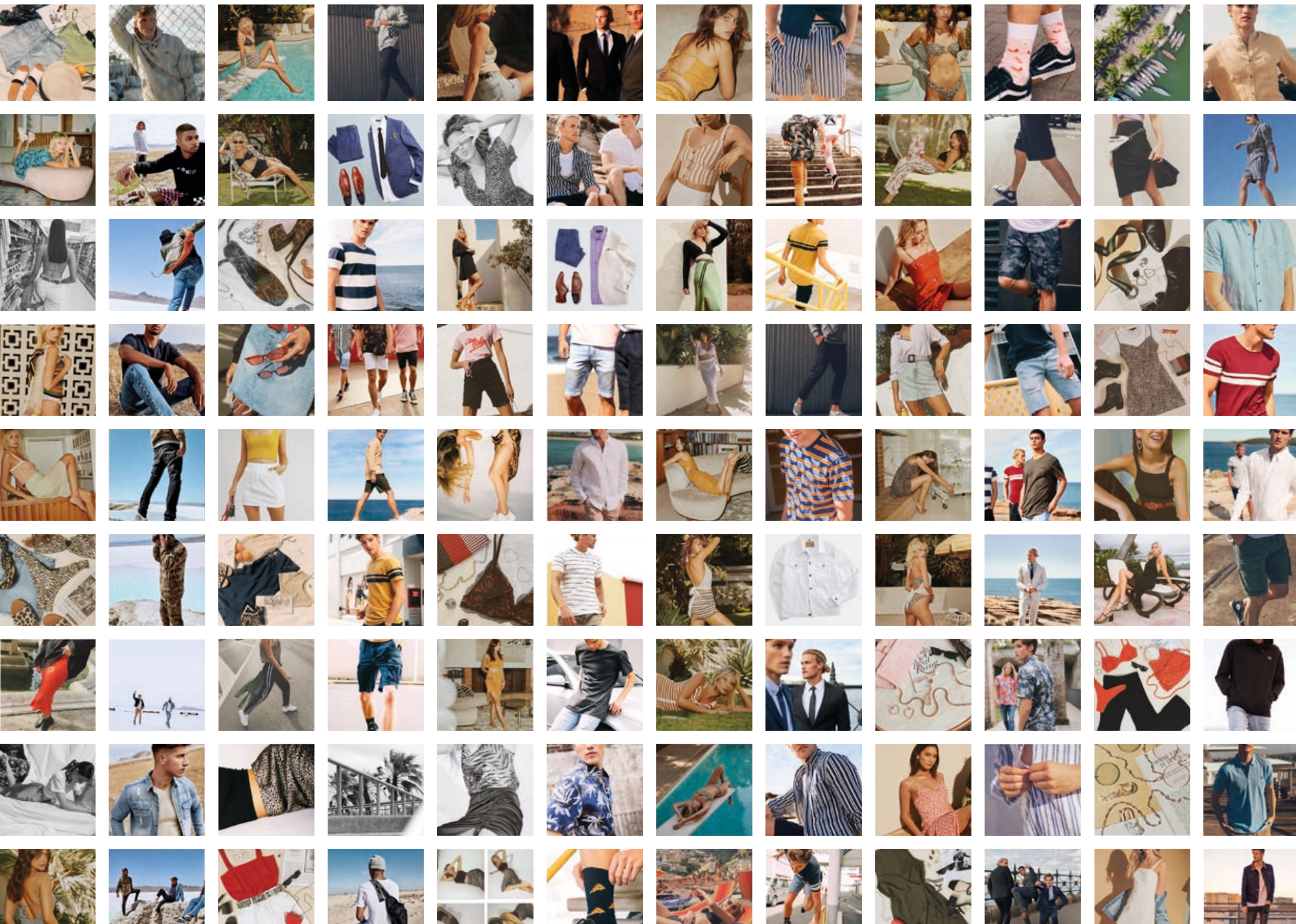
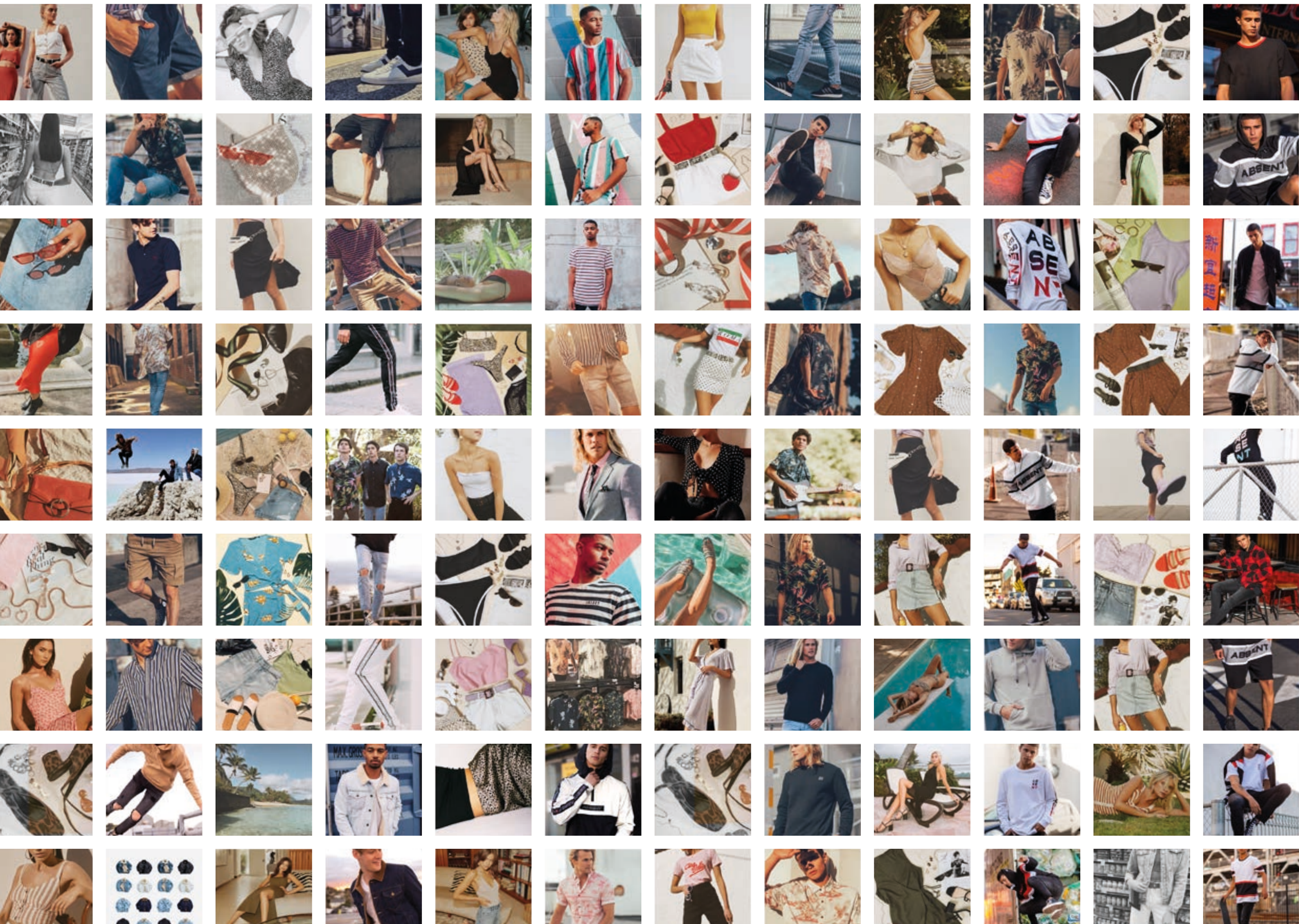
HALLENSTEIN GLASSON HOLDINGS LIMITED

ANNUAL REPORT 2018





IT'S BEEN A STRONG YEAR FOR HALLENSTEIN GLASSON HOLDINGS.

DRIVEN BY OUR TEAMS ACROSS THE GROUP, SALES HAVE INCREASED BY 16% AND NET PROFIT IS UP 58%. OUR BRANDS BUILT STRENGTH BY BEING CREATIVE, INNOVATIVE, BOLDER AND FASTER.

WE SHARPENED OUR FOCUS ON DELIVERING THE BEST PRODUCT, STORES AND SERVICE. WITH IMPROVED BUYING STRATEGIES AND MORE AGILE SOURCING, OUR CUSTOMERS ARE GETTING WHAT THEY WANT, WHEN THEY WANT IT.

WE ARE PROUD OF WHAT WE'VE ACHIEVED, AND WE ARE EXCITED ABOUT OUR VISION AND MANDATE FOR SUSTAINABLE LONG-TERM GROWTH ACROSS NEW ZEALAND AND AUSTRALIA.

HIGHLIGHTS

SALES

$278M UP 16.2%

PROFIT AFTER TAX

$27M UP 58.4%

TOTAL EQUITY

$68M

ONLINE SALES GROWTH

63.6%

% OF TOTAL REVENUE THROUGH ONLINE SALES

12.8% UP FROM 9% IN 2017

TOTAL ASSETS

$92M

EARNINGS PER ORDINARY SHARE

45.87

1,573

TEAM MEMBERS

112

TOTAL STORES

B+

IMPROVING OUR RATING IN THE 2018 ETHICAL FASHION REPORT.

ENVIRONMENT

INTRODUCING 100% RECYCLABLE & BIODEGRADABLE PAPER BAGS INTO OUR STORES.

RESULTS FOR FULL YEAR ENDED 1 AUGUST 2018

WARREN BELL
CHAIRMAN

The company advises that Group sales for the 12 months to 1 August 2018 were $277.64 million, an increase of 16.2% over the corresponding period last year ($239.00 million). The audited net profit after tax was $27.36 million, an increase of 58.4% over the corresponding period last year ($17.27 million).

The 2017/18 financial year has continued to build on the success of the previous year. The buying strategy, investment in digital and the improvements in customer service and experience that were implemented in 2017 have supported sales and margin growth. Combined with tighter cost control, this has in turn led to significant net profit growth. Whilst the trading environments remain tough in both New Zealand and Australia, our brands have responded and adapted to these conditions to deliver the strong result.

Segment Results

Glassons New Zealand

Sales for the year were $96.73 million, an increase of 8.1% on the prior year. Key to the performance over the last twelve months has been our focus on fashion, our speed to market and our customer service. Significant investment was made in digital throughout the year, improving customer engagement with our website, social media platforms as well as in our stores.

During the year, we renovated the Queenstown and Queensgate stores to our new concept design, and we closed one underperforming store in Henderson.

Planned investment is proceeding in New Zealand for the current financial year. We have already refurbished our Dunedin store and have a number of additional store upgrades scheduled.

Glassons Australia

Sales for the year were $78.42 million, an increase of 56.7% on the prior year. We continue to evolve our product offer in Australia, focused on our Australian customer. This increased emphasis, together with our innovation in customer service, investment in digital and speed to market has driven sales in what remains an increasingly challenging retail market.

During the year two new stores, Melbourne Central and Charlestown, were opened and a further two stores, Warringah and Chermside, were refurbished into our new concept.

Planned investment is proceeding in Australia. We have refurbished three stores in the current season in Bondi, Highpoint and Parramatta with additional refurbishments scheduled in the short term. There are also store openings planned in The Glen and Liverpool for later this year with some other stores under consideration.

Hallenstein Brothers

Sales for the year were $96.89 million (including Australia), an increase of 6.4% on the prior year. Hallenstein Brothers continues to build on its established market leading position in New Zealand. The three stores in Australia have performed steadily and we remain positive about the opportunity that exists for the brand in that market. Investment has continued in digital to help drive sales and improve customer engagement.

During the year, the Queenstown store was refurbished to new concept and two small underperforming non-strategic stores were closed.

GROUP SALES
↑ 16.2%
TO $277.64M

GROUP PROFIT INCREASE
↑ 58.4%
TO $27.36M

Further investment in stores is planned for the current financial year as well as an extension to the Distribution Centre to accommodate the growth in online sales.

Storm

The Storm business assets were sold on 30th April 2018 to Blackstar Holdings Limited. The Storm retail stores are no longer part of the Hallenstein Glasson Group.

E-Commerce

As a result of the Company's ongoing investment in digital, online sales growth has improved at a significantly greater rate than bricks and mortar stores. During the last financial year, online sales growth was 63.6% and now represents 12.8% of Group turnover. We will continue to invest in technology and resources to build momentum in this strategic area of the business into the future.

Dividend

The Directors have declared a final dividend of 24 cents per share (fully imputed) to be paid on 17th December 2018. Together with the interim dividend of 20 cents per share that was paid on 13th April 2018, the full year dividend is 44 cents per share. This increase in dividend payment comes as a result of the Company's strong balance sheet, well controlled inventories and the current trading patterns.

Future Outlook

The first eight weeks of the new financial year have seen sales grow +7.2% on the prior year. The Group continues to improve and build on its buying strategies, speed to market and customer service. Strategic investment continues in digital, as well as in new and refurbished stores. Customers have reacted positively to new season stock and web sales continue to grow. The Group is focused on delivering a strong performance going into Christmas trading.

The outlook for the second half of the year remains uncertain as increasing fuel costs and the lower New Zealand and Australian dollar puts pressure on the margin. We will remain focused on cost control and improving our market share in the New Zealand and Australia fashion apparel sector in which we operate.

An update will be provided at the annual meeting of shareholders in December 2018.

Warren Bell
Chairman

PEOPLE, CUSTOMER, PRODUCT & EXECUTION.

MARK GODDARD
GROUP CEO

I am extremely proud of the strong performance that the Group has delivered through the Financial Year ended 1 August 2018.

The results reflect strong performance in Glassons Australia and solid growth in New Zealand across Glassons and Hallensteins. Both brands, especially Glassons Australia, are operating in challenging retail conditions, which makes the results achieved all the more pleasing – they are a credit to the amazing teams we have in place across the Group.

Our success this year can be attributed to our key strengths – the continued improvement of our buying strategies, our focus on being fashion forward, our investment and engagement in digital, and an emphasis on customer service. Together with our increasing ability to accelerate change, and our willingness to challenge ourselves to be different, these factors set us apart from our competition.

A CULTURE WHERE THE DEVELOPMENT OF OUR TEAM AND FUTURE LEADERSHIP IS A PRIORITY.

OUR STRENGTH IS OUR PEOPLE AND TEAMS

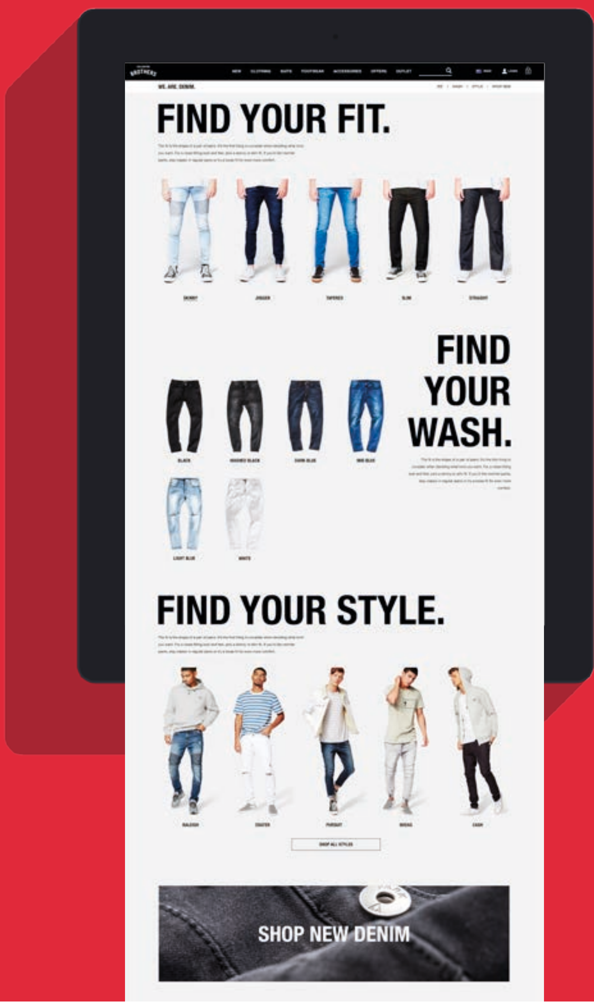
We have outstanding, talented people and teams. We are extremely proud and protective of our culture that values empowerment, creativity, innovation and agility. Our passion and drive comes from a shared belief in an entrepreneurial spirit, and one that values and believes in the power of the team.

Whether working in our offices, our distribution centres or in our stores, we know each person plays an important role – their passion, dedication and commitment is directly reflected in the financial results delivered for the year.

ACROSS THE GROUP WE ARE CUSTOMER OBSESSED

Over the last twelve months we have accelerated investment in improving service to our customer. We continue to differentiate ourselves from our competition in our service levels, as well as our product offering and our in-store experience. Whilst our online sales continue to grow in both volume and as a percentage of our total sales, we recognise the importance of our physical stores and the exciting role they play in our current and future growth plans.

63.6% ONLINE SALES GROWTH



THROUGH DIGITAL, WE AIM TO ENGAGE WITH OUR CUSTOMERS AND BETTER CONNECT THEM WITH OUR STORES.

BRAND EXPERIENCE AND ENGAGEMENT IS INCREASINGLY IMPORTANT

As a Group, and within each brand, we continue to invest in unlocking and supporting future growth. We have seen our investment in digital continue to drive and support growth in both countries, and whilst that growth online has been strong, it's particularly pleasing to see that our physical stores have also grown despite the challenging markets that they are in. This supports our view that digital is about engaging with our customers and driving them in-store as much as it is about online sales.

Whilst we continue to increase our investment in digital, we have also invested in new and refurbished stores. But as strong as these new stores are, they are not standing still. We are constantly looking for ways to improve them. It is essential to our brands, and to our ongoing growth, that we give our customers the most exciting and engaging experience we can. This is not just limited to innovative store design, it encompasses the delivery of great customer service and outstanding product.

We have introduced a number of new and innovative customer facing technologies, for example 'Be the D.J.' where customers can choose their own music whilst they shop. Other initiatives include interactive and service-focused fitting rooms, mobile payment options and facilities, as well as technology to help our store teams serve customers more efficiently and to reduce store operation stress points such as stock management. Team and customer feedback to date has been positive. This gives us confidence in our plans for new and refurbished stores during the current financial year.

Additionally, we are investing in our supply chain in order to support future growth online, as well as serve our stores better. The expansion of the Hallenstein Brothers Distribution Centre in Auckland is our first step in this process.

12.8%
OF TOTAL REVENUE THROUGH ONLINE SALES

7 STORES
OPENED OR RENOVATED DURING THE PAST YEAR

112 STORES
ACROSS THE GROUP

SUSTAINABILITY AND ETHICAL SOURCING

We are committed to delivering better outcomes for our customers, communities and the environment and we are proud of what has been achieved to date. As a business, we are working to improve sustainability in everything we do. This year we were pleased to receive a B+ rating from Baptist, and we have recently introduced paper bags into stores – we intend to eliminate plastic shopping bags by early 2019. But we know a great deal more work lies ahead. The impact we have on the world around us will continue to be a major focus as we strive to integrate policies and initiatives into our everyday business.

GLASSONS

Glassons continues to build its fashion credentials in both Australia and New Zealand. Our model of bringing to market the products our customers want, when they want it, is always evolving and improving, as is our ability to respond to market conditions with speed and agility.

Our in-store experience continues to be one of the most exciting within the retail marketplace, not only through our store design, but with the strong and engaged customer service levels our team delivers.

We continue to develop and invest in our digital experience both in store and online, and our customers are responding well to marketing strategies which merge the best of both these worlds.

HALLENSTEIN BROTHERS

Hallenstein Brothers continues to build on its market leadership model in New Zealand. Focus in the last twelve months has been on driving key categories of brand ownership through the business, a shift that has been well received by customers. The team continue to work on innovative product, offering value as well as engaging marketing campaigns.

As in Glassons, our investment in digital continues to deliver strong results as the brand drives its position in the market. We've trialled a number of in-store technologies with good success and we look forward to rolling these out into key stores later this year.

OUTLOOK

Whilst the new financial year has started well, and we have seen ongoing improvement, the outlook for the second half and into the new calendar year remains uncertain. Australia continues to be a challenging retail market and business confidence in New Zealand has declined. Consumers on both sides of the Tasman face ever-increasing pressures, for example rising fuel prices, and businesses in both countries are experiencing legislative change as well as challenging exchange rates.

However, as a Group, we remain focused on those things that are within our control. We will continue to build and develop our team, to focus on our customer, to develop and deliver the best product, and to closely manage our cost base. With these strategies and our team in place, we are striving for continuous improvement across our business.

Mark Goddard
Group CEO

SUSTAINABILITY MATTERS

HALLENSTEIN GLASSON HOLDINGS IS COMMITTED TO PEOPLE, THE PLANET AND OUR FUTURE.

Hallenstein Glasson Holdings has embarked on a journey to improve transparency in all areas of our operation, especially in relation to people and the environment. We have introduced a comprehensive auditing programme for our suppliers, and we're working to ensure they are equipped and motivated to partner with us as we change.

We are committed to delivering better outcomes for our customers, communities and the environment and we're proud of what has been achieved to date. However, many challenges remain and we understand our ability to drive and maintain change is critical to our future success.

As a business, we are driving sustainability in everything we do – but we know a great deal more work lies ahead. The impact we have on the world around us will continue to be a major focus as we strive to integrate policies and initiatives into our everyday business.

2018 ACHIEVEMENTS

PEOPLE

> We have improved our rating to B+ in the 2018 Ethical Fashion Report.

> Over 90% of our suppliers in China have elected workers' representatives.

> 28% of our suppliers in India are engaged with local Non-Government Organisations that promote the health and personal safety of female workers.

> Group CEO Mark Goddard continues to visit supplier factories in China, further fostering and building our commitment to long-term relationships and values.

> Hallenstein Glasson Holdings production teams have increased the frequency of supplier visits – these now occur every two to three weeks. This allows us to develop more personal relationships with suppliers, in turn building trust and achieving greater transparency.

PLANET

> We are evolving our culture and business model to be more focussed on the "Three R's": Reduce, Reuse, Recycle.

> We have introduced 100% recyclable and biodegradable paper bags in our stores and we envisage eliminating plastic shopping bags by early 2019.

> Our suppliers have demonstrated a genuine willingness to work with us in initiatives designed to reduce pollution locally and globally.

> Approximately 20% of our product now comes from renewable sources. We believe we can do much better and we are currently reviewing our sustainable fibre targets for 2019 and beyond.

TECHNOLOGY

We believe technology will be crucial in driving the change required to achieve a more sustainable fashion industry and to support workers' rights. Included among the initiatives we'll be using to help us achieve this is the introduction of whistle-blower apps that allow workers in our supplier factories to raise concerns anonymously.

THE FUTURE

> We are finding ways to better communicate our objectives, achievements and ongoing projects with our customers.

> We will continue to look at ways to reduce our environmental footprint – including a review of our supply chain, head office and store operations.

> We will continue to investigate new ways to introduce technology that helps us achieve our goals.

WE ARE EVOLVING OUR CULTURE AND BUSINESS MODEL TO BE MORE FOCUSSED ON THE "THREE R'S": REDUCE, REUSE, RECYCLE.

HALLENSTEIN
BROTHERS

HALLENSTEIN BROTHERS CONTINUES TO BUILD ON ITS ESTABLISHED MARKET LEADING POSITION IN NEW ZEALAND.

$97M UP 6.4%

TOTAL SALES

42 STORES

IN NEW ZEALAND

28.5K

INSTAGRAM FOLLOWERS

3 STORES

IN AUSTRALIA

"FOCUS IN THE LAST TWELVE MONTHS HAS BEEN ON DRIVING KEY CATEGORIES OF BRAND OWNERSHIP THROUGH THE BUSINESS."

MARK GODDARD

DISTRIBUTION CENTRE UNDER EXPANSION TO ACCOMMODATE GROWTH IN ONLINE SALES.

GLASSONS

KEY TO THE PERFORMANCE OVER THE LAST 12 MONTHS HAS BEEN OUR FOCUS ON FASHION, SPEED TO MARKET AND CUSTOMER SERVICE.

$97M UP 8.1%
NEW ZEALAND SALES

$78M UP 56.7%
AUSTRALIAN SALES

269K
INSTAGRAM FOLLOWERS

"OUR IN-STORE EXPERIENCE CONTINUES TO BE ONE OF THE MOST EXCITING WITHIN THE RETAIL MARKETPLACE."

MARK GODDARD

37 STORES
IN NEW ZEALAND

30 STORES
IN AUSTRALIA

Independent auditor's report

To the shareholders of Hallenstein Glasson Holdings Limited

The financial statements comprise:

- the statement of financial position as at 1 August 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the financial statements of Hallenstein Glasson Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 1 August 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carried out other services for the Group in the areas of tax advisory and tax compliance services. The provision of these other services has not impaired our independence as auditor of the Group.

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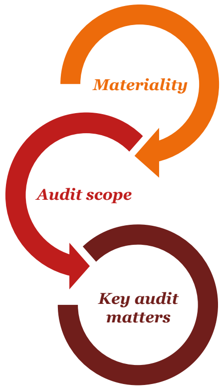
Our audit approach

Overview



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

Overall Group materiality: $1,903,500, which represents 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above $100,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We have determined that there is one key audit matter:

- Inventory Valuation

Materiality

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

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

Audit scope

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

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

Our Group audit scope focused on the major operating locations. In aggregate, the locations selected as part of our audit scoping contributed 95% of the Group's Revenue and 99% of the Group's profit before tax.

Audits of each major operating location are performed by PwC New Zealand at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative scale of the operations concerned. The remaining operations were not considered significant to the Group and were subject to other procedures including analytical procedures.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Inventory Valuation	
As at 1 August 2018, the Group held $20.9 million of inventories. Given the size of the inventory balance relative to the total assets of the Group and the estimates and judgements described below, the valuation of inventory required significant audit attention. As disclosed in Note 3.2, inventories are held at the lower of cost and net realisable value determined using the weighted average cost method. At year end, the valuation of inventory is reviewed by management and the cost of inventory is reduced where inventory is forecast to be sold below cost. The determination of whether inventory will be realised for a value less than cost requires management to exercise judgement and apply assumptions. Management undertake the following procedures for determining the level of write down required: • Use inventory ageing reports together with historical trends to estimate the likely future saleability of slow moving and older inventory lines; • For inventory aged greater than one year, management apply a percentage based write down to inventory. The percentages are derived from historical levels of write down; and • Perform a line-by-line analysis of remaining inventory to ensure it is stated at the lower of cost and net realisable value and a specific write down is recognised if required.	We have performed the following procedures over the valuation of inventory: • For a sample of inventory items, re-performed the weighted average cost calculation and compared the weighted average cost to the last purchase invoices; • We tested that the ageing report used by management correctly aged inventory items by agreeing a sample of aged inventory items to the last recorded invoice; • On a sample basis we tested the net realisable value of inventory lines to recent selling prices; • We assessed the percentage write down applied to older inventory with reference to historic inventory write downs and recoveries on slow moving inventory; • We re-performed the calculation of the inventory write down; and • We also made enquires of management, including those outside of the finance function, and considered the results of our testing above to determine whether any specific write downs were required. From the procedures performed we have no matters to report.

PwC

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

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.

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.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HALLENSTEIN GLASSON HOLDINGS LIMITED

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 Keren Blakey.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 September 2018

Auckland

PwC

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 1 AUGUST 2018

$'000	NOTE	2018	2017
Sales revenue	2.1	277,642	239,004
Cost of sales	2.1	(107,567)	(98,350)
Gross profit		170,075	140,654
Other operating income	2.2	820	954
Selling expenses		(98,937)	(87,836)
Distribution expenses		(7,601)	(7,327)
Administration expenses		(26,538)	(22,614)
Total expenses		(133,076)	(117,777)
Operating profit		37,819	23,831
Finance income	2.1	251	239
Profit before income tax		38,070	24,070
Income tax expense	6.1	(10,709)	(6,801)
Net profit after tax attributable to the shareholders of the Holding Company	2.1	27,361	17,269
Other comprehensive income			
- Items that will not be reclassified to profit or loss			
Gains (net of tax) on revaluation of land and buildings	6.1	–	3,298
Increase in share option reserve	6.1	124	129
- Items that may be subsequently reclassified to profit or loss			
Fair value gain (net of tax) in cash flow hedge reserve	6.1	3,393	764
Total comprehensive income for the year attributable to the shareholders of the Holding Company		30,878	21,460
Earnings per share			
Basic and diluted earnings per share	2.4	45.87	28.95

The notes to the financial statements form an integral part of and are to be read in conjunction with these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 1 AUGUST 2018

$'000	NOTE	2018	2017 (RESTATED)
EQUITY			
Contributed equity	5.1	27,818	27,270
Asset revaluation reserve		15,609	15,609
Cashflow hedge reserve		1,739	(1,654)
Share option reserve		155	327
Retained earnings		23,019	17,271
Total equity		68,340	58,823
Represented by			
CURRENT ASSETS			
Cash and cash equivalents	3.1	17,453	12,552
Trade and other receivables		182	779
Advances to employees		464	238
Prepayments		3,871	3,873
Inventories	3.2	20,959	20,605
Derivative financial instruments	7.5	2,417	–
Total current assets		45,346	38,047
NON-CURRENT ASSETS			
Property, plant and equipment	4.2	36,811	36,400
Investment property	4.3	8,464	8,464
Intangible assets		560	539
Deferred tax	6.2	940	2,044
Total non-current assets		46,775	47,447
Total assets		92,121	85,494
CURRENT LIABILITIES			
Trade payables		5,506	9,169
Employee benefits	7.1	4,786	4,500
Other payables		10,777	8,187
Derivative financial instruments	7.5	–	2,298
Taxation payable		2,712	2,517
Total current liabilities		23,781	26,671
Total liabilities		23,781	26,671
Net assets		68,340	58,823

The notes to the financial statements form an integral part of and are to be read in conjunction with these financial statements.
The financial statements are signed for and on behalf of the board and were authorised for issue on 28 September 2018.

Graeme Popplewell
Director
28 September 2018

Malcolm Ford
Director
28 September 2018

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 1 AUGUST 2018

$'000	NOTE	SHARE CAPITAL	TREASURY STOCK	ASSET REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	SHARE OPTION RESERVE	RETAINED EARNINGS	TOTAL EQUITY
Balance at 1 August 2016		29,279	(1,630)	12,617	(2,418)	203	17,826	55,877
Correction of error (net of tax)	1.3	–	–	(306)	–	–	656	350
Balance at 1 August 2016 (restated)		29,279	(1,630)	12,311	(2,418)	203	18,482	56,227
COMPREHENSIVE INCOME								
Profit for year		–	–	–	–	–	17,269	17,269
Revaluation net of tax	6.1	–	–	3,298	–	–	–	3,298
Cash flow hedges net of tax	6.1	–	–	–	764	–	–	764
Increase in share option reserve	6.1	–	–	–	–	129	–	129
Total comprehensive income		–	–	3,298	764	129	17,269	21,460
TRANSACTIONS WITH OWNERS								
Purchase of treasury stock	5.1, 5.2	–	(600)	–	–	–	–	(600)
Sale of treasury stock	5.1, 5.2	–	52	–	–	–	–	52
Dividends	2.3, 5.1	–	175	–	–	–	(18,491)	(18,316)
Transfer to employee advances	5.1	–	–	–	–	–	–	–
Transfer of share option reserve to retained earnings		–	–	–	–	(5)	5	–
(Gain)/loss on sale of treasury stock transferred to retained earnings	5.1	–	(6)	–	–	–	6	–
Total transactions with owners		–	(379)	–	–	(5)	(18,480)	(18,864)
Balance at 1 August 2017		29,279	(2,009)	15,609	(1,654)	327	17,271	58,823
COMPREHENSIVE INCOME								
Profit for year		–	–	–	–	–	27,361	27,361
Cash flow hedges net of tax	6.1	–	–	–	3,393	–	–	3,393
Increase in share option reserve	6.1	–	–	–	–	124	–	124
Total comprehensive income		–	–	–	3,393	124	27,361	30,878
TRANSACTIONS WITH OWNERS								
Purchase of treasury stock	5.1, 5.2	–	(800)	–	–	–	–	(800)
Sale of treasury stock	5.1, 5.2	–	606	–	–	–	–	606
Dividends	2.3, 5.1	–	177	–	–	–	(22,069)	(21,892)
Transfer to employee advances	5.1	–	725	–	–	–	–	725
Transfer of share option reserve to retained earnings		–	–	–	–	(296)	296	–
(Gain)/loss on sale of treasury stock transferred to retained earnings	5.1	–	(160)	–	–	–	160	–
Total transactions with owners		–	548	–	–	(296)	(21,613)	(21,361)
Balance at 1 August 2018		29,279	(1,461)	15,609	1,739	155	23,019	68,340

The notes to the financial statements form an integral part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 1 AUGUST 2018

$'000	NOTE	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Sales to customers		278,279	239,885
Rent received	2.2	780	781
Interest income	2.1	232	214
Interest on debtors	2.1	19	25
		279,310	240,905
Cash was applied to:			
Payments to suppliers		181,952	159,875
Payments to employees		51,315	45,863
Taxation paid		10,731	5,972
		243,998	211,710
Net cash flows from operating activities		35,312	29,195
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from sale of property, plant and equipment and intangible assets		488	63
Repayment of employee advances		499	105
		987	168
Cash was applied to:			
Purchase of property, plant and equipment and intangible assets	4.2	9,312	12,138
		9,312	12,138
Net cash flows (applied to) investing activities		(8,325)	(11,970)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Sale of treasury stock and dividends	5.1, 5.2	783	227
		783	227
Cash was applied to:			
Dividend paid	2.3	22,069	18,491
Purchase of treasury stock	5.1, 5.2	800	600
		22,869	19,091
Net cash flows (applied to) financing activities		(22,086)	(18,864)
Net increase/(decrease) in funds held		4,901	(1,639)
Cash and cash equivalents at the beginning of the year		12,552	14,191
Cash and cash equivalents at the end of the year	3.1	17,453	12,552

The notes to the financial statements form an integral part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 1 AUGUST 2018

RECONCILIATION OF PROFIT AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

$'000	NOTE	2018	2017
NET PROFIT AFTER TAXATION		27,361	17,269
ADD/(DEDUCT) ITEMS CLASSIFIED AS INVESTING OR FINANCING ACTIVITIES			
Loss on sale of plant and equipment	2.2	481	35
ADD/(DEDUCT) NON CASH ITEMS			
Depreciation and amortisation	2.2	7,908	7,565
Deferred taxation	6.2	(215)	(688)
Revaluation of financial instruments		–	(254)
Share option expense		124	129
ADD/(DEDUCT) MOVEMENTS IN WORKING CAPITAL ITEMS			
Taxation payable		195	1,518
Trade and other receivables and prepayments		599	427
Trade and other payables and employee benefits		(787)	3,798
Inventories		(354)	(604)
NET CASH FLOWS FROM OPERATING ACTIVITIES		35,312	29,195

The notes to the financial statements form an integral part of and are to be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 1 AUGUST 2018

1. BASIS OF PREPARATION

This section presents a summary of information considered relevant and material to assist the reader in understanding the foundations on which the financial statements as a whole have been compiled. Accounting policies specific to notes shown in other sections are disclosed in a shaded box and are included as part of that particular note.

1.1 General information

Reporting entity
Hallenstein Glasson Holdings Limited ("Company" or "Parent") together with its subsidiaries (the "Group") is a retailer of men's and women's clothing in New Zealand and Australia.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 3, 235-237 Broadway Newmarket, Auckland.

Statutory base
Hallenstein Glasson Holdings Limited is a company registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The Company is also listed on the New Zealand Stock Exchange (NZX). The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

The financial statements were approved for issue by the Board of Directors on 28 September 2018.

1.2 General accounting policies

Statement of compliance
These financial statements for the year ended 1 August 2018 have been prepared in accordance with Generally Accepted Accounting Practice (GAAP). They comply with New Zealand equivalents to International Financial Reporting standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The financial statements comply with International Financial Reporting Standards (IFRS).

Basis of preparation of financial statements
The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The reporting currency used in the preparation of these financial statements is New Zealand dollars, rounded where necessary to the nearest thousand dollars.

Entities reporting
The financial statements are the Consolidated Financial Statements of the Group comprising Hallenstein Glasson Holdings Limited and subsidiaries, together they are referred to in these financial statements as 'the Group'. The parent and its subsidiaries are designated as for-profit entities for financial reporting purposes.

Principles of consolidation
Subsidiaries
Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1. BASIS OF PREPARATION (CONTINUED)

Investments in subsidiaries

PRINCIPAL SUBSIDIARIES	INTEREST HELD BY PARENT AND GROUP 2018	2017	PRINCIPAL ACTIVITIES
Hallenstein Bros Limited	100%	100%	Retail of menswear in New Zealand
Hallenstein Brothers Australia Limited	100%	100%	Retail of menswear in Australia
Glassons Limited	100%	100%	Retail of womenswear in New Zealand
Glassons Australia Limited	100%	100%	Retail of womenswear in Australia
Retail 161 Limited	100%	100%	Retail of womenswear in New Zealand
Retail 161 Australia Limited	100%	100%	Retail of womenswear in Australia
Hallenstein Properties Limited	100%	100%	Property ownership in New Zealand

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial assets and liabilities (including derivative instruments) measured at fair value.

Critical accounting estimates, judgements and assumptions

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Property, plant and equipment: The Group has assessed whether the carrying value of its property, plant and equipment have suffered any impairment since they were acquired. The recoverable amounts of cash generating units (at a subsidiary level) are determined based on value in use calculations. These calculations require the use of estimates and projections of future operating performance.

Inventory provision: The Group assess the inventory provision using management judgement which considers a range of factors including the review of historical data, the age of inventory and current selling price trends to determine the appropriateness of the provision.

Revaluation of Land and Buildings: The fair value of the Group's land and buildings is determined by the Board following an independent valuation undertaken at least every three years. The basis of the valuation is assessed within a range indicated by two valuation approaches: discounted cash flow analysis and an income capitalisation approach. The key assumptions are disclosed in note 4.2.

Revaluation of Investment Property: The fair value of the Group's investment property is determined by the Board following a valuation undertaken annually. The basis of the valuation is assessed within a range indicated by two valuation approaches: discounted cash flow analysis and an income capitalisation approach. The key assumptions are disclosed in note 4.3.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The financial statements are presented in New Zealand dollars, which is the Group's functional and presentational currency.

Transactions and balances

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and

(b) income and expenses for each statement of comprehensive income are translated at average exchange rates.

All resulting exchange differences are recognised in the statement of comprehensive income.

1. BASIS OF PREPARATION (CONTINUED)

1.3 Reclassification in accounting for investment property

The Group owns properties leased in full or partially to third parties and earning rental income which have been previously incorrectly classified as property, plant and equipment, but should have been recognised as investment property. As the Group's policy is to keep the land and buildings at fair value, the revaluation gains and losses have been recognised through other comprehensive income to asset revaluation reserve. However, the revaluation gains and losses related to investment properties should have been recognised in profit before income tax. The correction of this error results in a reclassification from property, plant and equipment to investment property of $8.46 million, a reclassification from the asset revaluation reserve to retained earnings of $0.3 million, and an adjustment to deferred tax and retained earnings of $0.35 million.

The error relates to 2016 and prior periods and has been corrected in the opening balances of the comparative period by restating each of the affected financial statement lines items as follows:

Statement of financial position (extract)

$'000	2016	INCREASE / (DECREASE)	2016 (RESTATED)
Asset revaluation reserve	12,617	(306)	12,311
Retained earnings	17,826	656	18,482
Total equity	55,877	350	56,227
Property, plant and equipment	36,227	(8,464)	27,763
Investment property	–	8,464	8,464
Deferred tax asset	2,291	350	2,641
Total non-current assets	39,011	350	39,361

The Directors have assessed the impact of this adjustment on transactions presented in the statement of comprehensive income for the year ended 1 August 2018 and have concluded that no significant errors occurred. As a result, the 2017 statement of financial position, statement of changes in equity and related additional notes have been restated to reflect the adjustments made to the opening balances disclosed above only. There has been no restatement of the statement of comprehensive income or earnings per share. Directors concluded that presentation of a third balance sheet is not required because the adjustment related to reclassifications, resulting in no significant impact on net assets position.

Statement of financial position (extract)

$'000	2017	INCREASE / (DECREASE)	2017 (RESTATED)
Asset revaluation reserve	15,915	(306)	15,609
Retained earnings	16,615	656	17,271
Total equity	58,473	350	58,823
Property, plant and equipment	44,864	(8,464)	36,400
Investment property	–	8,464	8,464
Deferred tax asset	1,694	350	2,044
Total non-current assets	47,097	350	47,447

2. PERFORMANCE

2.1 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors. The Board of Directors is the chief operating decision maker and is responsible for allocating resources and assessing performance of the operating segments and they delegate that authority through the Chief Executive Officer.

The Board of Directors considers the business from both a product and geographic perspective as follows:

- Hallenstein Bros Limited (New Zealand) and Hallenstein Brothers Australia Limited (Australia)
- Glassons Limited (New Zealand)
- Glassons Australia Limited (Australia)
- Retail 161 Limited (New Zealand) and Retail 161 Australia Limited (Australia) (Storm)
- Hallenstein Properties Limited (New Zealand) (Property)

The reportable segments derive their revenues primarily from the retail sale of clothing. The revenues from external parties reported to the Board of Directors are measured in a manner consistent with that in the statement of comprehensive income. There are no significant revenues derived from a single external customer.

Segment results

FOR THE YEAR ENDED 1 AUGUST 2018

$'000	GLASSONS NEW ZEALAND	GLASSONS AUSTRALIA	HALLENSTEINS	STORM	PROPERTY	PARENT	TOTAL GROUP
INCOME STATEMENT							
Sales revenue from external customers	96,728	78,422	96,890	5,602	–	–	277,642
Cost of sales	(39,205)	(28,000)	(38,170)	(2,192)	–	–	(107,567)
Finance income	88	53	92	7	–	11	251
Depreciation and software amortisation	2,153	2,311	2,896	173	375	–	7,908
Profit/(loss) before income tax	14,802	11,159	12,414	(1,017)	712	–	38,070
Income tax expense	(4,156)	(3,132)	(3,507)	285	(199)	–	(10,709)
Net profit/(loss) after income tax	10,646	8,027	8,907	(732)	513	–	27,361
BALANCE SHEET							
Current assets	15,029	8,899	20,141	817	(307)	767	45,346
Non-current assets	10,929	8,867	8,857	(33)	18,155	–	46,775
Current liabilities	7,558	8,200	7,632	(203)	462	132	23,781
Purchase of property, plant and equipment and intangibles	3,176	3,070	2,286	54	726	–	9,312

2. PERFORMANCE (CONTINUED)

FOR THE YEAR ENDED 1 AUGUST 2017

$'000	GLASSONS NEW ZEALAND	GLASSONS AUSTRALIA	HALLENSTEINS	STORM	PROPERTY	PARENT	TOTAL GROUP
INCOME STATEMENT							
Sales revenue from external customers	89,500	50,062	91,101	8,341	–	–	239,004
Cost of sales	(38,166)	(18,791)	(38,145)	(3,248)	–	–	(98,350)
Finance income	130	4	84	5	–	16	239
Depreciation and software amortisation	2,444	2,031	2,511	298	281	–	7,565
Profit/(loss) before income tax	11,297	1,934	10,434	(434)	839	–	24,070
Income tax expense	(3,186)	(548)	(2,953)	121	(235)	–	(6,801)
Net profit/(loss) after income tax	8,111	1,386	7,481	(313)	604	–	17,269
BALANCE SHEET							
Current assets	13,103	4,325	17,708	1,078	1,876	(43)	38,047
Non-current assets	10,593	7,965	10,055	1,128	17,706	–	47,447
Current liabilities	8,608	6,131	11,094	487	319	32	26,671
Purchase of property, plant and equipment and intangibles	2,228	3,978	5,247	577	108	–	12,138

Sale of Storm business assets

On 30 April 2018 the Group's wholly owned subsidiary, Retail 161 Limited, concluded the sale of the Storm business assets to Blackstar Holdings Limited. On and from settlement, the Storm business ceased trading under Retail 161 Limited's ownership and continues to trade under Blackstar's ownership. The Group's focus is on expanding its other two much larger fashion brands, namely Glassons and Hallenstein Brothers in both New Zealand and Australian markets. The value of the transaction is not significant in terms of the assets or profit of the Group.

The sales revenue and cost of sales noted in the table above represent trade generated by the Storm business for the nine months ended 30 April 2018.

2.2 Income and expenses

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts and after eliminating sales within the Group.
Revenue is recognised as follows:

Sales of goods – retail
Sales of goods are recognised when a Group entity has delivered a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sale (excluding GST), including credit card fees payable for the transaction. Such fees are included in selling expenses.

Interest income
Interest income is recognised using the effective interest method.

Rental income
Rental income from operating leases (net of any incentives) is recognised on a straight line basis over the lease term.

2. PERFORMANCE (CONTINUED)

Income and expenses

Profit before income tax includes the following specific income and expenses:

	GROUP	
$'000	2018	2017
INCOME		
Rental income	780	781
Insurance proceeds	40	173
EXPENSES		
Occupancy costs	29,571	27,415
Amounts paid to auditors – statutory audit	130	126
Other services from auditors*	27	20
Directors' fees	518	383
Wages, salaries and other short term benefits	51,601	45,863
Total depreciation	7,652	7,294
Amortisation of software	256	271
Total depreciation and amortisation	7,908	7,565
Loss on sale of property, plant and equipment	481	35

* Amount paid in respect of tax compliance and tax advisory services provided in Australia and New Zealand.

2.3 Dividends

Provision is made for the amount of any dividend declared on or before the balance date but not distributed at balance date.

Dividends

	2018 CENTS PER SHARE	2017 CENTS PER SHARE	2018 $000'S	2017 $000'S
Interim dividend for the year ended 1 August 2018	20.00		11,929	
Final dividend for the year ended 1 August 2017	17.00		10,140	
Interim dividend for the year ended 1 August 2017		14.50		8,649
Final dividend for the year ended 1 August 2016		16.50		9,842
Total	37.00	31.00	22,069	18,491

All dividends paid were fully imputed. Supplementary dividends of $289,810 (2017: $100,210) were paid to shareholders not resident in New Zealand for tax purposes for which the Group received a foreign investor tax credit.

2.4 Earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for bonus elements in ordinary shares issued during the period.

Basic

Basic earnings per share is calculated by dividing the profit after tax of the Group by the weighted average number of ordinary shares outstanding during the year.

2. PERFORMANCE (CONTINUED)

Diluted

Diluted earnings per share is calculated by adjusting profit after tax and the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There are no options convertible into shares as at 1 August 2018 (2017: Nil).

Earnings per share

$'000	2018	2017
Profit after tax	27,361	17,269
Weighted average number of ordinary shares outstanding	59,649	59,649
Basic and diluted earnings per share (cents per share)	45.87	28.95

3. WORKING CAPITAL

3.1 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Statements of cash flows

The following are the definitions of the terms used in the statement of cash flows:

(I) Cash comprises cash and cash equivalents.

(II) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, investments and employee advances.

(III) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid are included in financing activities.

(IV) Operating activities include all transactions and other events that are not investing or financing activities.

Cash and cash equivalents

$'000	2018	2017
Cash at bank	6,064	3,767
Short term bank deposits	11,329	8,722
Cash on hand	60	63
Total cash and cash equivalents	17,453	12,552

The carrying amount of cash and cash equivalents equals the fair value.

3.2 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses, excluding borrowing costs.

3. WORKING CAPITAL (CONTINUED)

Inventories

$'000	2018	2017
Finished goods	21,189	21,141
Inventory adjustments	(230)	(536)
Net inventories	20,959	20,605

Inventory adjustments are provided at year end for stock obsolescence within cost of sales in the statement of comprehensive income.

The cost of inventories recognised as an expense and included in cost of sales amounted to $107,199,239 (2017: $98,035,127).

4. LONG TERM ASSETS

4.1 Leases

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

The Group is the lessor
Assets leased to third parties under operating leases are included in investment property in the statement of financial position. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term. Lease receivables are disclosed under note 4.3 Investment property.

Lease commitments:
The Group leases various retail outlets under non-cancellable operating lease agreements. Leases reflect normal commercial arrangements with varying terms, escalation clauses and renewal rights.

Lease commitments

$'000	2018	2017
At balance date the future aggregate minimum lease commitments was as follows:		
Due within one year	24,381	22,508
One to two years	20,498	19,347
Two to five years	39,314	34,409
Later than five years	3,955	7,254
Total operating lease commitments	88,148	83,518

4. LONG TERM ASSETS (CONTINUED)

4.2 Property, plant and equipment

Recognition and measurement

Land and buildings were valued on 1 August 2017 by Telfer Young (Hawkes Bay) Ltd, Fordbaker Valuation Limited and Colliers International who are independent registered valuers and associates of The New Zealand Institute of Valuers. The valuers have recent experience in the location and category of the item being valued. The fair values of the assets represent the estimated price for which a property could be sold on the date of valuation in an orderly transaction between market participants.

The valuation approach and key assumptions have been disclosed in the 2017 Annual Report which can be accessed via the website: www.hallensteinglasson.co.nz.

At each reporting date, where a valuation report is not obtained the most recent valuation reports are reviewed by the management team. The review focuses on checking material movements and ensuring all additions and disposals are captured and that there have been no material changes to the underlying assumptions on which the valuations are based.

Land and building measurements are categorised as Level 3 in the fair value hierarchy. During the year there were no transfers between levels of the fair value hierarchy.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as an asset revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the asset revaluation reserve directly in equity; all other decreases are charged to the statement of comprehensive income. Each year on revaluation, the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income, and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Depreciation

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Buildings	67	years
Plant and equipment	2 - 5	years
Furniture, fittings and office equipment	5 - 10	years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each balance date.

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. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, for example a planned store closure, withdrawal from a business segment, or assessment of loss making stores. Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Disposal

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

4. LONG TERM ASSETS (CONTINUED)

FOR THE YEAR ENDED 1 AUGUST 2018

$'000	LAND AT FAIR VALUE	BUILDINGS AT FAIR VALUE	FIXTURES & FITTINGS	PLANT & EQUIPMENT	TOTAL
Opening NBV	6,097	10,524	15,600	4,179	36,400
Additions	–	705	5,644	2,612	8,961
Disposals	–	–	(696)	(202)	(898)
Depreciation	–	(385)	(5,338)	(1,929)	(7,652)
Revaluations	–	–	–	–	–
Closing NBV	6,097	10,844	15,210	4,660	36,811
Cost/valuation	6,097	11,229	56,357	19,510	93,193
Accumulated depreciation	–	(385)	(41,147)	(14,850)	(56,382)
Closing NBV	6,097	10,844	15,210	4,660	36,811

FOR THE YEAR ENDED 1 AUGUST 2017 (RESTATED)

$'000	LAND AT FAIR VALUE	BUILDINGS AT FAIR VALUE	FIXTURES & FITTINGS	PLANT & EQUIPMENT	TOTAL
Opening NBV (restated)	5,342	7,198	11,954	3,269	27,763
Additions	–	84	9,048	2,683	11,815
Disposals	–	–	(85)	(86)	(171)
Depreciation	–	(290)	(5,317)	(1,687)	(7,294)
Revaluations	755	3,532	–	–	4,287
Closing NBV (restated)	6,097	10,524	15,600	4,179	36,400
Cost/valuation	6,097	10,524	54,614	17,962	89,197
Accumulated depreciation	–	–	(39,014)	(13,783)	(52,797)
Closing NBV (restated)	6,097	10,524	15,600	4,179	36,400

If land and buildings were stated on a historical cost basis, the amounts would be as follows:

$'000	2018	2017 (RESTATED)
Land	3,705	3,705
Buildings	7,245	6,541
Cost	10,950	10,246
Accumulated depreciation	(1,514)	(1,376)
Net book value	9,436	8,870

4. LONG TERM ASSETS (CONTINUED)

4.3 Investment property

Recognition and measurement

Land and buildings were valued on 1 August 2015 by Telfer Young (Hawkes Bay) Ltd and Colliers International who are independent registered valuers and associates of The New Zealand Institute of Valuers. The valuers have recent experience in the location and category of the item being valued. The fair values of the assets represent the estimated price for which a property could be sold on the date of valuation in an orderly transaction between market participants.

The adopted valuation has been assessed within a range indicated by two valuation approaches: Income capitalisation approach and discounted cash flow analysis.

The following table summarises the valuation approach and key assumptions used by the valuers to arrive at fair value.

Valuation approach	Description of the valuation approach
Income capitalisation approach	A valuation methodology which determines fair value by capitalising a property's sustainable net income at an appropriate, market derived capitalisation rate (yield). Unobservable inputs within the income capitalisation approach include: a) Net Market Rent which is the annual amount for which a tenancy within property is expected to achieve under a new arm's length leasing transaction after deducting a fair share of property operating expenses b) Capitalisation Rate (yield) which is the rate of return, determined through analysis of comparable, market related sales transactions which is applied to a property's sustainable net income to derive value.
Discounted cash flow analysis	With the discounted cash flow approach (DCF) a cash flow budget is established for the property over a ten-year time horizon. Within the cash flow an allowance is made for rental growth as well as deducting costs associated with property ownership. A terminal value is also estimated and the cash flows are discounted at a market rate to arrive at a net present value. Unobservable inputs within the discounted cash flow approach include: a) The discount rate which is the rate determined through analysis of comparable market related sales transactions which is applied to a property's future net cash flows to convert those cash flows into a present value. b) The terminal capitalisation rate which is the rate which is applied to a property's sustainable net income at the end of an assumed holding period to derive an estimated market value. c) Rental growth rate which is the annual growth rate applied to market rent over an assumed holding period. d) Expenses growth which is the annual amount applied to property operating expenses over an assumed holding period.

The revaluation surplus was credited to retained earnings in shareholders' equity as part of the prior year restatement of the statement of financial position. Subsequent revaluation surpluses or losses will be recognised through statement of comprehensive income.

At each reporting date, where a valuation report is not obtained the most recent valuation reports are reviewed by the management team. The review focuses on checking material movements and ensuring all additions and disposals are captured and that there have been no material changes to the underlying assumptions on which the valuations are based.

Land and building measurements are categorised as Level 3 in the fair value hierarchy. During the year there were no transfers between levels of the fair value hierarchy.

4. LONG TERM ASSETS (CONTINUED)

Both the income capitalisation approach and discounted cash flow analysis contain unobservable inputs in determining fair value. These are summarised in the table below:

DESCRIPTION	FAIR VALUE AT 1 AUGUST 2015 $000'S	VALUATION TECHNIQUE	UNOBSERVABLE INPUTS	RANGE OF UNOBSERVABLE INPUTS	RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE
Land and buildings – retail	8,464	Income capitalisation approach and discounted cash flow analysis	Net market rent	$478 – $1,119 per m^2	The higher the rent per square metre the higher the fair value
			Capitalisation rate (yield)	7.30% – 7.50%	The lower the yield the higher the fair value
			Discount rate	8.24% – 9.25%	The higher the discount rate the lower the fair value
			Terminal capitalisation rate	8.00% – 8.15%	The higher the terminal rate the lower the fair value
			Rental growth rate	1.50% – 2.33%	The higher the rental growth rate the higher the fair value
			Expenses growth	$3,129 – $5,000	The higher the expenses the lower the fair value

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Investment property

$'000	2018	2017 (RESTATED)
Opening balance	8,464	8,464
Net gain/(loss) from fair value adjustment	–	–
Closing balance	8,464	8,464

An external valuation of the investment properties has been obtained for 1 August 2017 from Telfer Young (Hawkes Bay) Ltd and Colliers International. The Director's have reviewed the valuation performed and concluded that there has been no significant change in fair value for the financial year ended 1 August 2017. Additionally, the Directors have undertaken an assessment of the market values of the properties for the year ended 1 August 2018 and have concluded that there has been no significant change in fair value.

Lease receivables

The Group owns rental property which it leases under non-cancellable operating lease agreements to external parties. Leases reflect normal commercial arrangements with varying terms, escalation clauses and renewal rights.

The future minimum rental payments receivable under these leases is as follows:

$'000	2018	2017
Due within one year	855	862
One to two years	670	763
Two to five years	1,361	1,849
Later than five years	–	128
Total lease receivables	2,886	3,602

5. EQUITY

5.1 Share capital

Ordinary shares are classified as capital, net of treasury stock.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury stock

Shares purchased on market under the executive share scheme are treated as treasury stock on acquisition at cost. On vesting to the employee, treasury stock shares are credited to equity and an employee loan is recorded initially at fair value and subsequently at amortised cost.

Reserves

The asset revaluation reserve records revaluations of property, net of tax. The cash flow hedge reserve records the fair value of derivative financial instruments, net of tax that meet the hedge accounting criteria. The share option reserve is used to record the accumulated value of unvested share rights arising from the executive share scheme which have been recognised in the statement of comprehensive income.

Contributed equity

	2018 SHARES	2017 SHARES	2018 $000'S	2017 $000'S
Balance at beginning of year	58,947,301	59,107,425	27,270	27,649
Purchase of treasury stock	(212,253)	(174,715)	(800)	(600)
Sale of treasury stock	183,918	14,591	606	52
Dividends	–	–	177	175
Share options exercised	266,597	–	725	–
Gain on sale of treasury stock transferred to retained earnings	–	–	(160)	(6)
Balance at end of year	59,185,563	58,947,301	27,818	27,270
Representing:				
Share capital	59,649,061	59,649,061	29,279	29,279
Treasury stock (net of dividends)	(463,498)	(701,760)	(1,461)	(2,009)
Total	59,185,563	58,947,301	27,818	27,270

All shares are fully paid and rank equally.

5. EQUITY (CONTINUED)

5.2 Executive share scheme

Equity settled share-based compensation benefits are provided to employees in accordance with the Group's executive share scheme. The fair value of share rights granted under the scheme is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the share rights.

The fair value at grant date of the share rights are determined using a Black Scholes Pricing model that takes into account the exercise price, the term of the share right, the vesting and performance criteria, the non-tradable nature of the share right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share right.

At each balance date, the Group revises its estimate of the number of share rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the vesting of share rights, the balance of the share option reserve relating to the share rights is transferred to retained earnings.

The Company operates an employee share scheme for certain senior executives to purchase ordinary shares in the Company.

The Company provides the employees with limited recourse loans on an interest free basis to assist employees' participation.

The loans are applied to purchase shares on market and the shares are treated as treasury stock.

The loan amount is the total market value of the shares plus any commission applicable on the date of purchase.

Any dividends payable on the shares are applied towards the repayment of the advance.

Shares purchased under the scheme are held by two directors as custodians and vest three years from the date of purchase. In the event the employee leaves the company during the vesting period, the loan is repaid by selling the shares on market. Any gain or loss arising from the sale of shares is included in equity. Refer to note 5.1 for further detail on treasury stock.

In accordance with NZ IFRS 2 this scheme is an equity-settled scheme.

The model inputs for shares issued during the year ended 1 August 2018 included a share issue price ranging between $3.31–$4.65, (2017: $3.01–$3.53) an expected price volatility of 30% (2017: 30%), a risk free interest rate ranging between 2.2%–2.7% (2017: 1.9%) and an estimated 3 year vesting period.

Executive share scheme

	YEAR ENDED 1 AUGUST 2018		YEAR ENDED 1 AUGUST 2017	
	NUMBER OF SHARES	PURCHASE/ (SALE) PRICE	NUMBER OF SHARES	PURCHASE/ (SALE) PRICE
Balance at beginning of financial year	701,760		541,636	
Purchased on market during the year	212,253	3.77	174,715	3.43
Forfeited during the year	(183,918)	(3.30)	(14,591)	(3.55)
Exercised during the year	(266,597)		–	
Balance at end of financial year	463,498		701,760	
Percentage of total shares hold by scheme	0.78%		1.18%	

6. TAXATION

6.1 Income tax expense

The income tax expense or revenue for the period is the tax payable or receivable on the current period's taxable income based on the notional income tax rate for each jurisdiction, 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 and unused tax losses.

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 for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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 operations where the company 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 directly in equity are also recognised directly in equity.

Goods and Services Tax (GST)

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

Income tax expense

$'000	2018	2017
Income tax expense		
The tax expense comprises:		
Current tax expense	10,924	7,489
Deferred tax expense (note 6.2)		
– Future tax benefit current year	(215)	(688)
Total income tax expense	10,709	6,801
Reconciliation of income tax expense to tax rate applicable to profits		
Profit before income tax expense	38,070	24,070
Tax at 28% (2017: 28%)	10,660	6,740
Tax effect of:		
– Income not subject to tax	–	–
– Expenses not deductible for tax	49	61
– Non deductibility of future depreciation on buildings	–	–
Total income tax expense	10,709	6,801

The effective tax rate for the year was 28% (2017: 28%).

The Group has no tax losses (2017: Nil) and no unrecognised temporary differences (2017: Nil).

6. TAXATION (CONTINUED)

The tax (charge)/credit relating to components of other comprehensive income are as follows:

$'000	2018 BEFORE TAX	2018 TAX (CHARGE) /CREDIT	2018 AFTER TAX	2017 BEFORE TAX	2017 TAX (CHARGE) /CREDIT	2017 AFTER TAX
Gains (net of tax) on revaluation of land and buildings	–	–	–	4,287	(989)	3,298
Fair value gain (net of tax) in cash flow hedge reserve	4,712	(1,319)	3,393	1,060	(296)	764
Increase in share option reserve	124	–	124	129	–	129

6.2 Deferred tax

$'000	2018	2017
AMOUNTS RECOGNISED IN PROFIT OR LOSS		
Depreciation	149	908
Amortisation – fixed rent	354	301
Provisions and accruals	764	830
	1,267	2,039
AMOUNTS RECOGNISED DIRECTLY IN EQUITY		
Asset revaluation reserve	–	(989)
Cash flow hedges	(677)	644
Correction of error in retained earnings	350	350
Total amount recognised	940	2,044
MOVEMENTS		
Balance at beginning of year (restated)	2,044	2,641
Credited/(charged) to the income statement	215	688
Credited/(charged) to equity	(1,319)	(1,285)
Balance at end of the year	940	2,044

6.3 Imputation credits

$'000	2018	2017
Imputation credits available for subsequent reporting periods	18,024	14,186

7. OTHER

7.1 Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables 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.

$'000	2018	2017
Holiday pay accrual and other benefits	4,786	4,500

7.2 Capital expenditure commitments

$'000	2018	2017
Commitments in relation to store fitouts and warehouse expansion	3,867	792

7.3 Contingencies

Contingent liabilities under contracts, guarantees and other agreements arising in the ordinary course of business on which no loss is anticipated are as follows:

$'000	2018	2017
Letters of credit	–	224
Bank guarantee provided to the New Zealand Stock Exchange Limited	75	75

Letters of credit

Bank letters of credit issued to secure future purchasing requirements are matched to a contingent asset of the same value representing inventories purchased.

7.4 Related party transactions

During the year, the Company advanced and repaid loans to its subsidiaries by way of internal current accounts. In presenting the financial statements of the Group, the effect of transactions and balances between fellow subsidiaries and those with the Parent have been eliminated. All transactions with related parties were in the normal course of business and provided on commercial terms.

The Group undertook transactions with the related interests of the majority shareholder as detailed below:

$'000	2018	2017
T C Glasson		
Rent on retail premises based on independent valuations	2,088	2,010

7. OTHER (CONTINUED)

The following Directors received directors' fees and dividends in relation to shares held personally as follows:

	DIRECTORS' FEES		DIVIDENDS	
$'000	2018	2017	2018	2017
Mr T C Glasson	79	68	4,115	3,447
Mr W J Bell	120	97	7	6
Ms K Bycroft	88	75	–	–
Mr M Donovan	79	68	34	15
Mr G Popplewell	62	–	70	59
Mr M Ford	90	75	3	–

Payments to Mr G Popplewell

$'000	2018	2017
Consulting fees	17	55

Key management compensation was as follows:

$'000	2018	2017
Short term employee benefits	3,891	2,844
Share scheme benefit	124	129

The Company operates an employee share scheme for certain senior executives and is outlined in note 5.2.

7. OTHER (CONTINUED)

7.5 Financial risk management

Fair value estimation
Fair value estimates are classified in a hierarchy based on the inputs to valuation techniques used to measure fair value. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

The Group has financial instruments that are classified as Level 2 within the fair value hierarchy. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included within Level 2. Under Level 2 the Group holds forward foreign exchange contracts. The fair value of these forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value. Refer to note 7.5.4.

The Group's land and buildings within property, plant and equipment is classified as Level 3 in the fair value hierarchy as one or more of the significant inputs into the valuation are not based on observable market data. Refer to note 4.2 for more information.

Derivatives
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured 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. The company designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

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 various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, 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 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 profit and loss component of statement of comprehensive income.

Amounts accumulated in equity are recycled in the statement of comprehensive income in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, 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 statement of comprehensive income. 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 profit and loss component of the statement of comprehensive income.

Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the statement of comprehensive income.

7. OTHER (CONTINUED)

7.5.1 Financial risk factors

The Group's activities expose it to various financial risks including, liquidity risk, credit risk, and market risk (including currency risk and cash flow interest rate risk). The Group's risk management strategy is to minimise adverse effects on comprehensive income. Derivative financial instruments are used to hedge currency risk.

7.5.2 Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves, and by regularly monitoring cash flow.

At balance date, the Group had $17.453 million (2017: $12.552 million) in cash reserves and accordingly, management consider liquidity risk to be relatively low.

The table below analyses the Group's financial liabilities and gross-settled derivatives into relevant maturity groupings based on the remaining period from the statement of financial position to the contractual maturity date. The cash flow hedge "outflow" amounts disclosed in the table are the contractual undiscounted cash flows liable for payment by the Group in relation to all forward foreign exchange contracts in place at balance date. The cash flow hedge "inflow" amounts represent the corresponding inflow of foreign currency back to the Group as a result of the gross settlement on those contracts, converted using the spot rate at balance date.
The carrying value shown is the net amount of derivative financial liabilities and assets as shown in the statement of financial position.

Trade payables are shown at carrying value in the table. No discounting has been applied as the impact of discounting is not significant.

AS AT 1 AUGUST 2018

$'000	LESS THAN 3 MONTHS	3-12 MONTHS	TOTAL	CARRYING VALUE
Trade and other payables	16,283	–	16,283	16,283
Employee benefits	4,786	–	4,786	4,786
Total	21,069	–	21,069	21,069
Forward foreign exchange contracts				
Cash flow hedges:				
– Outflow	(16,007)	(24,519)	(40,526)	(40,526)
– Inflow	17,086	25,895	42,981	42,943
Net	1,079	1,376	2,455	2,417

AS AT 1 AUGUST 2017

$'000	LESS THAN 3 MONTHS	3-12 MONTHS	TOTAL	CARRYING VALUE
Trade and other payables	17,355	–	17,355	17,355
Employee benefits	4,500	–	4,500	4,500
Total	21,855	–	21,855	21,855
Forward foreign exchange contracts				
Cash flow hedges:				
– Outflow	(14,134)	(40,233)	(54,367)	(54,367)
– Inflow	13,378	39,091	52,469	52,069
Net	(756)	(1,142)	(1,898)	(2,298)

7. OTHER (CONTINUED)

7.5.3 Credit Risk

Credit risk is the risk of the failure of a debtor or counterparty to honour its contractual obligations resulting in financial loss to the Group. The Group incurs credit risk from trade receivables and transactions with financial institutions. The Group places its cash, short-term investments and derivative financial instruments with high credit quality financial institutions. Retail sales are predominantly settled in cash or by using major credit cards. 0.2% (2017: 0.4%) of sales give rise to trade receivables. This maximum exposure to credit risk is the carrying amount of trade receivables.

Concentration of credit risk with respect to debtors is limited due to the large number of customers included in the Group's customer base.

The Group does not require collateral or other security to support financial instruments with credit risk.

7.5.4 Market Risk

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from currency exposure predominantly with the US dollar with the purchase of inventory from overseas suppliers.

The Board has established a Treasury Risk Policy to manage the foreign exchange risk. The policy is reviewed on a regular basis, and management report monthly to the Board to confirm policy is adhered to. All committed foreign currency requirements are fully hedged, and approximately 60% (2017: 61%) of anticipated foreign currency requirements are hedged on a rolling twelve month basis.

The Group uses forward exchange contracts with major retail banks only to hedge its foreign exchange risk arising from future purchases.

Forward exchange contracts – cash flow hedges

These contracts are used for hedging committed or highly probable forecast purchases of inventory. The contracts are timed to mature during the month the inventory is shipped and the liability settled. The cash flows are expected to occur at various dates within one year from balance date.

When forward exchange contracts have been designated and tested as an effective hedge the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. These gains or losses will be released in the profit and loss in the statement of comprehensive income at various dates over the following year as the hedged risk crystallises.

At balance date the Group had entered into forward exchange contracts to sell the equivalent of NZ$40.526 million (2017: NZ$54.366 million), primarily in US Dollars. At balance date these contracts are represented by assets of $2.417 million (2017: $Nil) and liabilities of $Nil (2017: $2.298 million). When foreign exchange contracts are not designated and tested as an effective hedge, the gain or loss on the foreign exchange contract is recognised in the profit and loss in the statement of comprehensive income.

At balance date there are no such contracts in place (2017: $Nil).

Interest rate risk

The Group has no interest bearing liabilities. Exposure to interest rate risk arises only from the impact on income from operating cash flows as a result of interest bearing assets, such as cash deposits.

Sensitivity analysis

Based on historical movements and volatilities and management's knowledge and experience, management believes that the following movements are 'reasonably possible' over a 12 month period:

- Proportional foreign exchange movement of -10% (depreciation of NZD) and +10% (appreciation of NZD) against the USD, from the year end rate of 0.6789 (2017: 0.7508)
- Proportional foreign exchange movement of -10% (depreciation of NZD) and +10% (appreciation of NZD) against the AUD, from the year end rate of 0.9173 (2017: 0.9346)
- A parallel shift of +1% / -1% in the market interest rates from the year end deposit rate of 1.75% (2017: 1.90%)

7. OTHER (CONTINUED)

If these movements were to occur, the post-tax impact on profit and loss and equity for each category of financial investment:

AS AT 1 AUGUST 2018		INTEREST RATE				FOREIGN EXCHANGE RATE			
	CARRYING	-1%		+1%		-10%		+10%	
$'000	AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY
FINANCIAL ASSETS									
Loans and receivables									
Cash and cash equivalents	17,453	(175)	(175)	175	175	638	638	(522)	(522)
Accounts receivable	182	–	–	–	–	–	–	–	–
Advances to employees	464	–	–	–	–	–	–	–	–
Derivatives used for hedging									
Derivatives designated as cash flow hedges (forward foreign exchange contracts)	2,417	–	–	–	–	–	3,467	–	(2,785)
FINANCIAL LIABILITIES									
Liabilities at amortised cost									
Trade and other payables	16,283	–	–	–	–	(703)	(703)	575	575
Employee benefits	4,786	–	–	–	–	(183)	(183)	150	150
Total increase/decrease		(175)	(175)	175	175	(248)	3,219	203	(2,582)

AS AT 1 AUGUST 2017		INTEREST RATE				FOREIGN EXCHANGE RATE			
	CARRYING	-1%		+1%		-10%		+10%	
$'000	AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY
FINANCIAL ASSETS									
Loans and receivables									
Cash and cash equivalents	12,552	(126)	(126)	126	126	–	–	–	–
Accounts receivable	779	–	–	–	–	–	–	–	–
Advances to employees	238	–	–	–	–	–	–	–	–
FINANCIAL LIABILITIES									
Liabilities at amortised cost									
Trade and other payables	17,355	–	–	–	–	445	–	(364)	–
Employee benefits	4,500	–	–	–	–	–	–	–	–
Derivatives used for hedging									
Derivatives designated as cash flow hedges (forward foreign exchange contracts)	2,298	–	–	–	–	–	(745)	–	400
Total increase/decrease		(126)	(126)	126	126	445	(745)	(364)	400

The Parent is not exposed to any interest rate or foreign exchange risk.

7. OTHER (CONTINUED)

7.5.5 Capital risk management

The Group's objectives when managing capital are to maximise the value of shareholder equity and ensure that the Group continues to safeguard its ability to continue as a going concern. Group capital consists of share capital, reserves and retained earnings. In order to meet these objectives, the Group may adjust the amount of dividend payment made to shareholders. The Group has no specific banking or other arrangements which require that the Group maintain specific equity levels.

7.6 Events subsequent to balance date

Subsequent to year end, the Board has resolved to pay a final dividend of 24.0 cents (2017: 17.0 cents) per share (fully imputed). The dividend will be paid on 17 December 2018 to all shareholders on the Company's register as at 5:00pm, 10 December 2018.

7.7 Standards, amendments and interpretations to existing standards

No new accounting policies have been adopted that are considered to have a significant impact on the financial statements.

There have been no significant changes in accounting policies during the year.

New accounting standards, amendments and interpretations to existing standards that are not yet effective, and have not been early adopted by the Group, are:

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

During the financial year the Group assessed the potential impact of NZ IFRS 15, with a focus on the varying revenue streams that exist within the business. The majority of revenue is made up of in store transactions with less than 13% earned through online sales.

The following matters are relevant to the Group under NZ IFRS 15:

- for online sales, whether arranging the delivery of goods is a separate performance obligation as it may impact the timing, measurement and classification of revenue recognised;
- a customer's right of return in determining revenue to be recognised and how this should be accounted for.

There is no material impact in relation to the above on the consolidated financial statements from the adoption of NZ IFRS 15.

NZ IFRS 9: Financial Instruments (Effective date: periods beginning on or after 1 January 2018)
NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

There will be no impact on the Group's accounting for financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have such liabilities. The derecognition rules have been transferred from NZ IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. The Group has confirmed that its current hedge relationships would qualify as continuing hedges upon the adoption of NZ IFRS 9. The nature and extent of the Group's disclosure note in relation to its hedging relationships will change in the consolidated financial statements for the period ending 1 August 2019.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as per NZ IAS 39. Based on the Group's assessment of historical provision rates and forward-looking analysis, there is no expected financial impact on the impairment provisions in the year of adoption.

7. OTHER (CONTINUED)

NZ IFRS 16: Leases (Effective date: periods beginning on or after 1 January 2019)
NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting for leases under NZ IFRS 16 is almost the same as NZ IAS 17. However, the guidance on the definition of a lease has been updated (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

Based on preliminary assessments the Group has determined that NZ IFRS 16 will have a significant impact on the Group's statement of financial position and statement of comprehensive income, measurement and disclosures. The statement of financial position will be impacted by the recognition of a right of use asset, and a corresponding lease liability. The statement of comprehensive income will be impacted by the recognition of an interest expense and a depreciation expense and the de-recognition of the current rental expense.

This standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $88 million (refer note 4.1).

Through the use of software designed for the management of leases, the Group has developed a model to calculate the impact of their current operating leases under NZ IFRS 16 as at 1 August 2019, being the date of adoption. The model requires management to make some key judgements including:

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

The Group's process to date highlights that the potential impact based on the current lease agreements is expected to be material to the consolidated balance sheet on the date of adoption (being 1 August 2019), with impacts on the following line items:

- recognition of a right of use asset of approximately $55 million; and
- recognition of a lease liability of approximately $55 million.

The Group has applied the practical expedient for short term leases, and therefore this estimate excludes leases that expire within 12 months from the date of this report and 1 August 2019.

The impact on the consolidated income statement for the period ended 1 August 2020 is expected to be:

- decrease in store expenses (operating lease rental expense);
- increase in depreciation expense; and
- increase in finance costs (interest expense).

The impact on each of these line items is expected to be significant however currently the Group does not expect the overall effect on net profit attributable to shareholders to be material. The above has no cash effect to the Group and the change is for financial reporting purposes only.

Current estimates are likely to change at time of adoption and for the period ended 1 August 2020, mainly due to:

- finalisation of managements judgements and subsequent movements in the inherent borrowing rate (interest rates);
- new lease contracts entered into by the Group;
- any changes to existing lease contracts; and
- change in managements judgement to exercise rights of renewals under lease agreements.

The Group currently intends to adopt the simplified transition approach under NZ IFRS 16 on its effective date being for the year ended 1 August 2020, and will not restate comparative amounts for the period prior to first adoption.

GENERAL DISCLOSURES

BOARD OF DIRECTORS

Directors of the Company in office at the end of the year or who ceased to hold office during the year:

DIRECTOR	QUALIFICATIONS/EXPERIENCE	SPECIAL RESPONSIBILITIES
Warren James Bell	M Com CA. Appointed December 1986. Mr Bell holds appointments on a number of boards of private companies, and is a professional director.	Chairman of Directors Non-executive Director
Timothy Charles Glasson	Founder of Glassons womenswear retail chain. Appointed November 1985 on merger with Hallensteins.	Non-executive Director
Michael John Donovan	ANZIM. Appointed May 1990. Founder and Director of Wild Pair, and Lippy retail stores.	Non-executive Independent Director
Graeme James Popplewell	Former CEO, B Com FCA. Appointed March 1985.	Non-executive Director
Malcolm Ford	Appointed June 2010. Background includes 20 years with experience in direct sourcing particularly in Asia, Mr Ford also has experience in brand management across wholesale and retail markets.	Non-executive Independent Director
Karen Bycroft	BSC, Postgrad Marketing. Appointed November 2014. Background includes 25 years in Retail in the UK and Australia with Marks and Spencer, Sears, Woolworths and Country Road. Experience in Strategy, Marketing, and Leadership. Also an Associate of Melbourne Business School and Executive Coach.	Non-executive Independent Director
Mary Devine	ONZ, BCom, MBA. Appointed July 2018. Background includes experience in corporate strategy, brand marketing and multi-channel retailing. Also a 20 year career in Managing Director and executive roles in private New Zealand companies. A former Chief Executive of EziBuy and women's clothing retailer Max Fashions.	Non-executive Independent Director

PRINCIPAL ACTIVITIES OF THE GROUP

Hallenstein Glasson Holdings Limited is a non-trading Holding Company. The principal trading subsidiaries are Glassons Limited, Glassons Australia Limited (retail of women's apparel), Retail 161 Limited, Retail 161 Australia Limited (formally Storm brand), Hallenstein Bros Limited and Hallenstein Brothers Australia Limited (retail of men's apparel). The subsidiaries are 100% owned by Hallenstein Glasson Holdings Limited.

REVIEW OF OPERATIONS

(a) Consolidated results for the year ended 1 August 2018

$'000	2018	2017
Operating revenue	277,642	239,004
Profit before income tax	38,070	24,070
Income tax	(10,709)	(6,801)
Profit for the year	27,361	17,269

(b) Dividend

An interim dividend of 20.0 cents per share together with a supplementary dividend of 3.5294 cents per share to non-resident shareholders was paid on 13th April 2018.

Subsequent to balance date the Directors have declared a final dividend of 24.0 cents per share payable 17th December 2018. Non-resident shareholders of the Company will also receive a supplementary dividend of 4.2353 cents per share. Dividends are fully imputed to New Zealand resident shareholders.

GENERAL DISCLOSURES

DIRECTORS

(a) Remuneration and all other benefits

Remuneration of Directors

$'000	2018	2017
Mr W J Bell	120	97
Mr T C Glasson	79	68
Mr M Donovan	79	68
Mr G Popplewell	79	364
Mr M Ford	90	75
Ms K Bycroft	88	75
	535	747

(b) Shareholdings

Beneficially held

	2018	2017
W J Bell	20,143	20,143
T C Glasson	11,950,588	11,950,588
M J Donovan	100,000	–
G J Popplewell	203,604	203,604
M Ford	10,000	10,000

Non-beneficially held

	2018	2017
M Ford and M J Donovan as custodians for Staff Share Scheme	463,498	701,760

(c) Interests in share dealing

M Ford and M Donovan as Trustees for share purchase scheme

	DATE	PURCHASE/(SALE) NUMBER OF SHARES	$
On market purchase	14/11/2017	75,300	249,991
On market purchase	28/12/2017	22,937	88,241
On market purchase	3/01/2018	35,000	136,495
On market purchase	5/01/2018	25,775	99,309
On market purchase	9/01/2018	42,541	175,950
On market purchase	20/04/2018	10,700	50,004
On market sale	13/11/2017	(93,317)	(308,511)
On market sale	14/11/2017	(47,968)	(158,322)
On market sale	15/11/2017	(42,633)	(140,343)
Transfer to employees (off market)		(266,597)	

GENERAL DISCLOSURES

(d) Disclosures of interests by Directors

W J Bell

Chairman	St Georges Hospital Inc
Director	Ryman Healthcare Group of Companies
Director	Craigpine Timber Ltd
Director	Cyprus Enterprises and Meadow Mushrooms Group of Companies
Director	Sabina Ltd
Director	Glasson Trustee Limited
Director	152 Hereford Limited
Director	CHC Properties Ltd
Director	Warren Bell Ltd
Director	Poraka Ltd
Director	Amalgamated Holdings Ltd

M Donovan

Director	Mike and Carol Donovan Trustee Limited
Director	Donovan's Limited

M Devine

Director	Briscoe Group Ltd
Director	Meridian Energy Ltd
Director	IAG New Zealand Ltd
Director	IAG (NZ) Holdings Ltd
Director	Christchurch City Holdings Ltd
Director	Foodstuffs South Island Ltd
Director	Foodstuffs New Zealand Ltd
Director	Devine Consultancy (2014) Ltd

T C Glasson

Director	Sabina Ltd
Director	Mantles Ltd
Director	Glasson Trustee Limited
Director	CHC Properties Limited
Director	JCG Trustee Limited
Director	152 Hereford Limited
Director	SIG Trustee Limited
Trustee	Hallenstein Glasson Staff Benefit Trust

M Ford

Trustee	Hallenstein Glasson Staff Benefit Trust

K Bycroft

Advisory Board Member	Spotlight Retail Group

G J Popplewell

None

(e) Directors' insurance

As provided by the Company's Constitution and in accordance with Section 162 of the Companies Act 1993 the Company has arranged Directors' and Officers' Liability Insurance that ensures Directors will incur no monetary loss as a result of actions undertaken by them as Directors provided they act within the law.

(f) Directors' and Officers' use of Company information

During the period the Board received no notices pursuant to Section 145 of the Companies Act 1993 relating to use of Company information.

STATE OF AFFAIRS

The Directors are of the opinion that the state of affairs of the Company is satisfactory. Details of the period under review are included in the Chairman's Report and the audited statement of comprehensive income.

GENERAL DISCLOSURES

EMPLOYEE REMUNERATION

The number of employees with the Group (other than Directors) receiving remuneration (excluding long term incentives) and benefits above $100,000 in relation to the year ended 1 August 2018 was:

EMPLOYEE REMUNERATION	2018	2017
100,000-109,999	5	6
110,000-119,999	3	1
120,000-129,999	2	4
130,000-139,999	4	2
140,000-149,999	5	2
150,000-159,999	–	1
160,000-169,999	–	1
170,000-179,999	2	3
180,000-189,999	2	1
190,000-199,999	1	–
200,000-209,999	3	2
210,000-219,999	3	2
220,000-229,999	1	1
230,000-239,999	1	1
240,000-249,999	1	–

EMPLOYEE REMUNERATION	2018	2017
250,000-259,999	1	–
270,000-279,999	–	1
280,000-289,999	1	1
290,000-299,999	–	1
310,000-319,999	–	1
340,000-349,999	2	–
350,000-359,999	–	1
390,000-399,999	–	1
400,000-409,999	3	–
500,000-509,999	1	–
620,000-629,999	–	1
640,000-649,999	–	1
650,000-659,999	1	–
730,000-739,999	–	1
1,190,000-1,199,999	1	–
1,360,000-1,369,999	1	–

CHIEF EXECUTIVE REMUNERATION

The remuneration of the Group Chief Executive Officer for the year ended 1 August 2018 was:

	SALARY	KIWISAVER	OTHER BENEFITS	SUBTOTAL	SHORT-TERM INCENTIVE	TOTAL REMUNERATION	LOAN PROVIDED UNDER THE EMPLOYEE SHARE SCHEME
FY18	700,000	34,571	37,828	772,399	417,809	1,190,208	499,996

The remuneration of the Chief Executive Officer comprises fixed and performance payments. Fixed remuneration includes a base salary, contributions to Kiwisaver, health insurance, car allowance and a carpark. The Chief Executive Officer received a short-term incentive (STI) of $417,809. The STI is approved by the Board and is linked to the Group's financial performance against set targets. The Chief Executive Officer was issued with shares to the value of $499,996 during the financial year under the Group's employee share scheme.

As of the 1 August 2018, the total number of shares held for the benefit of the Group Chief Executive totalled 267,735. For these shares, loans totalling $916,349 are outstanding.

REMUNERATION TO AUDITORS

The fee for the audit of the Holding Company and subsidiaries, paid to PriceWaterhouseCoopers, was $130,175.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Hallenstein Glasson Holdings Limited (HGHL) is committed to maintaining the highest standards of corporate governance. This statement gives an overview of the policies and processes that are in place throughout the Company and how best-practice standards of corporate governance are followed. This statement follows the principles outlined in the NZX Corporate Governance Code (the **Code**) and outlines how HGHL is applying the recommendations in the Code.

The key HGHL corporate governance policy documents including the Board and Board committee charters are available at www.hallensteinglasson.co.nz/investment-centre.

PRINCIPLE 1 – CODE OF ETHICAL BEHAVIOUR

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."

Code of ethics

The Board is committed to the highest standards of conduct and ethical behaviour in all business activities, and has adopted a code of ethics to promote and support a culture of honest and ethical behaviour, corporate compliance and good corporate governance.

The Code of Ethics sets out the standards of conduct expected of the Directors, senior management and employees in carrying out their day to day duties. This code provides a guide to the conduct that is consistent with the Company's values, business goals and legal obligations. The code contains the internal reporting procedures for any breaches.

New employees receive a copy of the Code of Ethics as part of their induction and it is available on the Group's website. The Board reviews the Code of Ethics annually.

Financial Product Trading policy

HGHL is committed to transparency and fairness in dealing with all of its stakeholders and to ensuring adherence to all applicable laws and regulations. The Financial Product Trading policy details the Company's policy in relation to trading HGHL shares and includes restrictions on and procedures for Directors and employees.

The policy details the procedure which must be followed when Directors and senior management (or their related parties) wish to trade in the Company's shares. They must notify HGHL and obtain consent prior to trading in HGHL shares, and are only permitted to trade within the periods of two windows. These windows are from the day on which HGHL's half year results are released (during March) and 1 July and between the full year announcement (during September) and 1 January. Trading by an individual holding non-public material information about the Company is prohibited.

Directors or senior managers must advise the NZX promptly if they trade in the company's shares within the timeframes required by law.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

"To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives."

The Board

The Board of Directors is elected by shareholders to oversee the management of the Company and is responsible for all corporate governance matters and reporting to shareholders. The Board has adopted a board charter which sets out the roles and responsibilities of the Board and outlines how this interacts with the role of the Group's management. The Board Charter is available on the Group's website.

The Board establishes the Company's objectives, determines the strategies for achieving those objectives, and monitors management performance. It also establishes delegated authority limits for capital expenditure, treasury, and remuneration.

Glassons and Hallensteins operate as separate subsidiaries, each with its own management team. The Board delegates the responsibility for the day-to-day management of each subsidiary to the Group CEO and the management of that subsidiary. The Board is responsible for the appointment of, and assessment of the performance of, the Group CEO and the members of the senior management team.

The Board meets at least ten times each year, and in addition a full corporate strategy meeting is held each year. Directors receive monthly reporting including profit and loss and balance sheets for each operating subsidiary, together with operations reports from the senior executive from each business unit.

CORPORATE GOVERNANCE STATEMENT

Board membership

The Board currently comprises all non-executive Directors (being seven non-executive Directors at the date of this annual report). In recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairperson is a non-executive Director.

Independent Directors at the date of this report are:

Michael Donovan
Malcolm Ford
Karen Bycroft
Mary Devine

Other non-executive Directors are:

Warren Bell (Chairman)
Timothy Glasson
Graeme Popplewell

The constitution of HGHL requires at least one-third of the Directors or, if their number is not a multiple of three, then the number nearest to one-third, to retire from office at the annual meeting each year, but shall be eligible for re-election at that meeting. Those to retire shall be those who have been longest in office since they were last elected or deemed elected.

The Board may at any time appoint a person to be a Director either as an additional Director or to fill a casual vacancy. Any person who is appointed a Director by the Board shall retire from office at the next annual meeting of the Company, but shall be eligible for re-election at that next meeting.

A list of the Directors and their profiles, experience and qualifications is on page 50 of this report. A list of their relevant ownership interests is on page 52 of this report.

Nomination and appointment of Directors

The Nominations Committee identifies suitably qualified people who could be considered for nomination or appointment as a Director in the event of a vacancy on the Board. The Nominations Committee Charter includes guidelines relating to Board composition, considerations for new Director appointments and the process by which potential Directors are nominated and assessed. All new Directors will enter into a written agreement with HGHL setting out the terms of their appointment.

Diversity

HGHL believe that all eligible people get an equal opportunity and are all treated fairly regardless of backgrounds, views, experiences and capabilities as well as their beliefs, physical differences, ethnicity, gender, age, thinking style or preferences. The company has adopted a Diversity and Inclusion Policy that ensures it is continually developing a work environment that supports equality and inclusion regardless of difference.

In accordance with HGHL's Diversity and Inclusion Policy, the Board is working on setting measurable objectives for achieving workplace diversity and inclusiveness, how it will achieve those objectives and how it will measure performance against those objectives. These are currently in the process of being set given the policy has only recently been adopted which, when set, will bring HGHL into compliance with Code recommendation 2.5. The Board has responsibility for implementing, reviewing, reporting and overseeing the policy.

Details of gender composition of the Group's Directors and senior managers as at the balance date are as follows:

Gender diversity as at 1 August

	2018	2017
Directors		
Female	2	1
Male	5	5
Officers		
Female	1	2
Male	6	6

The Board will ensure that new Directors are appropriately inducted to their role. Continuous education is also undertaken by Directors as appropriate to ensure that they have skills that are relevant and up to date, and that allow them to perform their role as Directors.

CORPORATE GOVERNANCE STATEMENT

The Board evaluates its own performance and that of its committees annually. The Chairperson also meets with Directors individually to discuss their individual performance during the year.

PRINCIPLE 3 – BOARD COMMITTEES

"The Board should use committees where this will enhance effectiveness in key areas, while retaining Board responsibility."

Remuneration Committee

The Remuneration Committee is comprised of non-executive members of the Board, and is chaired by Mr Timothy Glasson. The other members of the Committee are Warren Bell and Michael Donovan. The function of the Committee is to make specific recommendations on remuneration packages and other terms of employment for Directors and senior management. Management may only attend Committee meetings at the Committee's invitation. The Committee utilises independent advice where necessary to ensure remuneration practices are appropriate for the Company, and to ensure the best possible people are recruited and retained. Although the Committee does not currently have a majority of independent Directors in line with Code recommendation 3.3, the Board believes the current membership has an optimal mix of skills and experience to ensure the Committee achieves its objectives. In addition, the Committee makes recommendations to the full Board for consideration, which is comprised of a majority of independent Directors.

The Remuneration Committee Charter is available on the Group's website.

Audit Committee

The Audit Committee is comprised of non-executive members of the Board, and is chaired by Mr Malcolm Ford. The other members of the Committee are Warren Bell and Graeme Popplewell. The Committee has a majority of independent Directors. The Committee meets directly with the external auditors at least twice a year, and receives all correspondence between the Company and its auditors. The main responsibility of the Committee is to ensure internal controls are effective, financial reporting is reliable, and applicable laws and regulations are complied with. Management may only attend Committee meetings at the Committee's invitation. The Audit Committee Charter is available on the Group's website.

Nominations Committee

The Nominations Committee is comprised of non-executive members of the Board, and is chaired by Mr Michael Donovan. The other members of the Committee are Timothy Glasson and Warren Bell. When appropriate, the Committee will make recommendations to the Board on the appointment of Directors.

The Nominations Committee Charter is available on the Group's website. Although the Committee does not currently have a majority of independent Directors in line with Code recommendation 3.4, the Board believes the current membership has an optimal mix of skills and experience to ensure the Committee achieves its objectives.

Health and Safety Committee

HGHL has also established a Health and Safety Committee. The Committee is not a Committee of the Board, although its members include Directors as well as employees of the Group.

The Committee is chaired by Ms Karen Bycroft. The Committee oversees the:

- Group's existing health and safety systems and processes.
- Approval of health and safety policies and procedures for the Group.
- Monitoring of any incidents, hazards and risks within the Group's business.
- Communication to the Board on health and safety matters and ensures the Board is informed on matters relating to health and safety governance, performance and compliance.
- Regular assessments on health and safety systems.

The Health and Safety Committee Charter is available on the Group's website.

Takeover response

The Board has implemented protocols that set out the procedures to be followed if a takeover offer is received by HGHL.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 4 – REPORTING AND DISCLOSURE

"The Board should demand integrity in financial and non-financial reporting and in the timeliness and balance of corporate disclosures."

Financial reporting to shareholders and the market is in accordance with generally accepted accounting principles applied in New Zealand, and in compliance with relevant legislation and NZX requirements.

The Group's Sustainability Report is on pages 10 and 11. The Group has appointed a sustainability steering group to consider risks on environmental, social and governance factors. The steering group has developed the current Group initiatives which include:

- significantly reduce HGHL's environmental footprint;
- zero tolerance to child / forced labour;
- actively support freedom of association and non-discrimination.

The Board is responsible for ensuring it meets its obligation for continuous disclosure in accordance with NZX Main Board Listing Rule 10.1 and acknowledges that the intent of these rules is to enable shareholders and the investment market generally to be promptly informed of any events that may be price sensitive in regards to the Company's share price.

The Board has adopted a market disclosure policy which outlines the obligations of HGHL and relevant HGHL personnel in satisfying HGHL's continuous disclosure requirements. A copy of the policy is available on the Group's website.

The Directors' shareholdings, trading of shares, together with other relevant matters for disclosure are set out on pages 51 and 52 of this report.

All key corporate governance documents, including charters and policies, are available on the Group's website at www.hallensteinglasson.co.nz/investment-centre.

PRINCIPLE 5 – REMUNERATION

"The remuneration of Directors and executives should be transparent, fair and reasonable."

Details of Directors' and Group CEO's remuneration are shown on pages 51 and 53 of this report.

Shareholders are asked to approve any increases to the pool of Directors' fees from time to time as required by the NZX Main Board Listing Rules. Fees are generally established using independent surveys covering New Zealand based organisations of a similar scope and size.

Key executive remuneration comprises a base salary together with short term and long term incentives that are based on performance which are earned subject to company profitability. The Remuneration Committee seeks independent advice where appropriate when setting key executive remuneration.

HGHL has adopted a Remuneration Policy which outlines the principles that apply to the remuneration of all Non-executive Directors and senior management with the aim that ensuring that remuneration is fair and appropriate. A copy of the policy is available on the Group's website.

Details of the Group employees who have earned over $100,000 during the financial year and the Group CEO's remuneration are shown on page 53 of this report.

PRINCIPLE 6 – RISK MANAGEMENT

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

The Board is responsible for reviewing and approving the Company's risk management strategy, and maintains a risk framework that identifies and seeks to manage risks throughout the HGHL group. It also seeks to identify new and emerging risks to the HGHL Group through this framework. The Board delegates day-to-day management of risk to the Group CEO who may further delegate such responsibilities to his or her executives and other officers. Significant risks are discussed at Board meetings as required.

While the Board is ultimately responsible for oversight of the risk management of the Group, the Audit Committee reviews the reports of management and the external auditors on the effectiveness of systems for internal control, financial reporting and risk management. To assist in discharging this responsibility, the Board has in place a number of strategies designed to safeguard the Company's assets and interests and to ensure the integrity of reporting.

CORPORATE GOVERNANCE STATEMENT

The company maintains insurance cover with reputable insurers for most types of insurance risk. All HGHL Group Directors and senior managers have the benefit of an indemnity as permitted by the Companies Act 1993 and HGHL's constitution. The HGHL Group has also implemented Director and Officer (D&O) insurance cover at HGHL's cost. Details of these indemnities and insurance are disclosed in HGHL's interests register as required.

Health and Safety

The Company has health and safety systems and processes in place that includes training employees and recording any incidents, hazards and risks. These systems ensure we continue to provide a safe working environment for staff, contractors and customers. HGHL has also established a Health and Safety Committee as part of its commitment to protecting the health, safety and wellbeing of HGHL Group Employees – see details of the Committee and its role on page 56.

The Health and Safety Committee, along with senior management, is responsible for ensuring that Health and Safety has appropriate focus and is sufficiently resourced within the Group. Senior management work with the Health and Safety committee to investigate incidents, analyse hazard/ incident trends to identify and mitigate potential health and safety risks and review, develop and monitor compliance with health and safety processes and procedures. Health and Safety is a consistent item on the Board meeting agendas to keep all Directors informed of the Group's performance across a range of measures.

The Board and the Committee receive detailed reporting on health and safety performance including health and safety incidents, injury rates by severity, identified hazards and outputs from the workers' health and safety forum meetings.

All staff are trained on Health and Safety procedures at induction, some examples of these include working from height, manual lifting and personal safety. Registers are kept of potential hazards at each store and regular reviews/audits of compliance with health and safety processes and procedures are carried out. Particular focus is placed on safety in our Distribution Centres and regular risk assessments are carried out. The Group also provides an Employee Assistance Programme to support with employee wellbeing.

PRINCIPLE 7 – AUDITORS

"The Board should ensure the quality and independence of the external audit process."

The Audit Committee is responsible for overseeing the external audit arrangements. Ensuring that external audit independence is maintained is one of the key aspects in discharging this responsibility. An Audit Independence Policy has been adopted by the Committee to assist in meeting this responsibility. The Audit Independence Policy covers the following areas:

- Provision of related assurance services by the external auditors.
- Auditor rotation.
- Relationships between the auditor and the Company.
- Approval of auditor.

The Audit Committee shall only approve a firm to be auditor if that firm would be regarded by a reasonable investor with full knowledge of all relevant facts and circumstances as capable of exercising objective and impartial judgement on all issues encompassed within the auditor's engagement. The Audit Committee must approve significant permissible non-audit work assignments that are awarded to an external auditor. A copy of the policy is available on the Group's website.

The external auditors are required to be available at each annual meeting.

Internal audit

The Company does not have an internal audit function. The Board is confident the key risks of the business are being adequately managed and the internal control framework is operating effectively, including through the risk identification and management processes outlined above.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 8 – SHAREHOLDERS' RIGHTS AND RELATIONS

"The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."

The Company releases all material information to the NZX as required by the NZX Main Board Listing Rules, and also posts any key announcements to the Company website at www.hallensteinglasson.co.nz. Other key information, including annual reports, the constitution and key corporate governance documents are also posted for ease of reference. Consistent with best practice and the Company's continuous disclosure obligations under the NZX Main Board Listing Rules, external communications that may contain market sensitive data are released through NZX in the first instance. The Board approves all communications with shareholders.

Shareholders are provided with the option of receiving communications from the Company electronically. The Company's website includes a section on investor communications and the Company welcomes investor enquiries.

Notice of the AGM is sent to shareholders and is posted on the company's website at least 4 weeks prior to the meeting.

As required by the Companies Act and NZX Main Board Listing Rules, the Company refers any significant matters to shareholders for approval at the AGM, and shareholders are given the opportunity to vote by proxy ahead of the meeting or by polling if attending the meeting in person.

SHAREHOLDER INFORMATION

ANALYSIS OF SHAREHOLDING AS AT 28 SEPTEMBER 2018

RANGE	HOLDER COUNT	HOLDER COUNT %	HOLDING QUANTITY	HOLDING QUANTITY %
1 to 99	83	1.49	2,678	0.01
100 to 199	118	2.11	15,690	0.03
200 to 499	299	5.35	95,194	0.16
500 to 999	430	7.70	287,390	0.48
1,000 to 1,999	1,093	19.57	1,437,197	2.41
2,000 to 4,999	1,675	29.99	5,028,725	8.43
5,000 to 9,999	955	17.10	6,121,569	10.26
10,000 to 49,999	833	14.92	14,302,750	23.98
50,000 to 99,999	56	1.00	3,646,556	6.11
100,000 to 499,999	36	0.65	7,403,779	12.41
500,000 to 999,999	3	0.05	1,611,493	2.70
1,000,000 to 9,999,999,999,999	4	0.07	19,696,040	33.02
Total	5,585	100.00	59,649,061	100.00

SHAREHOLDER INFORMATION

TOP 20 SHAREHOLDING AS AT 28 SEPTEMBER 2018

RANK	NAME	ADDRESS	SHARES	% OF SHARES
1.	TIMOTHY CHARLES GLASSON	PO Box 248, Christchurch, 8140	11,950,588	20.035
2.	HSBC NOMINEES (NEW ZEALAND) LIMITED - NZCSD	PO Box 5947 Wellesley Street, Auckland, 1141	4,222,124	7.08
3.	CITIBANK NOMINEES (NEW ZEALAND) LIMITED - NZCSD	GPO Box 764G, Melbourne VIC, AUSTRALIA, 3000	2,325,453	3.90
4.	FNZ CUSTODIANS LIMITED	PO Box 396, Wellington, 6140	1,197,875	2.01
5.	KEVIN JAMES HICKMAN + JOANNA HICKMAN + JOHN ANTHONY CALLAGHAN	PO Box 79084, Avonhead, Christchurch, 8446	565,000	0.95
6.	TEA CUSTODIANS LIMITED CLIENT PROPERTY TRUST ACCOUNT - NZCSD	Att: Chris Campbell, PO Box 3121, Wellington, 6140	546,493	0.92
7.	KEVIN JAMES HICKMAN + JOANNA HICKMAN	24 Waiwetu Street, Fendalton, Christchurch, 8052	500,000	0.84
8.	NATIONAL NOMINEES NEW ZEALAND LIMITED - NZCSD	c/o Iss - Manila Team Proxy Forms, Gpd Operations, 15TH Floor Solaris One Building, 130 De La Rosa Street, Makati City, PHILIPPINES, 1229	451,367	0.76
9.	FORSYTH BARR CUSTODIANS LIMITED	Private Bag 1999, Dunedin, 9054	439,293	0.74
10.	CUSTODIAL SERVICES LIMITED	PO Box 13155, Tauranga, 3141	423,294	0.71
11.	INVESTMENT CUSTODIAL SERVICES LIMITED	PO Box 35, Shortland Street, Auckland, 1140	407,263	0.68
12.	JBWERE (NZ) NOMINEES LIMITED	Private Bag 92085, Victoria Street West, Auckland, 1142	326,785	0.55
13.	CUSTODIAL SERVICES LIMITED	PO Box 13155, Tauranga, 3141	319,453	0.54
14.	CUSTODIAL SERVICES LIMITED	PO Box 13155, Tauranga, 3141	306,877	0.51
15.	HSBC NOMINEES (NEW ZEALAND) LIMITED A/C STATE STREET -NZCSD	PO Box 5947, Wellesley Street, Auckland, 1141	302,390	0.51
16.	ACCIDENT COMPENSATION CORPORATION - NZCSD	c/- Jp Morgan Att Asset Services, PO Box 5652, Wellington, 6140	300,000	0.50
17.	MALCOLM FORD + MICHAEL DONOVAN + HLG EMPLOYEE SHARE SCHEME	PO Box 91148, Victoria Street West, Auckland, 1142	267,735	0.45
18.	JPMORGAN CHASE BANK NA NZ BRANCH-SEGREGATED CLIENTS ACCT - NZCSD	Att: Asset Services, PO Box 5652, Wellington, 6140	246,885	0.41
19.	ASB NOMINEES LIMITED	PO Box 35, Shortland Street, Auckland, 1140	228,310	0.38
20.	BNP PARIBAS NOMINEES (NZ) LIMITED - NZCSD	Level 13 Pwc Tower, 113-119 The Terrace, Wellington, 6011	206,377	0.35
Totals: Top 20 holders of ordinary shares			25,533,562	42.81
Total remaining holders balance			34,115,499	57.19

DIRECTORY

AUDITORS
PRICEWATERHOUSECOOPERS

BANKERS
ANZ BANK NEW ZEALAND LTD.

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WEBSITES
HALLENSTEINGLASSON.CO.NZ
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CALENDAR

ANNUAL BALANCE DATE	**01 AUGUST**
PRELIMINARY PROFIT ANNOUNCEMENT	**SEPTEMBER**
REPORTS AND ACCOUNTS PUBLISHED	**OCTOBER**
HALF YEAR RESULTS	**MARCH**
INTERIM DIVIDEND	**APRIL**
FINAL DIVIDEND	**17 DECEMBER 2018**
ANNUAL GENERAL MEETING	**12 DECEMBER 2018**

HALLENSTEIN BROTHERS

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