of changes to its capital management policies to strengthen the Group's balance sheet in response to the COVID-19 pandemic including introducing a liquidity buffer requirement. The liquidity buffer is used to cover operating expenses during a period where there are no sales or cash inflows after allowing for expected cash preservation initiatives. The required liquidity buffer policy range is currently set at between $350 million to $450 million. The Group held cash deposits of $160.5 million (2020: $168.1 million) at balance date and unutilised committed bank debt facilities that provided liquidity of $490.5 million (2020: $498.1 million).

The Group reviews its capital structure annually, unless there is a material change requiring an earlier response 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 dividend policy was revised during the year (refer note 7.0) and is now based on distributing at least 70% of the adjusted net profit back to shareholders.

Externally imposed capital requirements

The Group has a negative pledge arrangement with its funding providers that requires the parent and its guaranteeing Group companies to comply with certain quarterly debt ratios and restrictive covenants. The calculation of these ratios is adjusted to exclude the impact of the NZ IFRS 16 lease accounting standard. The two principal covenants are:

1) The gearing ratio will not exceed 60% during the first quarter ending October or exceed 50% in each of the remaining quarters of the year

2) Interest cover will not be less than 2 times operating profit

The Group had no external borrowings during the current financial year or at balance date last year which meant the book gearing ratio at both balance dates was zero. The Group was in compliance with all aspects of the negative pledge covenants throughout the current and previous financial year.

11.2 Bank facilities	2021	2020
	$ 000	$ 000
Unused bank debt facilities	330,000	330,000
Letters of credit facilities	14,500	18,000
Letters of credit	(1,243)	(2,249)
Unused letter of credit facilities	13,257	15,751
Total unused bank facilities	343,257	345,751

11.3 Contributed equity	Contributed equity		Ordinary shares	
	2021	2020	2021	2020
	$ 000	$ 000	000	000
Share capital	365,517	365,517	346,843	346,843
Treasury shares	(5,282)	(5,456)	(1,489)	(1,557)
Contributed equity	360,235	360,061	345,354	345,286

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	
	2021	2020	2021	2020
	$ 000	$ 000	000	000
Opening balance	5,456	5,456	1,557	1,557
Ordinary shares issued to settle share rights plan obligations	(174)	-	(68)	-
Closing balance	5,282	5,456	1,489	1,557

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.

11.4 Reserves	2021	2020
	$ 000	$ 000
Cash flow hedge reserve	6,171	(13,017)
Foreign currency translation reserve	(115)	(170)
Total reserves	6,056	(13,187)

Cash flow hedge reserve

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

Foreign currency translation

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

11.5 Minority interest	2021	2020
	$ 000	$ 000
Opening balance	(794)	719
Adjustment on adoption of NZ IFRS 16	-	(38)
Net loss attributable to minority interest	(1,441)	(774)
Share rights charged to the income statement	93	350
Share rights vested	(1,697)	(922)
Minority put options exercised	1,145	-
Dividends paid to minority shareholders	-	(129)
Closing balance	(2,694)	(794)

Minority interest reserve

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

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

At balance date the Group's minority interests represent a 50% (2020: 50%) minority shareholding held in ChocolateWorks and a 11.5% (2020: 10.7%) shareholding in TheMarket.Com (TMC).

TheMarket.com share rights plan

Share rights were provided as a performance incentive to key executives in TMC, an online marketplace start-up venture. In accordance with the share rights plan participants were collectively transferred a total of 160,000 TMC shares in three equal tranches over the period commencing June 2019 and concluding in March 2021. The vested shares rights were independently valued at $5.00, $6.37 and $11.53 per share at the date of vesting in June 2019, March 2020 and March 2021 respectively.

The share rights plan granted the participants put options over a proportion of their vested TMC shares, which could be exercised to fund the participants tax obligations arising under the plan; and a further full put option over the participant's entire TMC shareholding, exercisable during the 3 years following March 2021. If the put option is exercised, the Group is required to purchase the TMC shares at a price based on the fair value of the shares at that time, in consideration for providing the participant with ordinary shares in the Group of equivalent value (using the volume weighted average market price of the Group's shares). During the year, participants exercised tax put options representing 23,710 TMC shares which were settled from treasury shares and a full put option representing 20,810 TMC shares, settled in cash due to restrictions mandated by the Group's share trading policy. No put options were exercised last year.

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. The Group's overall risk management programme focuses on the uncertainty of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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

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

12.2 Derivative financial instruments	Currency Contracts		Interest Rate Swaps		Total	
	2021	2020	2021	2020	2021	2020
	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Current assets	8,837	243	-	-	8,837	243
Current liabilities	(4,353)	(17,624)	-	(9,467)	(4,353)	(27,091)
Non-current assets	1,310	-	-	-	1,310	-
Total Derivative financial instruments	5,794	(17,381)	-	(9,467)	5,794	(26,848)
Classified as:						
Cash flow hedges	8,572	(15,040)	-	(3,040)	8,572	(18,080)
Fair value hedges	(2,778)	(2,341)	-	-	(2,778)	(2,341)
Fair value of derivatives that are not hedge effective	-	-	-	(6,427)	-	(6,427)
Total Derivative financial instruments	5,794	(17,381)	-	(9,467)	5,794	(26,848)

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

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

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

Cash flow hedge

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

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

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

Fair value hedge

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

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

Valuation

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.

Hedge effectiveness

When calculating the hedge effectiveness of the Group's currency derivatives the Group is required to forecast the next 18 months overseas purchases to test if the hedged transactions are still highly probable to occur. The method of testing adopted is based on matching the critical terms of the hedged transaction to those of the derivative. The results of this testing demonstrated an expectation of high hedge effectiveness.

The time horizon was extended to 4 years when the Group tested the hedge effectiveness of its monetised interest rate swaps against projected debt levels. The Group considers a wide range of factors including the Group's financial budgets, strategic plans, external benchmarks and historical performance to formulate these projections. The results of the hedge effectiveness tests indicated the Group's monetised interest rate swaps which were considered to be effective hedges last year were no longer effective based on the revised debt projections (refer note 12.5).

12.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through committed credit facilities to meet financial obligations when they are due and being able to close out market positions if necessary. The Group monitors rolling forecasts of the Group's liquidity position based on expected cash flows to ensure a liquidity buffer is maintained in accordance with policy limits approved by the Board. The Group maintains funding flexibility by maintaining availability using committed credit lines. The Group's liquidity policy and committed credit facilities at balance date are detailed in note 11.1.

The table below details the Group's derivatives and other financial liabilities (excluding lease liabilities - refer note 10.3).

Liabilities/(Assets)		0 - 6 Months		7 - 12 Months		13 - 18 Months		Total	
	Note	2021	2020	2021	2020	2021	2020	2021	2020
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Trade and other payables	8.3	436,579	420,805	-	-	-	-	436,579	420,805
Derivatives - gross settled (currency forward contracts)									
- outflow	12.5	228,007	227,593	154,501	166,522	27,578	-	410,086	394,115
- inflow		(226,957)	(219,723)	(159,357)	(156,910)	(28,713)	-	(415,027)	(376,633)
Derivatives - Interest rate swaps	12.2	-	9,467	-	-	-	-	-	9,467
Financial Liabilities and derivatives		437,629	438,142	(4,856)	9,612	(1,135)	-	431,638	447,754

12.4 Credit risk

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

The Group places its cash and short-term investments and derivatives with high credit quality financial institutions approved by the Board 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 (2020: A).

The Group controls its credit risk from trade and other receivables by the application of credit approval, limits and monitoring procedures. Receivable balances are monitored on an ongoing basis to ensure the Group's bad debt exposure is not significant. As the Group transacts with a diversity of counterparties it does not have any significant exposure to any individual customers, industry or economic sector.

12.5 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 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. An independent review of this policy was recently performed to determine if changes to the overseas payment cycle from extending overseas creditor payment terms last year could affect the way the Group hedges foreign currency purchases. As a result of the review some policy limits were amended in June 2021. The new policy parameters for hedging forecast currency exposures are:

- to hedge 80% to 100% of US dollar commitments expected in the next 0 to 4 months (previously 40% to 100% for the next 0 to 6 months)
- to hedge 50% to 90% of US dollar commitments expected in the next 5 to 12 months (previously 0% to 85% for the next 7 to 12 months)
- where exposures to other currencies arise, the Group hedges these risks once a firm commitment is in place
- specific approval is required to hedge foreign currency commitments extending beyond a 12–month time horizon

Currency position at balance date	Carrying value		Notional amount (NZD)		Average exchange rate		12 month hedge level	
	2021	2020	2021	2020	2021	2020	2021	2020
	$ 000	$ 000	$ 000	$ 000	CENTS	CENTS	PERCENTAGE	PERCENTAGE
Currency forward contracts								
Buy US dollars/Sell New Zealand dollars	5,794	(17,381)	410,086	394,115	0.7049	0.6334	70.9	74.1

The spot rate used to determine the mark-to-market carrying value of the US dollar forward contracts at balance date was $0.6966 (2020: $0.6628).The following sensitivity table, based on currency contracts and foreign currency trade creditors in existence at balance date, shows the positive/(negative) impact of reasonably possible exchange rate movements on after tax profit and equity, with all other variables held constant.

			+ 10 percent		- 10 percent	
Foreign currency sensitivity table	Note	Amount	Profit	Equity	Profit	Equity
At 1 August 2021		$ 000	$ 000	$ 000	$ 000	$ 000
Foreign currency trade creditors	8.3	(93,524)	6,121	6,121	(7,482)	(7,482)
Derivative financial instruments						
Currency forward contracts - cash flow hedges	12.2	8,572	-	(21,011)	-	25,688
Currency forward contracts - fair value hedges	12.2	(2,778)	(6,119)	(6,119)	7,480	7,480
Total increase/(decrease)			2	(21,009)	(2)	25,686
At 2 August 2020						
Foreign currency trade creditors	8.3	(55,810)	3,653	3,653	(4,465)	(4,465)
Derivative financial instruments						
Currency forward contracts - cash flow hedges	12.2	(15,040)	-	(20,997)	-	25,668
Currency forward contracts - fair value hedges	12.2	(2,341)	(3,697)	(3,697)	4,519	4,519
Total increase/(decrease)			(44)	(21,041)	54	25,722

Interest rate risk

When the Group had borrowings it used interest swaps to manage its exposure to interest rate volatility arising from the debt. Following a strong trading performance coming out of last year's COVID–19 lockdown, the Group was able to fully repay its borrowings and has continued to maintain cash surpluses. The Group's forecast debt projections indicated that the Group would have no core borrowings for the next two years and on that basis the interest rate swaps were monetised in August 2020. There was an additional cost ($0.3 million) to close out the interest rate swaps above the carrying value ($9.5 million - refer note 12.2) recorded last year.

A portion of the longer dated monetised interest rate swaps ($3.0 million) were still considered to be hedge effective at that time, however a continuation of the Group's strong trading performance caused the Group to reassess its debt projections. The reassessment indicated that these monetised interest rate swaps did not provide an effective hedge and accordingly an expense of $3.3 million (2020: $6.4 million - refer note 5.0) was recognised for the monetised interest rate swaps which did not qualify for hedge accounting.

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 (2020: 10) 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	2021	2020
	$ 000	$ 000
J Withers (Chair)	166	160
A J Balfour	98	82
W K Easton	79	76
D R Hamilton (appointed April 2020)	96	14
J W M Journee	86	83
J M Raue	101	95
R E Taulelei (appointed February 2021)	38	-
R J Tindall (appointed November 2020)	56	-
K R Smith (retired November 2020)	39	111
Sir Stephen Tindall (retired November 2020)	28	82
Total	787	703

J W M Journee received an additional fee of $13,750 (2020: $13,200) and R J Tindall received an additional fee of $13,750 (2020: $12,512) in their capacities as directors of a Group subsidiary company (TheMarket.Com Limited). Last year the Directors reduced their fees by 20 percent in April and May 2020 during the COVID 19 lock-down period.

Key management	Note	2021	2020
		$ 000	$ 000
Base salary		7,271	8,361
Annual performance based compensation		3,858	-
Three year performance based compensation		3,325	2,536
Share-based compensation	11.5	35	131
Termination benefits		322	630
Total		14,811	11,658

The Group cancelled last year's annual incentive plan as part of measures taken to reduce operating costs in response to the uncertain trading out-look at the commencement of the COVID 19 lock-down.

14.0 COMMITMENTS

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

Capital commitments	2021	2020
	$ 000	$ 000
Within one year	28,759	4,762

15.0 CONTINGENT LIABILITIES

	2021	2020
	$ 000	$ 000
Bank letters of credit issued to secure future purchasing requirements	1,243	2,249
Less included as a goods in transit creditor	-	(593)
	1,243	1,656
Bank guarantees provided to landlords and the New Zealand Stock Exchange Limited	456	456
Total contingent liabilities	1,699	2,112

16.0 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.

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

Our opinion

In our opinion, the accompanying financial statements of The Warehouse Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 1 August 2021, its financial performance and its cash flows for the 52 week period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's financial statements comprise:

- the consolidated balance sheet as at 1 August 2021;
- the consolidated income statement for the 52 week period then ended;
- the consolidated statement of comprehensive income for the 52 week period then ended;
- the consolidated statement of changes in equity for the 52 week period then ended;
- the consolidated statement of cash flows for the 52 week period then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

Our firm carries out other services for the Group in the areas of treasury related market analysis, executive remuneration analysis, directors remuneration benchmarking, agreed upon procedures at the Annual Shareholders' Meeting and over the calculations of the Negative Pledge and a tax audit for an overseas subsidiary. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These relationships and provision of other services has not impaired our independence as auditor of the Group.

Key audit matters

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

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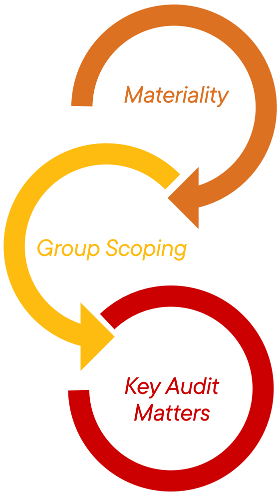
Description of the key audit matter	How our audit addressed the key audit matter
Inventory costing and valuation As at 1 August 2021, the carrying value of the Group's inventory was $457.2 million (2020: $393.6 million) with associated inventory provisions of $22.0 million (2020: $36.9 million). The Group uses a weighted average method to calculate the cost of inventory and includes expenditure incurred to purchase the inventory and transport it to its current location. In order to measure inventory at the lower of cost and net realisable value, a provision is deducted from the cost of inventory and is determined based on various factors including historical data, current trends and product information from buyers. Determining the appropriate level of provisions involves judgement including management's expectations of future sales levels and estimation of selling price adjustments. The inventory provision in the current period decreased from the prior period to reflect management's best estimate of net realisable value based on the expected future economic conditions in an environment that continues to be impacted by COVID-19. Due to the significance of the inventory balance and the judgements involved in estimating inventory provisions, this is an area of focus for the audit. Refer to notes 1.5 and 8.1 of the financial statements which describe the accounting policy on inventory and the judgements and estimates applied by management to determine the inventory provision.	Our procedures to audit the cost of inventory included the following on a sample basis: • tested the accuracy of the weighted average cost calculation by reperforming the calculation; • validated the cost of inventory to supplier and freight invoices and supplier rebate contracts; and • attended cycle counts to observe that finished goods have been counted and any stocktake variances have been appropriately recorded. On inventory provisions, we performed the following: • gained an understanding of inventory processes and assessed the design and implementation of relevant inventory controls, particularly controls over the cyclical counting process; • observed management's stocktake process at selected locations to confirm that aged and clearance items were identified and accounted for; • held discussions with management to understand and corroborate the assumptions used to estimate inventory provisions; • reviewed management's retrospective review of inventory provisions in the prior period versus inventory write offs in the current period; • tested the net realisable value of finished goods on a sample basis by comparing its cost with the most recent retail price less cost to sell and that finished goods were valued at the lower of cost or net realisable value; • reviewed the inventory aging schedules to check whether provisions were recorded for aged stock in accordance with Group policy on a sample basis; • obtained an understanding of specific inventory provisions calculated for certain inventory categories; • performed a reasonableness test of the shrinkage provision by comparing against the actual shrinkage for the period; • compared all inventory provisions for each inventory category as a percentage of the gross carrying amount versus the prior 53 week period and understood the rationale for material or unexpected changes. To assess the reasonableness of certain categories, we compared the movements in inventory and inventory provisions against the 29 July 2019 period as the prior period was impacted by the COVID-19 pandemic; and • reviewed the financial statements disclosures against the requirements in the accounting standard.

Our audit approach

Overview



Overall group materiality: $8.6 million, which represents 5% of a three-period weighted average profit before tax from continuing operations adjusted for restructuring costs, the COVID-19 wage subsidy repayment, brand impairments and gains on property disposals. A higher weighting was applied to the current period.

We chose this approach as it reduces the impact of one-off results which do not reflect the long term performance of the business.

Full scope audits were performed for two of the five trading entities in the Group based on their financial significance and representing 94% of the Group's retail sales for the period;

Specified audit procedures and analytical review procedures were performed on the remaining entities and on consolidation entries.

As reported above, we have one key audit matter, being:

- Inventory costing and valuation

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

How we tailored our group audit scope

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

We identified subsidiaries that, due to their financially significant contribution to the Group's overall results, required a full scope audit. In addition, we also performed specific audit procedures on certain balances and transactions of other subsidiaries. Audits of each subsidiary are performed at a materiality level calculated with reference to a proportion of the Group materiality relative to the financial significance of the business concerned.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants | Auckland
28 September 2021

Annual 5 Year Summary

	(52 weeks) 2021	(53 weeks) 2020	(52 weeks) 2019	(52 weeks) 2018	(52 weeks) 2017
	$000	$000	$000	$000	$000
Summary Income Statements					
The Warehouse	1,804,861	1,706,036	1,705,687	1,695,839	1,738,751
Warehouse Stationery	274,646	268,845	268,592	263,766	278,181
Noel Leeming	1,128,184	1,009,975	924,648	880,453	810,705
Torpedo7[7]	158,706	129,901	114,259	106,460	94,655
TheMarket[7]	54,455	62,520	58,215	56,942	63,071
Other group operations	7,141	6,673	8,508	9,655	8,603
Inter-segment eliminations	(13,392)	(11,120)	(8,552)	(18,544)	(13,195)
Retail sales	3,414,601	3,172,830	3,071,357	2,994,571	2,980,771
The Warehouse	187,621	54,903	85,075	71,440	84,531
Warehouse Stationery	34,325	17,513	16,669	10,590	15,743
Noel Leeming	64,879	34,160	38,103	31,163	19,264
Torpedo7[7]	3,287	(17,708)	(8,878)	(4,106)	(1,599)
TheMarket[7]	(20,704)	(14,820)	(4,145)	1,526	4,274
Other group operations	(28,803)	(24,796)	(14,446)	(19,171)	(14,376)
Retail operating profit[1]	240,605	49,252	112,378	91,442	107,837
Adjustments for NZ IFRS 16[1]	40,509	40,959	-	-	-
Gain on disposal of property	-	88	11,761	218	11,455
Restructuring costs	(16,065)	(44,195)	(15,718)	(8,731)	(12,060)
Goodwill and brand asset impairment	-	(2,545)	(5,478)	(25,622)	-
COVID-19 Wage Subsidy	(67,550)	67,550	-	-	-
Changes in fair value of financial instruments	(3,340)	(6,427)	-	-	-
Earnings before interest and tax	194,159	104,682	102,943	57,307	107,232
Net interest expense[2]	(37,458)	(46,710)	(8,879)	(9,165)	(12,527)
Profit before tax	156,701	57,972	94,064	48,142	94,705
Income tax expense	(40,491)	(14,305)	(26,621)	(20,636)	(23,691)
Profit after tax	116,210	43,667	67,443	27,506	71,014
Discontinued operations (net of tax)	-	31	(1,928)	(4,386)	(50,283)
Minority interests	1,441	774	(133)	(242)	(302)
Profit attributable to shareholders	117,651	44,472	65,382	22,878	20,429
Adjusted profit reconciliation					
Unusual items (detailed above)	86,955	(14,471)	9,435	34,135	605
Adjustment for NZ IFRS 16[1]	(2,012)	154	-	-	-
Income tax relating to unusual items	(27,079)	1,984	(2,642)	(2,384)	(3,132)
Discontinued operations (net of tax)	-	(31)	1,928	4,386	50,283
Adjusted net profit	175,515	32,108	74,103	59,015	68,185
The Warehouse					
Operating margin (%)	10.4	3.2	5.0	4.2	4.9
Sales growth (%)	5.8	-	0.6	(2.5)	(0.2)
Number of stores	90	92	93	93	92
Store footprint (square metres)	487,553	498,955	501,537	505,645	501,807
Warehouse Stationery					
Operating margin (%)	12.5	6.5	6.2	4.0	5.7
Sales growth (%)	2.2	0.1	1.8	(5.2)	(0.3)
Number of stores	70	71	70	70	69
Store footprint (square metres)	63,684	67,239	70,550	71,491	73,216
Noel Leeming					
Operating margin (%)	5.8	3.4	4.1	3.5	2.4
Sales growth (%)	11.7	9.2	5.0	8.6	7.8
Number of stores	71	74	77	74	77
Store footprint (square metres)	83,672	77,281	80,273	76,055	73,591
Dividend distributions					
Special (cents per share)	5.0	-	-	-	-
Interim (cents per share)	13.0	-	9.0	10.0	10.0
Final (cents per share)	-	-	8.0	6.0	6.0
Ordinary dividends declared (cents per share)	18.0	-	17.0	16.0	16.0
Basic earnings per share (cents)	34.1	12.9	18.9	6.6	5.9
Basic adjusted earnings per share (cents)	50.8	9.3	21.5	17.1	19.8

	2021	2020	2019	2018	2017
	$000	$000	$000	$000	$000
Summary Balance Sheets					
Inventories	457,151	393,610	517,758	523,840	487,274
Trade and other receivables	79,277	84,263	90,670	79,758	75,632
Creditors and provisions	(534,465)	(505,661)	(434,616)	(367,002)	(336,451)
Working capital	1,963	(27,788)	173,812	236,596	226,455
Fixed assets	288,654	259,741	271,172	272,944	273,300
Held for sale	-	-	-	3,674	71,699
Funds employed	290,617	231,953	444,984	513,214	571,454
Taxation assets[5]	75,242	90,823	37,762	32,030	45,870
Derivative financial instruments	5,794	(26,848)	(46)	16,400	(19,265)
Right of use assets[3]	736,524	774,175	-	-	-
Goodwill and Brand Names	72,956	72,956	75,501	80,979	106,601
Capital employed	1,181,133	1,143,059	558,201	642,623	704,660
Net debt	(160,526)	(168,068)	76,168	162,339	218,271
Lease liability[4]	892,191	934,788	-	-	-
Equity attributable to shareholders	452,162	377,133	481,314	479,405	485,522
Minority interest	(2,694)	(794)	719	879	867
Sources of funds	1,181,133	1,143,059	558,201	642,623	704,660
SUMMARY CASH FLOW					
Trading EBITDA	430,417	244,863	172,991	151,072	166,213
Change in trade working capital	(31,028)	197,634	77,249	(5,853)	21,661
Income tax paid	(32,132)	(19,879)	(26,540)	(14,082)	(27,454)
Net interest paid	(37,910)	(46,616)	(8,657)	(9,307)	(16,008)
COVID-19 Wage subsidy	(67,550)	67,550	-	-	-
Restructuring costs	(16,065)	(38,712)	(15,718)	(8,731)	(12,397)
Other items	1,529	3,166	(1,332)	(5,185)	(3,927)
Operating cash flow[6]	247,261	408,006	197,993	107,914	128,088
Capital expenditure	(83,180)	(64,513)	(61,326)	(70,229)	(70,575)
Proceeds from divestments	190	12,008	3,710	74,680	79,714
Lease principal repayments[6]	(99,383)	(83,833)	-	-	-
Net dividends paid	(62,170)	(27,782)	(52,264)	(55,785)	(52,466)
Other items	(10,260)	350	(1,942)	(648)	(3,052)
Net cash flow	(7,542)	244,236	86,171	55,932	81,709
Opening debt	168,068	(76,168)	(162,339)	(218,271)	(299,980)
Closing debt	160,526	168,068	(76,168)	(162,339)	(218,271)

Non-GAAP financial information

The numbers in the five year summary are largely extracted from the Group's audited financial statements, but also include a number of non-GAAP financial measures which the Group uses internally as it considers these line items provide a better measure of underlying business performance and improves multi-year comparability. These non GAAP measures are not prepared in accordance with NZ IFRS and may not be comparable to similarly titled amounts reported by other companies. The Group's policy regarding unusual items and adjusted net profit are detailed in note 5.0 of the financial statements.

Notes

In the 2020 financial year the Group adopted NZ IFRS 16 "Leases" which recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under NZIAS 17. This makes the comparability between financial years prior to the adoption of NZ IFRS 16 difficult. NZ IFRS 16 required the Group to recognise a 'lease liability' reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts and resulted in a significant increase in the Group's deferred tax asset. The income statement was impacted by the recognition of additional interest and depreciation expenses and the removal of the previous rental expense.

1. Adjusted to exclude the impact of NZ IFRS 16
2. Includes NZIFRS 16 lease liability interest expense from 2020
3. Right of use assets relate to adoption of NZ IFRS 16 from 2020
4. Lease liabilities relate to adoption of NZ IFRS 16 from 2020
5. Deferred taxation assets include impact of adopting NZ IFRS 16
6. Prior to the adoption of NZ IFRS 16 lease principal repayments were classified as operating cash flows
7. Prior years have been restated to move the 1-day business from the Torpedo7 segment to TheMarket.com segment as a result of an organisational change.