2020
ANNUAL REPORT

HALLENSTEIN GLASSON HOLDINGS LIMITED

A SOLID PERFORMANCE IN A CHALLENGING MARKET

WE ARE PLEASED AND GRATEFUL FOR THE RESILIENCE AND COMMITMENT SHOWN BY OUR PEOPLE IN A CHALLENGING ENVIRONMENT.

THE COMPANY ADJUSTED QUICKLY TO THE CHANGING RETAIL AND CONSUMER LANDSCAPE TO DELIVER A SOLID PERFORMANCE FOR THE YEAR.

THE INVESTMENT IN DIGITAL, RETAIL INNOVATION AND FOCUS ON FASHIONABLE PRODUCT REMAIN PILLARS TO MAINTAINING OUR MANDATE FOR SUSTAINABLE LONG-TERM GROWTH.

CONTENTS

HALLENSTEIN GLASSON HOLDINGS LIMITED

HIGHLIGHTS
A particular highlight is the ongoing growth of the Glassons Australia business, which continues to go from strength to strength.
MARY DEVINE
GROUP MANAGING DIRECTOR

TEAM MEMBERS
1,734

TOTAL STORES
114

SALES
$288M
UP 0.1%

PROFIT AFTER TAX
$28M
DOWN 4.3%

TOTAL EQUITY
$87M

TOTAL ASSETS
$211M

% OF TOTAL REVENUE THROUGH ONLINE SALES
21.9%
UP FROM 15.2% IN 2019

EARNINGS PER ORDINARY SHARE
46.56 CENTS

CHAIRMAN'S **REPORT**

RESULTS FOR FULL YEAR ENDED 1 AUGUST 2020

The Company advises that Group sales for the 12 months to 1 August 2020 were $287.76 million which were +0.1% up on the prior year ($287.55 million).

The audited net profit after tax for the 12 months was $27.77 million, a decrease of 4.29% on the prior corresponding period ($29.02 million).

Overall sales were maintained in an extremely challenging environment, predominantly due to the increased level of online sales from April 2020 onwards.

During the last six months stores in both New Zealand and Australia were closed on 26 March with New Zealand stores opening on 14 May and Australian stores opening during May.

The web shops in New Zealand for both brands were closed from 26 March 2020 but did reopen to sell essential products from 4 April and then all product from 27 April.

The Gross Margin was affected by a number of issues throughout the financial year including unfavourable exchange rates with the US Dollar in both New Zealand and Australia as well as challenges with freight costs resulting from the impact of COVID-19.

Over the financial period, costs were well controlled with additional controls implemented post the lockdowns including reducing operating costs, claiming of government wage subsidies, extending supplier terms where appropriate, placing capital projects on hold, negotiating rent relief with landlords and the Directors, Executives and support office staff taking short term reductions to their salaries.

The Group continues to take steps to preserve liquidity, particularly managing stock levels and costs across the business. The rental negotiations with landlords for the lock down period are still ongoing.

GLASSONS — NEW ZEALAND & AUSTRALIA

Sales in New Zealand for the year were $102.60 million, an increase of 1.86% on the prior year.

Over the last year the outlet store in Hornby, Christchurch was refurbished and the Cuba Mall, Wellington store was moved to a brand-new location and fully refurbished. In July, the store in Tauranga CBD was closed.

Sales in Australia were $96.69 million which was an increase of 8.03% on the corresponding period.

During the year, a new store was opened in Robina on the Gold Coast, a pop-up site in Birkenhead Point, Sydney and the Eastgardens store in Sydney was increased in size and completely refurbished. In the last 12 months stores in Chatswood and Hurstville, both in Sydney, were closed. There are currently further sites being reviewed for potential openings around Australia to support the planned growth.

A new larger Fulfilment Centre was opened in Christchurch towards the end of 2019 and the new Fulfilment Centre in Sydney was opened in February. These facilities were instrumental to support the significant growth in online sales.

With the trajectory in online sales there has been significant investment in digital including relaunching the website and a planned launch of an omni-channel Glassons app later in the year.

Glassons maintains a key focus on fashion, bringing the latest trends that customers want to the market.

The team are doing this with agility and an increasing emphasis on sustainability. We continue to focus on customer centricity, engaging customers regularly and evolving product to meet customer demand. This helps Glassons to maintain a strong brand position in both markets.

HALLENSTEIN BROTHERS

Sales for the 12 month period were $88.48 million (including Australia), a decrease of 9.09% on the prior period.

Sales were more challenging in the second half of the year as demand for Tailored product diminished with the impact of lockdowns on people working remotely and restrictions on gatherings.

However, sales results in the casual categories are encouraging and have outperformed over the financial year.

In New Zealand, the outlet store in Hornby, Christchurch was refurbished in the last 12 months and the CBD store in Tauranga was closed.

The journey continues with the repositioning of the brand and improving profitability with a successful New Zealand based marketing campaign and increasing local digital content. Product also remains integral to our performance with a sustainable focus and improvements in product quality across core categories. Customer engagement is at the forefront of service delivery both in store and online.

E-COMMERCE

Online sales grew over the period by 46.87% against last year with an exceptional growth of 80.1% within the second six months of the financial year. Online sales now represent 21.88% of total sales for the full financial year but represented 30.30% of the total sales for the second half of the year. The growth in online sales have continued into the new financial year being ahead of last year.

The previous investment in fulfilment centres has been effective in supporting the Groups online sales growth. There will be continued investment in digital as we continue to accelerate online sales growth and focus on an omni-channel experience for our customers.

DIVIDEND

The Directors have declared a final dividend of 24 cents per share (fully imputed) (24 cents per share last year) to be paid on 15th December 2020. Together with the interim dividend of 15 cents per share that was paid on 4 September 2020, the full year dividend is 39 cents per share. The final dividend payment is able to be maintained as the Company's balance sheet continues to be strong, and inventories well controlled.

FUTURE OUTLOOK

Following Auckland moving to Level 3 on Wednesday 12 August, thirteen Hallenstein Brothers stores and twelve Glassons stores were closed and reopened on 31 August 2020. Eleven stores in Victoria Australia have been closed since July with the current planned opening to be 26th October 2020 in line with State Government guidelines. Despite these closures the Glassons Australia business continues to perform ahead of last year.

The first eight weeks of the new financial year have seen Group sales grow +10.71% on the prior year, this has been driven predominantly by online sales as physical store growth has been slower, particularly in CBD locations. Whilst this is a positive result the Company will continue to be cautious in regard to the future impacts of COVID-19.

An update will be provided at the Annual Meeting of Shareholders in December 2020.

GROUP SALES

$287.76M

ONLINE SALES

21.9%

OF GROUP TURNOVER

WARREN BELL
CHAIRMAN

GROUP MANAGING DIRECTOR'S **REPORT**

THIS YEAR HAS BEEN A YEAR OF TWO HALVES, WITH DISTINCT MARKET CONDITIONS.

The first half saw strong sales but the past six months has had a significant impact on the overall performance of the business for the financial year. Despite the challenges faced, delivering sales on par with last year has been commendable. From the initial lockdown in China and impact on supply chain, to the various geographical lockdowns in New Zealand and Australia, impacting both physical retail and limitations on product offer online, the Company responded with agility and speed to maintain customer connectivity and optimise sales.

Digital was at the forefront of the Company's ability to respond with the limitations of lockdowns. Innovative social media campaigns provided connectivity to our customers. The Glassons 'Keeping Connected' Instagram series and for Hallenstein Brothers the 'Live in the Lounge' were both unique ways of staying connected and relevant to our customer base.

It was also fortuitous the investment in the three distribution facilities over the past 18 months, the purpose built Glassons facilities in Christchurch and Sydney were specifically designed to accommodate significant online growth.

In addition, the Hallenstein Brothers Distribution Centre in Auckland had been expanded with technology implemented to enhance the pick efficiency of online orders. These facilities were instrumental to support the significant growth in the online channel.

The Glassons brand, despite the market environment continues to go from strength to strength. The Glassons team maintain constant engagement with the customer which provides valuable insights to ensure product is relevant to customer segments. Uniqueness of design and being able to respond quickly to market demands is providing a competitive advantage. We remain optimistic of the growth potential of the Glassons brand, particularly in the Australian market.

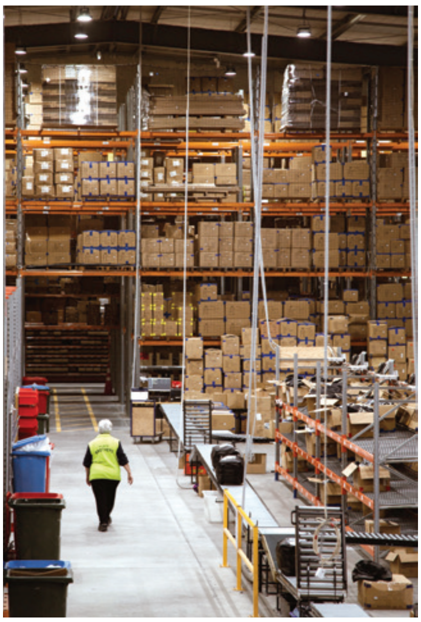
The Hallenstein Brothers brand is being refined, moving away from a historical promotionally driven strategy, to a greater focus on quality product across core categories overlayed with fashion capsules. The customer and staff response to the repositioning has been positive. However, the challenge for the brand in recent times is acknowledgment that demand for the Tailored product category has been diminished with the impact of lockdowns and restrictions on gatherings.

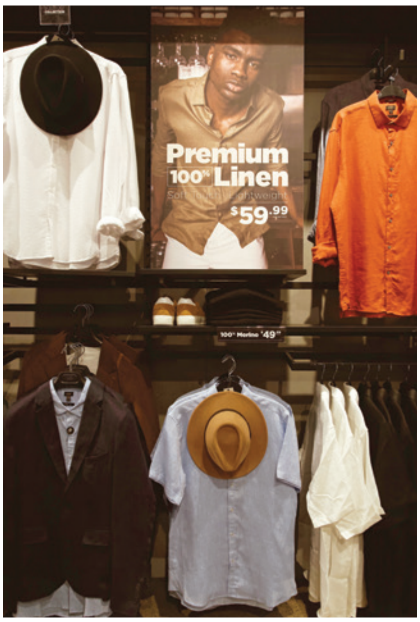
114
STORES
ACROSS THE GROUP

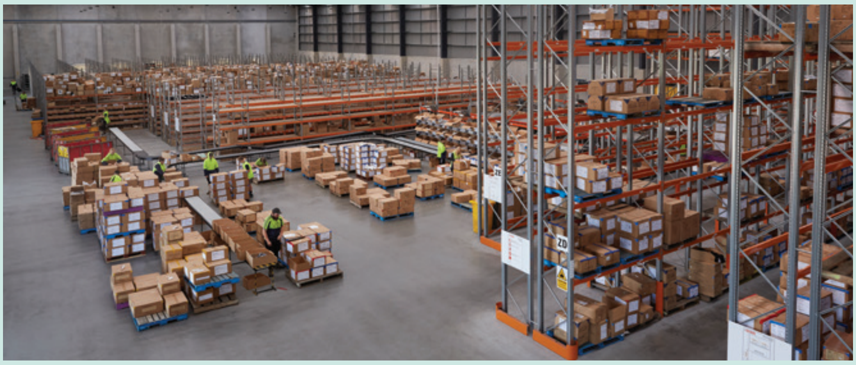
2 NEW STORES

3 STORES REFURBISHED

> **The resilience and commitment of our people has been exemplary in challenging circumstances. The ability to adjust and adapt our trading environment to keep customer engagement at the forefront has been exceptional.**
>
> **MARY DEVINE**
> GROUP MANAGING DIRECTOR







RETAIL

Customer experience in our physical stores remains pivotal to our Brands success. Continuing to re-fresh store fitouts and introducing new elements to stay relevant to fashion trends and functionality. We also have on-going investment in technology in-store that both enhances our retail team's ability to assist customer needs, in addition to delivering productivity efficiency.

During the last financial year we opened 2 new Glassons stores Robina (Gold Coast) and Cuba Mall (Wellington). In addition, a number of stores through both the Glassons and Hallenstein Brothers network were updated or refurbished.

Negotiations continue with landlords on the impact of COVID-19. Moving forward we will continue to maintain a watching brief on the retail landscape and what will evolve post the impact of COVID-19. We are mindful that across retail precincts there will be variability on the future outlook, but also believe it may be an opportune time for select investment in key retail locations in Australia.

PRODUCT

The restrictions on global travel has facilitated the opportunity to enhance design capability within the businesses. This has led to the respective Design teams identifying unique ways of responding to global fashion trends.

With the variability in customer demand at category level we are mindful of staying close to the market, to ensure we are delivering the right mix of product in a timely manner.

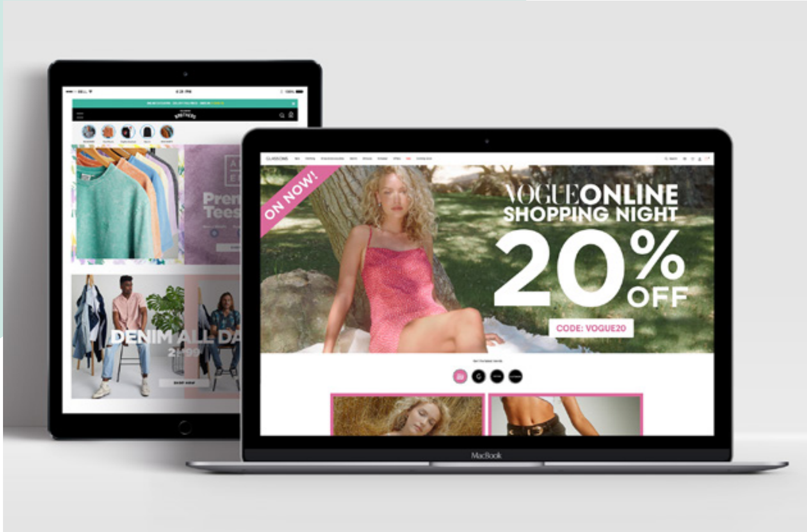
Another key product initiative in the business is progress on our sustainability journey. Over the past 18 months we have been increasingly sourcing textiles that align with respected certification programmes. Using recycled, organic, and traceable fabric, in addition to building upon the vintage product lines, which are offered in select Hallenstein Brothers and Glassons stores.

SUPPLY CHAIN

Both Hallenstein Brothers and Glassons have long standing supply arrangements. We are grateful for the support shown by many of our suppliers through the lockdowns, which allowed us to effectively manage our stock levels.

We have also been working with our suppliers partnering on our sustainability journey as we increase transparency in our supply chain.

The investment in two new fulfilment centres: Glassons New Zealand (Christchurch) and Glassons Australia (Sydney) and the refurbishment Hallensteins (Auckland) have enabled pivotal infrastructure to support the omni-channel growth of the business. In addition, our logistics partners have also provided strong support as we have weaved through the varying supply chain challenges.



GROUP
ONLINE
SALES
GROWTH

47%

DIGITAL

It was pleasing to see for the Group the annual growth in online of 47%. Online sales accounted for 22% of total sales for the year, and to note were 30% of total sales for the second six months. In particular, the performance of the Glassons online channel in the past six months has been exemplary.

We continue to build on the expertise of the in-house Digital teams, with a number of key appointments over the past twelve months.

The areas which have been a focus for both Digital teams include:

— Customer Relationship Management — the implementation of a new CRM system which is allowing greater sophistication on customer segments and understanding their communication profiles. Whilst still in its infancy we are confident that gaining greater insights to our customer preferences will enhance our execution.

— Website functionality — both Brands have embarked on further enhancement on the functionality and aesthetics of the respective websites. This will continue to evolve in this coming year.

— Content — the ability of the in-house teams to develop creative content to support the Brands has been pivotal in context of travel restrictions. The increasing demand for relevant and creative content across digital formats is driving innovative solutions.

There are a number of projects underway for both Digital teams, and we are particularly excited about the opportunities that lie ahead for the Glassons brand online.

SUSTAINABILITY

We are pleased to release our first full Sustainability Report — Made with Care. As a Group we are committed to act more sustainably to make a positive impact on people and the environment. We acknowledge we are very much on a journey, and the Made with Care report puts voice to our responsibility to bring affordable fashion to our customers ethically and sustainably. The report covers our actions over the past 12 months, and the strategies and initiatives that we have in place to make a difference.

OUTLOOK

We are prepared to manage the ever-changing dynamics of the market. We know that there will be challenges ahead, but the commitment of our people and ability to adapt will allow us to be responsive to the market. The ongoing investment in digital will remain a priority, with continued opportunity to grow the online channel for both brands.

We also believe there is potential for additional physical stores in Australia. However, we will take a prudent approach in assessing viability.

On a personal note, I would like to thank all stakeholders for their support of the business throughout the year. Our staff have been amazing, but also the support of our suppliers, landlords and shareholders has allowed the Company to continue to deliver commendable results in unprecedented times.

MARY DEVINE
GROUP MANAGING DIRECTOR

SUSTAINABILITY **MATTERS**

THIS YEAR WE HAVE RELEASED THE FIRST HALLENSTEIN GLASSONS HOLDINGS (HGH) SUSTAINABILITY REPORT.

Below is a summary of the report but you can read the full version on the Group website at www.hallensteinglasson.co.nz/sustainability

There's a drive from within the fashion industry to act more sustainably — to have a more positive impact on people and the environment. We want to be at the forefront of that discussion, but at the same time, be honest about what we've done and how we plan to improve.

We are excited to introduce our commitment — Made with Care. Made with Care lays out our responsibility to bring affordable fashion to our customers ethically and sustainably — not shying away from the challenges we face — but meeting them head on.

HALLENSTEIN GLASSON HOLDINGS LIMITED

Made with care.

WE HAVE DEVELOPED A STRUCTURE AND FRAMEWORK AROUND OUR SUSTAINABILITY PLAN.

The combined responses of our staff and customers, coupled with our own knowledge of the issues, led us to develop the framework. This is what we use to measure our progress to being a more sustainable business and delivering on our commitments. Under each pillar we have developed areas of focus and under those we have determined the important issues for us to address.

HALLENSTEIN GLASSON HOLDINGS SUSTAINABILITY FRAMEWORK

VISION	TO BUILD A SUSTAINABLE BUSINESS ON A FIRM FOUNDATION OF INTEGRITY					
PILLARS	**People**		**Plant**		**Product**	
AREAS OF FOCUS	**Staff wellbeing and empowerment**	**Community support**	**Sustainable stores and operations**	**Climate change**	**Sustainable Fabrics and products**	**Ethical and transparent supply chains**
IMPORTANT ISSUES	Engaged and empowered diverse workforce	Meaningful investment	Plastics and packaging	Our carbon footprint	Certified fabrics	Supplier partnerships
	Safe working environment		Reducing waste	Preparing for climate change	Pre-loved garments	Ethical factories
	Career development		Energy efficiency		Cruelty-free fashion	
	Effective & transparent communication				Product stewardship	

COMMUNICATE OUR STRATEGY CLEARLY TO STAFF, CUSTOMERS & SHAREHOLDERS

OUR FOUR KEY FOCUS AREAS ARE

ETHICAL AND TRANSPARENT SUPPLY CHAINS	SUSTAINABLE FABRICS AND PRODUCTS	SUSTAINABLE STORES AND OPERATIONS	STAFF WELLBEING AND EMPOWERMENT

1 ETHICAL AND TRANSPARENT SUPPLY CHAINS

We don't own or manage factories ourselves and our manufacturing is outsourced to selected partners who meet our high ethical and quality standards. Most of our suppliers have been on our journey with us for more than 15 years. Because we build long term supplier relationships we can, and do, demand high standards and transparency from those suppliers.

Our Social & Ethical Compliance Auditing programme operates across our entire supplier-base. This programme consists of conducting annual factory audits to ensure our suppliers are following our Supplier Code of Conduct which include the below areas:

— No child labour.

— No forced labour or human trafficking.

— No discrimination.

— Safe and healthy work environments.

— Wages, working hours and benefits comply with local industry requirements.

— Prohibition of excessive overtime.

— No harsh or inhumane treatment.

— Freedom of association and the right to collective bargaining.

— Compliance with environmental laws.

— Raw materials are ethically sourced.

COVID-19: OUR SUPPLIERS AND OUR RESPONSE

The COVID-19 pandemic has had a severe effect on global health and economies. The fashion industry has been hit hard. We have witnessed first-hand the challenges faced by factories who were left with unpaid goods and cancelled orders. We look out for our suppliers and their workers, and we've made a commitment to honour our contracts.

We've signed up to the Tearfund 6 Commitments to underline this commitment.

1. Support workers' wages by honouring supplier commitments.
2. Identify and support the workers at greatest risk.
3. Listen to the voices and experiences of workers.
4. Ensure workers' rights and safety are respected.
5. Collaborate with others to protect vulnerable workers.
6. Build back better for workers and the world.

INNO COMMUNITY DEVELOPMENT ORGANISATION (INNO)

We have partnered with Chinese Non-governmental organisations (NGO) INNO — by implementing the 'Handshake Workers Programme' which supports worker voices and grievances. We believe this is a perfect fit, as INNO is Chinese based, providing support right where the majority of our suppliers are located. INNO is a whistle blower hotline that workers can access via QR code posted in the factory, enabling direct communication to INNO employees.

MY FIBRES ARE TRACEABLE

2 SUSTAINABLE FABRICS AND PRODUCTS

It will come as no surprise that fabric is the cornerstone of our business. Without it, we would not exist. It comes in many forms, some of it sustainable, some not. So our goal is two-fold: make product as sustainable as possible, and ensure that product is affordable and accessible for our customers, so they can make a sustainable choice without compromise.

These are the key issues for us, under our 'sustainable fabrics and products' area of focus:

- Certified Fabrics.
- Vintage Garments.
- Cruelty Free Fashion.
- No Harm Waste Management.

Over the last 18 months, we have focused more on sourcing textiles responsibly; aligning ourselves with globally recognised and respected certification programmes, so we know our fabrics are aligned with our sustainability framework. You can learn more about our certified fabrics in our Sustainability Report.

Glassons and Hallenstein Brothers are incorporating vintage and upcycled products into stores to complement our main ranges.

We 100% support Cruelty Free Fashion that respects biodiversity, animal welfare and protection of our oceans.

The fashion industry generates a lot of waste and HGH is no different. It's something we've been focused on for a number of years as we look for ways to reduce it.

- We send fabric swatches to preschool centres for art and craft projects.
- We donate product samples to Women's Refuge.
- Faulty products and recalls are made into rags.
- We send faulty but completely wearable stock to the Salvation Army.

I'M MADE OF RECYCLED FIBERS

ORGANIC COTTON

As good as these initiatives have been for us over the past five years, we are always looking for better solutions, and one of those is our partnership with The Formary, New Zealand's leading specialists, supporting organisations like ours to develop a strategic approach to reduce textile waste.

3 SUSTAINABLE STORES AND OPERATIONS

Our 114 retail stores, 3 distribution centres and head offices in Auckland and Sydney all generate waste, consume electricity and use resources, so we are continually exploring ways to make our stores and operations more efficient, and constantly refining to adopt ethically sound and environmentally sustainable practices across our operations; for our own team, our customers and all our stakeholders.

The three areas we concentrate on are:

- Packaging and Plastics.
- Reducing Waste.
- Energy Efficiency.

We have replaced plastic bags in store with paper bags. For our online customers, the courier bags and the polybags we use to ship goods to them, will shortly all be compostable.

We are proud of our current initiative, but we're always open to improvements to our sustainable packaging. Therefore our current Compostables Programme is flexible enough to allow for better solutions as sustainability practices evolve.

At Hallenstein Brothers and Glassons we recognise that sustainable business practices are fundamental to our future as they minimise the impact on our environment.

Our main objectives are to REDUCE, REUSE, RECYCLE our WASTE.

We are rapidly moving toward packaging that's disposed of properly and has less environmental impact.

But we are also reducing the amount of packaging we use, and the amount of waste we generate. And where we cannot eliminate waste, we're doing all we can to reuse or recycle.

Clothing retail stores rely on good lighting for optimal display and safety. Lighting is the main consumer of energy in all our stores and contributes significantly to our carbon footprint. We are currently installing LED store lighting across our retail network.

4 STAFF WELLBEING AND EMPOWERMENT

We recognise our people are entitled to feel valued, respected and appreciated. We also want to make sure they feel safe and happy whilst at work.

Our focus on staff wellbeing and empowerment has four themes:

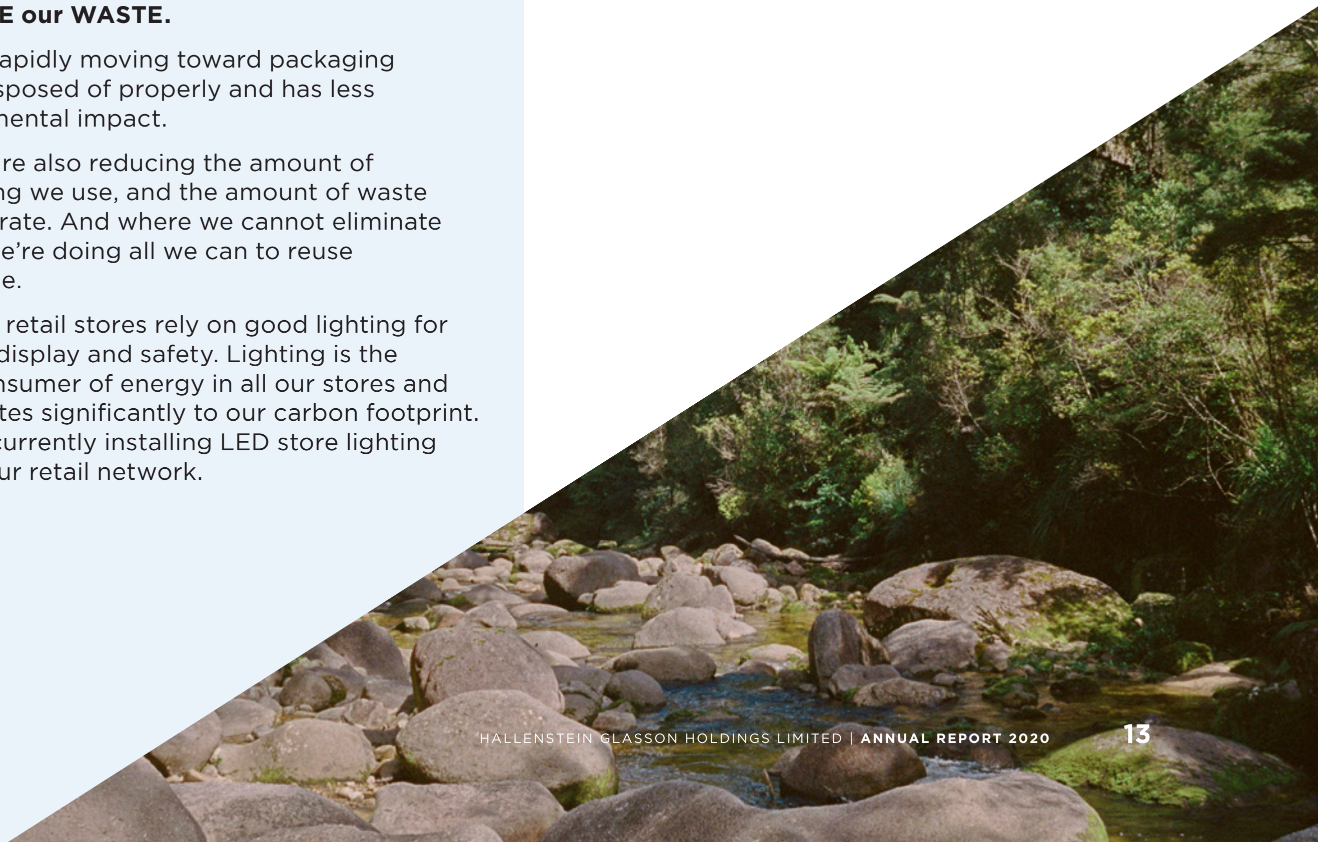
- An engaged and empowered diverse workforce.
- A safe workforce.
- Career development.
- Effective and transparent communication.

We firmly believe an empowered workforce makes for a happy crew — and we are committed to supporting empowerment by promoting our values of respect, dignity, non-discrimination and providing safe workplaces.

Once a staff member is part of the HGH family, we provide ongoing professional development support through numerous training opportunities.

Good communication is important for any company to function effectively. Our staff and management should feel they can easily communicate with each other — and our other stakeholders should feel we communicate clearly with them.

If you want to read further about our sustainability journey and targets please visit our website **www.hallensteinglasson.co.nz**



HALLENSTEIN BROTHERS

TOTAL SALES

$88M

↓ DOWN 9.1%

> The focus on quality across the casual product categories is resonating strongly with customers.
>
> **MARY DEVINE**
> GROUP MANAGING DIRECTOR

INSTAGRAM FOLLOWERS

43.4K

43
STORES
IN NEW ZEALAND

4
STORES
IN AUSTRALIA

GLASSONS

NEW ZEALAND SALES

$103M

↑ UP 1.9%

AUSTRALIAN SALES

$97M

↑ UP 8.0%

INSTAGRAM FOLLOWERS

534K

> **"The growth of the Glassons online channel in the past 12 months has been exceptional."**
>
> **MARY DEVINE**
> GROUP MANAGING DIRECTOR

36
STORES
IN NEW ZEALAND

32
STORES
IN AUSTRALIA

Independent auditor's report

To the shareholders of Hallenstein Glasson Holdings Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 1 August 2020;
- 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 accompanying 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 2020, 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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current 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.

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Description of the key audit matter	How our audit addressed the key audit matter
Inventory valuation, including the impact of COVID-19 As at 1 August 2020, the Group held $24.6 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 effort. As disclosed in Note 3.2 of the financial statements, 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 to its Net Realisable Value (NRV) where inventory is forecast to be sold below cost. As described under *Critical accounting estimates, judgements and assumptions* in note 1.2 of the financial statements, the Group assesses the inventory provision using management judgement which considers a range of factors including the review of historical data, the age of inventory and the current selling price trends to determine the appropriateness of the provision. As disclosed in note 1.3 of the financial statements, the Group has taken steps since March in response to COVID-19, including closely monitoring planned stock intake and alignment with sales demand which meant that COVID-19 did not have a material impact on the valuation.	We have performed the following procedures over the valuation of inventory: • For a sample of inventory items, tested inventory costing to supplier invoices and shipping documentation; • We tested that the ageing report used by management correctly aged inventory items by agreeing a sample of aged inventory items to the invoices; • On a sample basis we tested the NRV 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; • Considered the impact of COVID-19 on the inventory valuation by discussing the impact with management, considering the impact on slow moving items and the impact of reduction in purchase levels on the NRV calculations; • 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; and • Reviewed the appropriateness of disclosures in the financial statements. From the procedures performed we have no matters to report.

PwC

Description of the key audit matter	How our audit addressed the key audit matter
Adoption of NZ IFRS 16 Leases The Group adopted NZ IFRS 16 *Leases* on 2 August 2019. The standard requires the recognition of a right of use asset and lease liability on the balance sheet for all leases. Previously operating leases were not recognised on the balance sheet. The adoption of the standard has resulted in the recognition of a right of use asset of $75.8 million and a lease liability of $82.8 million. As outlined in Note 4.1 of the financial statements, a number of judgements and estimates have been made by management in establishing these opening values. These comprise of the: • Incremental borrowing rates at the time of adoption; • Lease terms, including the judgement that no rights of renewal are expected to be exercised; and • Application of practical expedients in respect of short-term lease exemptions. This was considered an area of focus for our audit due to the number of leases and the significant judgements and estimates inherent in the calculation.	We have performed the following audit procedures: • Held discussions with management to understand the adoption process, including the basis for key assumptions used in the calculation of opening balances and management's process; • Performed testing, on a sample basis, of the accuracy of information included in the calculations by comparing them to the terms in the underlying lease contracts; • Tested completeness of the identified lease contracts by checking that leased stores were included in the calculation; • Engaged our valuation experts to assess the appropriateness of the incremental borrowing rates used; • On a sample basis, recalculated the right of use asset and lease liability for individual leases; • Reviewed assumptions used to determine the lease term, including no rights of renewal being assumed, and assessed whether they were supported by past practice and current business plans; • Reviewed the appropriateness of practical expedients applied, including exclusion of short-term lease exemptions; • On a sample basis, assessed the appropriate treatment of rent abatements received from landlords; and • Reviewed the appropriateness of disclosures in the financial statements. From the procedures performed we have no matters to report.

PwC

Our audit approach

Overview

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

Overall Group materiality: $1.8 million, which represents approximately 5% of Group profit before tax.

We chose Group profit before tax as the benchmark because, in our view, it is the benchmark against which 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 any misstatements identified during our audit above $100,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As reported above, we have two key audit matters, being:

- Inventory valuation, including the impact of COVID-19
- Adoption of NZ IFRS 16 Leases

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 98% of the Group's Revenue and 94% 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.

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, if other information is included in the annual report, 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.

PwC

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
25 September 2020

Auckland

PwC

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 1 AUGUST 2020

$'000	NOTE	2020	2019
Sales revenue	2.1	**287,763**	287,550
Cost of sales	2.1	**(118,514)**	(114,999)
Gross profit		**169,249**	172,551
Other operating income	2.2	**1,498**	2,197
Selling expenses		**(99,221)**	(101,674)
Distribution expenses		**(8,609)**	(8,351)
Administration expenses		**(23,742)**	(25,502)
Total expenses		**(131,572)**	(135,527)
Operating profit		**39,175**	39,221
Finance income	2.1	**125**	221
Finance Expense	2.1, 2.2	**(2,569)**	-
Profit before income tax		**36,731**	39,442
Income tax expense	6.1	**(8,957)**	(10,422)
Net profit after tax attributable to the shareholders of the Holding Company	2.1	**27,774**	29,020
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	**1,506**	2,810
Increase in share option reserve	6.1	**26**	98
– Items that may be subsequently reclassified to profit or loss			
Fair value gain/(loss) (net of tax) in cash flow hedge reserve	6.1	**(2,973)**	(644)
Total comprehensive income for the year attributable to the shareholders of the Holding Company		**26,333**	31,284
Earnings per share			
Basic and diluted earnings per share	2.4	**46.56**	48.65

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 2020

$'000	NOTE	2020	2019
Equity			
Contributed equity	5.1	**29,059**	28,974
Asset revaluation reserve		**19,925**	18,419
Cashflow hedge reserve		**(1,878)**	1,095
Share option reserve		**64**	58
Retained earnings		**39,932**	26,454
Total equity		**87,102**	75,000
Represented by			
Current assets			
Cash and cash equivalents	3.1	**49,642**	16,506
Trade and other receivables		**2,343**	1,652
Advances to employees		**291**	372
Prepayments		**1,040**	4,535
Inventories	3.2	**24,637**	24,011
Derivative financial instruments	7.5	**19**	1,534
Total current assets		**77,972**	48,610
Non-current assets			
Property, plant and equipment	4.2	**48,958**	49,539
Right of use assets	4.1	**73,628**	-
Investment property	4.3	**3,212**	2,968
Intangible assets		**420**	439
Deferred tax	6.2	**7,234**	3,024
Total non-current assets		**133,452**	55,970
Total assets		**211,424**	104,580
Current liabilities			
Trade payables		**12,771**	6,798
Employee benefits	7.1	**5,586**	4,775
Other payables		**14,196**	14,110
Lease liabilities	4.1	**27,027**	-
Derivative financial instruments	7.5	**2,661**	-
Taxation payable		**3,445**	3,897
Total current liabilities		**65,686**	29,580
Non-current liabilities			
Lease liabilities	4.1	**58,636**	-
Total liabilities		**124,322**	29,580
Net assets		**87,102**	75,000

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 25 September 2020.

GRAEME POPPLEWELL
DIRECTOR
25 SEPTEMBER 2020

MALCOM FORD
DIRECTOR
25 SEPTEMBER 2020

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 1 AUGUST 2020

$'000	NOTE	SHARE CAPITAL	TREASURY STOCK	ASSET REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	SHARE OPTION RESERVE	RETAINED EARNINGS	TOTAL EQUITY
Balance at 1 August 2018		**29,279**	**(1,461)**	**15,609**	**1,739**	**155**	**23,019**	**68,340**
Comprehensive income								
Profit for Year		-	-	-	-	-	29,020	29,020
Revaluation net of Tax	6.1	-	-	2,810	-	-	-	2,810
Cash flow hedges net of tax	6.1	-	-	-	(644)	-	-	(644)
Increase in share option reserve	6.1	-	-	-	-	98	-	98
Total comprehensive income		-	-	2,810	(644)	98	29,020	31,284
Transactions with owners								
Sale of treasury stock	5.1, 5.2	-	1,289	-	-	-	-	1,289
Dividends	2.3, 5.1	-	160	-	-	-	(26,246)	(26,086)
Transfer to employee advances	5.1	-	173	-	-	-	-	173
Transfer of share option reserve to retained earnings		-	-	-	-	(195)	195	-
(Gain)/loss on sale of treasury stock transferred to retained earnings	5.1	-	(466)	-	-	-	466	-
Total transactions with owners		-	1,156	-	-	(195)	(25,585)	(24,624)
Balance at 1 August 2019		29,279	(305)	18,419	1,095	58	26,454	75,000
Comprehensive income								
Profit for year		**-**	**-**	**-**	**-**	**-**	**27,774**	**27,774**
Revaluation net of tax	6.1	**-**	**-**	**1,506**	**-**	**-**	**-**	**1,506**
Cash flow hedges net of tax	6.1	**-**	**-**	**-**	**(2,973)**	**-**	**-**	**(2,973)**
Increase in share option reserve	6.1	**-**	**-**	**-**	**-**	**26**	**-**	**26**
Total comprehensive income		**-**	**-**	**1,506**	**(2,973)**	**26**	**27,774**	**26,333**
Transactions with owners								
Dividends	2.3, 5.1	**-**	**27**	**-**	**-**	**-**	**(14,316)**	**(14,289)**
Transfer to employee advances	5.1	**-**	**58**	**-**	**-**	**-**	**-**	**58**
Transfer of share option reserve to retained earnings		**-**	**-**	**-**	**-**	**(20)**	**20**	**-**
Total transactions with owners		**-**	**85**	**-**		**(20)**	**(14,296)**	**(14,231)**
Balance at 1 August 2020		**29,279**	**(220)**	**19,925**	**(1,878)**	**64**	**39,932**	**87,102**

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 2020

$'000	NOTE	2020	2019
Cash flows from operating activities			
Cash was provided from:			
Sales to customers		**287,780**	287,643
Rent received	2.2	**229**	802
Government grants	2.2	**8,424**	-
Interest income	2.1	**113**	205
Interest on debtors	2.1	**12**	16
		296,558	288,666
Cash was applied to:			
Payments to suppliers		**156,025**	190,754
Payments to employees		**54,241**	51,737
Interest paid on leases	2.2	**2,569**	-
Taxation paid		**12,408**	10,183
		225,243	252,674
Net cash flows from operating activities		**71,315**	35,992
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		**4,798**	65
Proceeds from sale of investment property		**-**	7,750
Repayment of employee advances		**139**	266
		4,937	8,081
Cash was applied to:			
Purchase of property, plant and equipment and intangible assets	4.2	**11,835**	20,223
		11,835	20,223
Net cash flows (applied to) investing activities		**(6,898)**	(12,142)
Cash flows from financing activities			
Cash was provided from:			
Sale of treasury stock and dividends	5.1, 5.2	**27**	1,449
		27	1,449
Cash was applied to:			
Dividend paid	2.3	**14,316**	26,246
Lease liability payments	4.1	**16,992**	-
		31,308	26,246
Net cash flows (applied to) financing activities		**(31,281)**	(24,797)
Net increase / (decrease) in funds held		**33,136**	(947)
Cash and cash equivalents at the beginning of the year		**16,506**	17,453
Cash and cash equivalents at the end of the year	3.1	**49,642**	16,506

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 2020

RECONCILIATION OF PROFIT AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

$'000	NOTE	2020	2019
Net profit after taxation		**27,774**	29,020
Add/(deduct) items classified as investing or financing activities			
(Gain)/loss on sale of plant and equipment	2.2	**(947)**	158
Gain on sale of investment property	2.2	**-**	(1,187)
Add/(deduct) non cash items			
Depreciation and amortisation	2.2	**31,725**	8,446
Net fair value gain on investment property	2.2	**(244)**	(208)
Deferred taxation	6.2	**(2,998)**	(948)
Share option expense		**26**	98
Add/(deduct) movements in working capital items			
Taxation payable		**(452)**	1,185
Trade and other receivables and prepayments		**2,804**	(2,134)
Trade and other payables and employee benefits		**14,253**	4,614
Inventories		**(626)**	(3,052)
Net cash flows from operating activities		**71,315**	35,992

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 2020

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 25 September 2020.

1.2 GENERAL ACCOUNTING POLICIES

Statement of compliance

These financial statements for the year ended 1 August 2020 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		PRINCIPAL ACTIVITIES
	2020	**2019**	
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%	Non trading company
Retail 161 Australia Limited	**100%**	100%	Non trading company
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. Due to the impact of COVID-19 on the local and global economy, valuations have been completed on the basis of "material valuation uncertainty".

Revaluation of investment property: The fair value of the Group's investment property is determined by the Board following an independent 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. Due to the impact of COVID-19 on the local and global economy, valuations have been completed on the basis of "material valuation uncertainty".

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 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 1 AUGUST 2020

1. BASIS OF PREPARATION (CONTINUED)

1.3 SIGNIFICANT EVENTS AND TRANSACTIONS

On 11 March 2020, the World Health Organisation declared COVID-19 to be a global pandemic. COVID-19 has impacted the health and wellbeing of people around the world and in turn the outbreak and the associated restrictions put in place to fight the virus have had a significant adverse impact on the global economy.

The New Zealand Government's overall public health strategy in respect of the COVID-19 pandemic affecting New Zealand was elimination with the overall goal to stop community transmission in New Zealand:

On 24 March 2020 the Government announced a number of Orders under the Health Act 1956 and the Epidemic Preparedness Act 2006 to restrict certain activities for the purposes of preventing the outbreak and spread of COVID-19.

At 11:59pm on 25 March 2020 New Zealand entered Alert Level 4 lockdown. Only essential services were permitted to trade, and people were requested to remain at home other than to access essential services. The Group announced that all stores and the web-based store in New Zealand were to close.

In Australia while the Government did not declare a lockdown, due to public health concerns, footfall in shopping malls was severely impacted in turn affecting sales in our stores. The Group took the decision in order to protect team members and customers to close stores in Australia at 5pm on 26 March 2020. The web store in Australia continued to trade.

The Group activated its pandemic management programme, to ensure the safety of our employees and to make the changes required to reshape the business during the evolving situation. The Group introduced a number of initiatives as detailed further below.

On 4 April 2020, following approval from the New Zealand Government, the Group opened both Glassons.com and Hallensteins.com web shops in New Zealand to sell essential product.

At 11:59pm on 27 April 2020 New Zealand entered Alert Level 3 lockdown. On 28 April 2020 both Glassons.com and Hallensteins.com web shops were able to sell their full product offering.

At 11:59pm on 13 May 2020 New Zealand entered Alert Level 2. Contract tracing, strict social distancing measures and mass gathering restrictions were introduced. The Group announced that from 14 May 2020 there would be a phased reopening of our New Zealand store network for both the Glassons and Hallenstein Brothers brands with strict protocols in place. In Australia, we started to progressively open stores as we navigated the various restrictions and consumer dynamics at a State level. Across our retail networks we adhered to the respective Government directives and our priority was the health and safety of our team members and our customers.

At 11:59pm on 8 June 2020 Alert Level 1 was entered in New Zealand. Strict border restrictions remained in place and contact tracing was encouraged.

On 20 July 2020 the Group advised that due to the Government in Victoria announcing the return to stay at home restrictions for metropolitan Melbourne, that 10 stores were to close in Melbourne. The Chapel Street store closed on 3 August 2020. All other stores in Australia, including the web, continued to trade as normal. At this time the Victoria stores remain closed.

Post balance date, at 11:59pm on 12 August 2020 Auckland re-entered Level 3 lockdown. The Group announced it had closed thirteen Hallenstein Brothers stores and twelve Glassons stores in Auckland until a return to Level 2 was possible.

On 31 August 2020 Auckland entered level 2.5 and the Auckland stores for both Hallensteins Brothers and Glassons were re-opened with strict protocols in place in line with the Governments recommendations.

1. BASIS OF PREPARATION (CONTINUED)

Certain key judgements and estimates are applied in the annual financial statements. The Directors have assessed the impact of COVID-19 on these judgements and estimates and concluded that limited changes are necessary. The following key matters were considered and undertaken with regards to the financial impact of COVID-19 on the 1 August 2020 consolidated financial statements:

Colliers International, Fordbaker Valuation and TelferYoung Property Valuers & Advisors undertook valuations of the Groups owned land and buildings as at 1 August 2020. All valuers concluded their valuation on the basis of “material valuation uncertainty”. In the current extraordinary circumstances there is a higher degree of uncertainty than would otherwise be the case however the valuation can still be relied upon. The full scale of the impact at the point of time of the valuation is unknown and will largely depend on the scale and longevity of the pandemic and the consequential ongoing impact on the economy with limited market evidence since the outbreak. As a result, although the methodology applied in the valuation is consistent with prior years, certain key estimates have been adjusted. Further details are included in note 4.2 Property, plant & equipment, and note 4.3 Investment property.

As part of its response to COVID-19, the New Zealand and Australian Governments provided wage subsidies over a specific calendar period to eligible businesses to allow those businesses to retain employees when they were closed or suffered reduced trading due to COVID-19. The Group have applied NZ IAS 20 Accounting for Government Grants and Disclosure of Government Assistance in accounting for the funds received from the COVID-19 Wage Subsidy. Government wage subsidies received have been accounted for as government grants and offset against the expenses to which they relate in the same period as they are incurred as disclosed in note 2.2.

Given the impact of COVID-19 the Group performed impairment testing at a store level to ensure there was no risk to the recoverability of the carrying value of fixed assets and right of use assets. The Group used discounted cash flow forecasts as required. No risk of impairment was identified.

The enactment of the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020 has resulted in the reintroduction of depreciation on buildings. The impact of this change is detailed in note 6.1 Income tax expense.

Since March the business has taken a number of steps to preserve liquidity including:

— Monitoring closely the planned stock intake and aligning it with the sales demand.

— Reducing operating and labour costs.

— Supplier payment terms were extended where appropriate.

— Applying for the New Zealand Government funded wage subsidy and Australian Jobkeeper payments.

— Placing capital projects on hold awaiting a better understanding of future performance.

— Rent relief was applied for from all landlords for the period the stores were unable to trade. At year end there were still a number of these negotiations to conclude.

— Negotiating with landlords to align appropriate arrangements to reflect the changing market conditions.

— Directors, Executives and Leadership Teams agreed to a short-term reduction of their salaries.

— No interim dividend was declared in April. The interim dividend was reassessed after the end of the Groups financial year, and was paid on 4 September 2020.

The above actions have resulted in a strong liquidity position as disclosed in note 3.1 Cash and cash equivalents.

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 Group Managing Director.

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)

— 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 2020

$'000	GLASSONS NEW ZEALAND	GLASSONS AUSTRALIA	HALLENSTEINS	PROPERTY	PARENT	TOTAL GROUP
INCOME STATEMENT						
Sales revenue from external customers	**102,597**	**96,686**	**88,480**	**-**	**-**	**287,763**
Cost of sales	**(43,918)**	**(37,777)**	**(36,819)**	**-**	**-**	**(118,514)**
Finance income	**37**	**20**	**65**	**-**	**3**	**125**
Finance expenses	**(1,110)**	**(647)**	**(812)**	**-**	**-**	**(2,569)**
Depreciation and software amortisation	**10,032**	**11,272**	**10,064**	**357**	**-**	**31,725**
Profit before income tax	**16,336**	**13,413**	**6,228**	**735**	**19**	**36,731**
Income tax expense	**(4,136)**	**(4,057)**	**(1,746)**	**986**	**(4)**	**(8,957)**
Net profit after income tax	**12,200**	**9,356**	**4,482**	**1,721**	**15**	**27,774**
BALANCE SHEET						
Current assets	**24,395**	**18,126**	**26,490**	**5,385**	**3,576**	**77,972**
Non-current assets	**50,095**	**33,547**	**31,092**	**18,706**	**12**	**133,452**
Current liabilities	**22,748**	**22,261**	**20,230**	**376**	**71**	**65,686**
Non-current liabilities	**26,170**	**15,671**	**16,795**	**-**	**-**	**58,636**
Purchase of property, plant and equipment and intangibles	**6,367**	**3,959**	**1,502**	**7**	**-**	**11,835**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 1 AUGUST 2020

2. PERFORMANCE (CONTINUED)

SEGMENT RESULTS
FOR THE YEAR ENDED 1 AUGUST 2019

$'000	GLASSONS NEW ZEALAND	GLASSONS AUSTRALIA	HALLENSTEINS	PROPERTY	PARENT	TOTAL GROUP
INCOME STATEMENT						
Sales revenue from external customers	100,728	89,496	97,326	-	-	287,550
Cost of sales	(41,274)	(33,492)	(40,233)	-	-	(114,999)
Finance income	48	48	109	-	16	221
Depreciation and software amortisation	2,266	2,898	2,988	294	-	8,446
Profit/(loss) before income tax	15,794	11,364	10,036	2,144	104	39,442
Income tax expense	(4,434)	(3,291)	(2,839)	75	67	(10,422)
Net profit after income tax	11,360	8,073	7,197	2,219	171	29,020
BALANCE SHEET						
Current assets	10,180	10,268	18,646	6,018	3,498	48,610
Non current assets	18,488	10,044	10,734	16,687	17	55,970
Current liabilities	9,312	10,716	8,947	506	99	29,580
Purchase of property, plant and equipment and intangibles	10,186	3,734	4,617	1,686	-	20,223

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. For in-store sales, control passes to the customer at point of sale. For online sales, the order and the delivery to the customer are considered to comprise a single performance obligation, therefore control passes to the customer when the goods are delivered. Retail sales are usually in cash, credit card, debit card or by various pay later services. The recorded revenue is the gross amount of sale (excluding GST), including credit card fees and service 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:

$'000	2020	2019
Other operating income		
Rental income	**229**	802
Insurance proceeds	**19**	-
Net fair value gain on investment property	**244**	208
Gain on sale of land and buildings	**1,006**	-
Gain on sale of investment property	**-**	1,187
Expenses		
Occupancy costs[3]	**5,731**	29,873
Audit of financial statements		
PwC New Zealand	**169**	145
Other services		
Performed by PwC New Zealand[1]	**12**	10
Performed by PwC Australia[2]	**25**	22
Directors' fees	**585**	647
Wages, salaries and other short term benefits[4]	**44,965**	51,727
Depreciation of property, plant and equipment	**9,816**	8,164
Depreciation of right of use assets	**21,644**	-
Amortisation of software	**265**	282
Total depreciation and amortisation	**31,725**	8,446
Interest on leases	**2,569**	-
Loss on sale of property, plant and equipment	**59**	158

[1] Amount paid in respect of tax compliance and tax advisory services provided in New Zealand.

[2] Amount paid in respect of tax compliance and tax advisory services provided in Australia.

[3] Occupancy costs have decreased significantly from the prior year due to the adoption of IFRS 16. Rental expense which was previously disclosed as occupancy costs has been replaced by depreciation of right of use assets and interest on leases.

[4] Wages, salaries and other short term benefits includes wage subsidy benefit from the New Zealand government of $5.079M and job keeper benefit from the Australian government of $4.980M.

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	**2020 Cents per share**	2019 Cents per share	**2020 $'000**	2019 $'000
Final dividend for the year ended 1 August 2019	**24.00**		**14,316**	
Interim dividend for the year ended 1 August 2019		20.00		11,930
Final dividend for the year ended 1 August 2018		24.00		14,316
Total	**24.00**	44.00	**14,316**	26,246

All dividends paid were fully imputed. Supplementary dividends of $175,065 (2019: $488,875) were paid to shareholders not resident in New Zealand for tax purposes for which the Group received a foreign investor tax credit.

2. PERFORMANCE (CONTINUED)

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.

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 2020 (2019: Nil).

Earnings per share

$'000	2020	2019
Profit after tax	**27,774**	29,020
Weighted average number of ordinary shares outstanding	**59,649**	59,649
Basic and diluted earnings per share (cents per share)	**46.56**	48.65

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	2020	2019
Cash at bank	**37,237**	15,439
Short term bank deposits	**12,342**	1,004
Cash on hand	**63**	63
Total cash and cash equivalents	**49,642**	16,506

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

3. WORKING CAPITAL (CONTINUED)

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.

Inventories

$'000	**2020**	**2019**
Finished goods	**25,063**	24,308
Inventory adjustments	**(426)**	(297)
Net inventories	**24,637**	24,011

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 $118,256,459 (2019: $114,717,733).

4. LONG TERM ASSETS

4.1 LEASES

Right-of-use assets and lease liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the remaining lease payments.

Right-of-use assets are initially recognised on commencement of lease at cost, comprising the initial amount of the lease liabilities less any lease incentives received. Right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The group leases retail stores under non-cancellable operating leases expiring within one to eight years. There is a small portion of lease contracts which contain renewal rights. In considering the lease term for these contracts, the Group has determined that rights of renewals are not reasonably certain to be exercised due to the nature and location of the stores and the changing retail environment. It is the Group's strategy to renegotiate the terms of all leases at their expiry instead of exercising renewal rights. This agile strategy is enabled by having stores relatively small in size and not highly customised, and therefore relatively straight forward to move locations. In addition, with the current retail market uncertainty and the continuing growth of online sales compared to store sales, the Group needs to maintain a degree of flexibility.

Both right-of-use assets and lease liabilities are discounted applying the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

In the process of adopting NZ IFRS 16, a number of judgements and estimates have been made. These include:

— Incremental borrowing rate at the time of adoption;

— Lease terms, including any rights of renewal expected to be exercised;

— Foreign exchange conversion rates;

— Application of practical expedients and recognition exemptions allowed by the new standards, including in respect of low value assets and short-term lease exemptions.

4. LONG TERM ASSETS (CONTINUED)

In response to the COVID-19 pandemic the International Accounting Standards Board has issued amendments to IFRS 16 *Leases* to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions.

The practical expedient will only apply if:

— The revised consideration is substantially the same or less than the original consideration;

— The reduction in lease payments relates to payments due on or before 30 June 2021; and

— No other substantive changes have been made to the terms of the lease.

The Group has early adopted this practical expedient for the year ended 1 August 2020 and has applied it to all eligible rent concessions.

Short term leases where 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.

The following tables show the movements and analysis in relation to the right-of-use assets and lease liabilities, created on the adoption of NZ IFRS 16.

Right of use assets

$'000	2020
Opening net book value 2 August 2019	75,845
Depreciation	(21,644)
Additions	18,805
FX impact	622
Carrying amount 1 August 2020	**73,628**

Lease liabilities

$'000	2020
Operating lease commitment at 1 August 2019 as disclosed in the Group's financial statements	96,611
As at 2 August 2019	
Discounted at the incremental borrowing rate at the date of initial application	91,457
Recognition exemption for:	
Short term leases	(2,966)
Lease contracts committed to but not yet available for use	(5,695)
Opening lease liabilities recognised 2 August 2019	**82,796**
Lease modifications and additions	20,411
Interset for the period	2,569
Lease payments made	(19,561)
Covid-19 rent abatements recieved to date	(1,281)
FX impact	729
Lease liabilities 1 August 2020	**85,663**

4. LONG TERM ASSETS (CONTINUED)

Lease liability maturity analysis

$'000	MINIMUM LEASE PAYMENTS	INTEREST	PRESENT VALUE
Due within one year	**29,097**	**(2,070)**	**27,027**
One to two years	**21,411**	**(1,434)**	**19,977**
Two to five years	**35,307**	**(1,641)**	**33,666**
Later than five years	**5,122**	**(129)**	**4,993**
Total	**90,937**	**(5,274)**	**85,663**
Current			**27,027**
Non-current			**58,636**
Total			**85,663**

Lease related expenses included in the income statement

$'000	2020
Depreciation	**21,644**
Rent on short-term leases	**7,012**
Covid-19 rent abatements received to date	**(1,281)**
Interest on leases	**2,569**
Total	**29,944**

Lease payments included in the cashflow statement

$'000	2020
Interest paid on leases (operating activities)	**2,569**
Payments for lease liabilities principal (financing activities)	**16,992**
Total cash outflows from leases	**19,561**

Lease commitments

The Group leases various retail outlets under non-cancellable short-term operating lease agreements. Leases reflect normal commercial arrangements with varying terms.

Lease commitments

$'000	2020	2019
At balance date the future aggregate minimum lease commitments was as follows:		
Due within one year	**1,286**	25,422
One to two years	**-**	22,959
Two to five years	**-**	41,086
Later than five years	**-**	7,144
Total operating lease commitments	**1,286**	96,611

4. LONG TERM ASSETS (CONTINUED)

4.2 PROPERTY, PLANT AND EQUIPMENT

RECOGNITION AND MEASUREMENT

Land and buildings were valued on 1 August 2020 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 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 a 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 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.

4. LONG TERM ASSETS (CONTINUED)

The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in the asset revaluation reserve in shareholders' equity.

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.

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 2020 $'000	VALUATION TECHNIQUE	UNOBSERVABLE INPUTS	RANGE OF UNOBSERVABLE INPUTS	RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE
Land and buildings — retail	4,818	Income capitalisation approach and discounted cash flow analysis	Net market rent	$433 per m2	The higher the rent per square metre the higher the fair value
			Capitalisation rate (yield)	6.24%	The lower the yield the higher the fair value
			Discount rate	8.05%	The higher the discount rate the lower the fair value
			Terminal capitalisation rate	6.75%	The higher the terminal rate the lower the fair value
			Rental growth rate	0.0% - 2.50%	The higher the rental growth rate the higher the fair value
			Expenses growth	0.40% - 2.50%	The higher the expenses the lower the fair value
Land and buildings — warehouse	19,701	Income capitalisation approach and discounted cash flow analysis	Net market rent	$104 - $143 per m2	The higher the rent per square metre the higher the fair value
			Capitalisation rate (yield)	5.00% - 6.37%	The lower the yield the higher the fair value
			Discount rate	6.63% - 6.75%	The higher the discount rate the lower the fair value
			Terminal capitalisation rate	5.25% - 6.75%	The higher the terminal rate the lower the fair value
			Rental growth rate	0.0% - 5.50%	The higher the rental growth rate the higher the fair value
			Expenses growth	1.06% - 4.21%	The higher the expenses the lower the fair value

4. LONG TERM ASSETS (CONTINUED)

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'.

Valuation uncertainty

The property valuations include a 'valuation uncertainty' clause. The registered valuers have regarded the impact on market activity due to COVID-19 and the unprecedented set of circumstances on which to base a value judgement and consider there to be a significant market uncertainty.

Less certainty exists than normal and a higher degree of caution should be attached to the valuation than normally would be the case. Given the unknown future impact that COVID-19 might have on real estate markets, the registered valuers recommend that the users of the valuation report should review the valuation periodically.

The Group has recorded valuation of land and building according to the valuation report but will continue monitoring the macro or microeconomic events that may result in change in the value.

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 2020

$'000	LAND AT FAIR VALUE	BUILDINGS AT FAIR VALUE	FIXTURES & FITTINGS	PLANT & EQUIPMENT	TOTAL
Opening NBV	**9,487**	**15,633**	**18,520**	**5,899**	**49,539**
Additions	-	2,014	6,632	2,943	11,589
Disposals	(1,650)	(2,059)	(68)	(74)	(3,851)
Depreciation	-	(403)	(6,601)	(2,812)	(9,816)
Revaluations	466	1,031	-	-	1,497
Closing NBV	**8,303**	**16,216**	**18,483**	**5,956**	**48,958**
Cost/valuation	8,303	16,216	62,634	22,495	109,648
Accumulated depreciation	-	-	(44,151)	(16,539)	(60,690)
Closing NBV	**8,303**	**16,216**	**18,483**	**5,956**	**48,958**

FOR THE YEAR ENDED 1 AUGUST 2019

$'000	LAND AT FAIR VALUE	BUILDINGS AT FAIR VALUE	FIXTURES & FITTINGS	PLANT & EQUIPMENT	TOTAL
Opening NBV	**6,097**	**10,844**	**15,210**	**4,660**	**36,811**
Additions	1,875	5,477	9,163	3,555	20,070
Disposals	-	-	(185)	(46)	(231)
Depreciation	-	(297)	(5,597)	(2,270)	(8,164)
Transfers	(49)	(739)	(71)	-	(859)
Revaluations	1,564	348	-	-	1,912
Closing NBV	**9,487**	**15,633**	**18,520**	**5,899**	**49,539**
Cost/valuation	9,487	15,633	60,275	22,469	107,864
Accumulated depreciation	-	-	(41,755)	(16,570)	(58,325)
Closing NBV	**9,487**	**15,633**	**18,520**	**5,899**	**49,539**

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

$'000	2020	2019
Land	**4,270**	5,580
Buildings	**12,792**	12,794
Cost	**17,062**	18,374
Accumulated depreciation	**(1,970)**	(1,714)
Net book amount	**15,092**	16,660

4. LONG TERM ASSETS (CONTINUED)

4.3 INVESTMENT PROPERTY

RECOGNITION AND MEASUREMENT

Land and buildings were valued on 1 August 2020 by Telfer Young (Hawkes Bay) Ltd 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 a 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 other income in the Statement of Comprehensive Income. Subsequent revaluation surpluses or losses will be recognised through Statement of Comprehensive Income.

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.

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 2020 $'000	VALUATION TECHNIQUE	UNOBSERVABLE INPUTS	RANGE OF UNOBSERVABLE INPUTS	RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE
Land and buildings – retail	3,212	Income capitalisation approach and discounted cash flow analysis	Net market rent	$433 per m2	The higher the rent per square metre the higher the fair value
			Capitalisation rate (yield)	6.24%	The lower the yield the higher the fair value
			Discount rate	8.05%	The higher the discount rate the lower the fair value
			Terminal capitalisation rate	6.75%	The higher the terminal rate the lower the fair value
			Rental growth rate	0.0% - 2.50%	The higher the rental growth rate the higher the fair value
			Expenses growth	0.40% - 2.50%	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.

Valuation uncertainty
The property valuations include a 'valuation uncertainty' clause. The registered valuers have regarded the impact on market activity due to COVID-19 and the unprecedented set of circumstances on which to base a value judgement and consider there to be a significant market uncertainty.

Less certainty exists than normal and a higher degree of caution should be attached to the valuation than normally would be the case. Given the unknown future impact that COVID-19 might have on real estate markets, the registered valuers recommend that the users of the valuation report should review the valuation periodically.

The Group has recorded valuation of land and building according to the valuation report but will continue monitoring the macro or microeconomic events that may result in change in the value.

Investment Property

$'000	2020	2019
Opening balance	**2,968**	8,464
Transfer from property, plant & equipment	**-**	859
Sale of investment property	**-**	(6,563)
Net gain / (loss) from fair value adjustment	**244**	208
Closing balance	**3,212**	2,968

Lease receivables
The Group owns rental property that it leases under non-cancellable operating lease agreements to external parties. Leases reflect normal commercial arrangements with varying terms and renewal rights.
The future minimum rental payments receivable under these leases is as follows:

Lease receivables

$'000	2020	2019
Due within one year	**193**	174
One to two years	**148**	80
Two to five years	**304**	23
Total lease receivables	**645**	277

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

	2020 Shares	2019 Shares	**2020 $000's**	2019 $000's
Balance at beginning of year	**59,529,827**	59,185,563	**28,974**	27,818
Purchase of treasury stock	**-**	-	**-**	-
Sale of treasury stock	**-**	267,735	**-**	1,289
Dividends	**-**	-	**27**	160
Share options exercised	**33,233**	76,529	**58**	173
Gain on sale of treasury stock transferred to retained earnings	**-**	-	**-**	(466)
Balance at end of year	**59,563,060**	59,529,827	**29,059**	28,974
Representing:				
Share capital	**59,649,061**	59,649,061	**29,279**	29,279
Treasury stock (net of dividends)	**(86,001)**	(119,234)	**(220)**	(305)
Total	**59,563,060**	59,529,827	**29,059**	28,974

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.

There were no share issues during the 2020 financial year (2019: Nil).

Executive share scheme	**YEAR ENDED 1 AUGUST 2020**		**YEAR ENDED 1 AUGUST 2019**	
	Number of shares	**Purchase / (sale) price**	**Number of shares**	**Purchase / (sale) price**
Balance at beginning of financial year	**119,234**			
Forfeited during the year	**-**	**-**	(267,735)	(4.81)
Exercised during the year	**(33,233)**		(76,529)	
Balance at end of financial year	**86,001**		119,234	
Percentage of total shares held by scheme	**0.14%**		0.20%	

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	2020	2019
The tax expense comprises:		
Current tax expense	**11,941**	11,370
Deferred tax expense (note 6.2)		
– Future tax benefit current year	**(3,036)**	(493)
– Prior period adjustment	**52**	(455)
Total income tax expense	**8,957**	10,422

Reconciliation of income tax expense to tax rate applicable to profits

	2020	2019
Profit before income tax expense	**36,731**	39,442
Tax at 28% (2019: 28%)	**10,285**	11,044
Tax effect of:		
– Income not subject to tax	**(236)**	(346)
– Expenses not deductible for tax	**26**	80
– Adjustment due to different rate in different jurisdictions	**280**	99
– Prior period adjustment	**52**	(455)
– Reinstatement of tax base on buildings	**(1,450)**	-
Total income tax expense	**8,957**	10,422

The effective tax rate for the year was 24.4% (2019: 26.4%). The Group has no tax losses (2019: Nil) and no unrecognised temporary differences (2019: Nil).

6. TAXATION (CONTINUED)

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

$'000	2020			2019		
	BEFORE TAX	TAX (CHARGE) / CREDIT	AFTER TAX	BEFORE TAX	TAX (CHARGE) / CREDIT	AFTER TAX
Gains (net of tax) on revaluation of land and buildings	**1,497**	**9**	**1,506**	1,912	898	2,810
Fair value gain / (loss) (net of tax) in cash flow hedge reserve	**(4,176)**	**1,203**	**(2,973)**	(882)	238	(644)
Increase in share option reserve	**26**	**-**	**26**	98	-	98

6.2 DEFERRED TAX

$'000	2020	2019
Amounts recognised in profit or loss		
Depreciation	**3,888**	1,058
Amortisation - fixed rent	**-**	438
Provisions and accruals	**1,698**	1,069
Net lease liability	**876**	-
	6,462	2,565
Amounts recognised directly in equity		
Asset revaluation reserve	**9**	898
Cash flow hedges	**763**	(439)
Total amount recognised	**7,234**	3,024
Movements		
Balance at beginning of year	**3,024**	940
Credited/(charged) to the income statement	**2,998**	948
Credited/(charged) to equity	**1,212**	1,136
Balance at end of the year	**7,234**	3,024

6.3 IMPUTATION CREDITS

$'000	2020	2019
Imputation credits available for subsequent reporting periods	**17,131**	14,167

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

— Imputation credits that will arise from the payment of the provision for income tax;

— Imputation debits that will arise from the payment of dividends recognised as liabilities at the reporting date; and

— Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

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.

Employee benefits

$'000	2020	2019
Holiday pay accrual and other benefits	**5,586**	4,775

7.2 CAPITAL EXPENDITURE COMMITMENTS

Capital commitments

$'000	2020	2019
Commitments in relation to store fitouts and warehouse construction	**-**	2,688

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:

Contingencies

$'000	2020	2019
Financial guarantee	**466**	678
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:

	2020	2019
T C Glasson		
Rent on retail premises based on independent valuations	**1,800**	2,070

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 1 AUGUST 2020

7. OTHER (CONTINUED)

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

	DIRECTORS' FEES		DIVIDENDS	
$'000	**2020**	**2019**	**2020**	**2019**
Mr T C Glasson	**89**	90	**2,669**	4,893
Mr W J Bell	**133**	135	**2**	8
Ms K Bycroft	**93**	95	**-**	-
Mr M Donovan	**84**	85	**22**	41
Mr G Popplewell	**84**	85	**45**	83
Mr M Ford	**103**	105	**2**	4
Ms M Devine*	**-**	60	**-**	-

*Ms M Devine received Directors' Fees up to 1 April 2019, the date which she was appointed Group Managing Director. From this date, short term employee benefits paid to Ms M Devine are included in key management compensation below.

Payments to Mr G Popplewell

$'000	**2020**	**2019**
Consulting fees	**103**	48

Key management compensation was as follows:

$'000	**2020**	**2019**
Short term employee benefits	**2,865**	3,120
Termination benefits	**334**	546
Share scheme benefit	**26**	98

The company operates an employee share scheme for certain senior executives which 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 and investment property 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 notes 4.2 and 4.3 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 $49.642 million (2019: $16.506 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 2020

$'000	LESS THAN 3 MONTHS	3-12 MONTHS	TOTAL	CARRYING VALUE
Trade and other payables	**26,967**	**-**	**26,967**	**26,967**
	26,967	**-**	**26,967**	**26,967**
Forward foreign exchange contracts				
Cash flow hedges:				
- Outflow	**(22,463)**	**(49,888)**	**(72,351)**	**(72,351)**
- Inflow	**21,906**	**47,718**	**69,624**	**69,709**
Net	**(557)**	**(2,170)**	**(2,727)**	**(2,642)**

AS AT 1 AUGUST 2019

$'000	LESS THAN 3 MONTHS	3-12 MONTHS	TOTAL	CARRYING VALUE
Trade and other payables	20,908	-	20,908	20,908
	20,908	-	20,908	20,908
Forward foreign exchange contracts				
Cash flow hedges:				
— Outflow	(19,129)	(26,586)	(45,715)	(45,715)
— Inflow	19,899	27,468	47,367	47,249
Net	770	882	1,652	1,534

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% (2019: 0.2%) 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 59% (2019: 50%) 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$72.351 million (2019: NZ$45.715 million), primarily in US Dollars. At balance date these contracts are represented by net liabilities of $2.642 million (2019: assets of $1.534 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 (2019: $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 $0.6706 (2019: $0.6553).

— Proportional foreign exchange movement of -10% (depreciation of NZD) and +10% (appreciation of NZD) against the AUD, from the year end rate of $0.9283 (2019: $0.9571).

— A parallel shift of +1% / -1% in the market interest rates from the year end deposit rate of 0.25% (2019: 1.00%).

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 2020		INTEREST RATE				FOREIGN EXCHANGE RATE			
		-1%		+1%		-10%		+10%	
$'000	CARRYING AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY
FINANCIAL ASSETS									
Loans and receivables									
Cash and cash equivalents	**49,642**	**(496)**	**(496)**	**496**	**496**	**2,261**	**2,261**	**(1,850)**	**(1,850)**
Accounts receivable	**2,343**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Advances to employees	**291**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
FINANCIAL LIABILITIES									
Liabilities at amortised cost									
Trade and other payables	**26,967**	**-**	**-**	**-**	**-**	**(1,457)**	**(1,457)**	**1,192**	**1,192**
Derivatives used for hedging									
Derivatives designated as cash flow hedges (forward foreign exchange contracts)	**2,642**	**-**	**-**	**-**	**-**	**-**	**5,508**	**-**	**(4,619)**
Total increase / decrease		**(496)**	**(496)**	**496**	**496**	**804**	**6,312**	**(658)**	**(5,277)**

AS AT 1 AUGUST 2019		INTEREST RATE				FOREIGN EXCHANGE RATE			
		-1%		+1%		-10%		+10%	
$'000	CARRYING AMOUNT	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY
FINANCIAL ASSETS									
Loans and receivables									
Cash and cash equivalents	16,506	(165)	(165)	165	165	1,069	1,069	(875)	(875)
Accounts receivable	1,652	-	-	-	-	-	-	-	-
Advances to employees	372	-	-	-	-	-	-	-	-
FINANCIAL LIABILITIES									
Liabilities at amortised cost									
Trade and other payables	20,908	-	-	-	-	(895)	(895)	733	733
Derivatives used for hedging									
Derivatives designated as cash flow hedges (forward foreign exchange contracts)	1,534	-	-	-	-	-	3,874	-	(3,015)
Total increase / decrease		(165)	(165)	165	165	174	4,048	(142)	(3,157)

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 an interim dividend of 15.0 cents per share (fully imputed). The dividend was paid on the 4th of September 2020 to all shareholders on the Company's register as at 5:00pm, 28th August 2020.

The Board has additionally resolved to pay a final dividend of 24.0 cents (2019: 24.0 cents) per share (fully imputed). The dividend will be paid on 15 December 2020 to all shareholders on the Company's register as at 5:00pm, 8th December 2020.

At 11:59pm on 12 August 2020 Auckland re-entered Level 3 lockdown. The Group announced it had closed thirteen Hallenstein Brothers stores and twelve Glassons stores in Auckland. On 31 August 2020 Auckland entered level 2.5 and the Auckland stores for both Hallensteins Brothers and Glassons were re-opened with strict protocols in place in line with the Governments recommendations.

At the time of signing these accounts the Glassons stores in Victoria remain closed. The stores are currently expected to reopen in line with Australian Government recommendations on 26 October 2020.

7.7 Standards, amendments and interpretations to existing standards

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the period ended 1 August 2019, as described in those annual financial statements.

There was one new standard and one new practical expedient applied during the period which had a material impact.

— NZ IFRS 16: Leases (effective from annual periods beginning on or after 1 January 2019)
  This standard replaces the current guidance in NZ IAS 17.

— NZ IFRS 16: Leases – Practical expedient for rent concessions as a direct consequence of COVID-19 (effective for reporting periods beginning on or after 1 June 2020, with early adoption permitted).

The Group adopted NZ IFRS 16 Leases on 2 August 2019 and the impacts of this adoption were disclosed in the interim financial statements of the Group for the period ended 1 February 2020. The Group has early adopted the practical expedient for lease concessions in the year ended 1 August 2020 and has applied it to all eligible rent concessions. The impacts of this adoption are disclosed in note 4.1 Leases.

Transition

For the reporting period commencing 2 August 2019 the Group has elected to apply the modified retrospective transition method. Under this method the Group has not restated comparatives therefore reclassifications and adjustments are recognised in the opening balance sheet on 2 August 2019.

Lease liabilities are measured at the present value of remaining lease payments. The weighted average incremental borrowing rate applied to the lease liabilities on 2 August 2019 was 3.01%.

Leases entered into and identified by the Group are all property leases. The associated right-of-use assets for property leases were measured on a consistent basis with the lease liabilities, but have been adjusted by the amount of any prepaid or accrued lease payments and lease incentives.

On transition, the Group applied the following practical expedients:

— Non-capitalisation of leases that expire within twelve months from adoption date. Costs relating to these leases have been recognised in the income statement within selling, distribution, and administration expenses.

— Applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

— Elected to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

7. OTHER (CONTINUED)

The Group has not recognised any right-of-use assets or liabilities for leases that it was committed to but were not yet available for use by the Group at the date of transition.

The change in accounting policy affected the following items in the balance sheet on 2 August 2019:

— Right of use assets — increase by $75,845,000

— Lease liabilities — increase by $82,796,000

— Other payables — decrease by $6,951,000 relating to lease incentives and accrued rent for fixed increases.

For comparative period analysis purposes, the adoption of the accounting standard has affected the following items of the income statement and statement of cash flows:

— In the income statement 'finance expense' includes interest expense associated with lease liabilities, and 'selling expenses', 'distribution expenses' and 'administration expenses' includes depreciation associated with right-of-use assets.

— In the statement of cash flows lease payments are now split between principal repayments classified within 'financing activities' and interest repayments classified within 'operating activities'. Previously lease payments were included within 'payments to suppliers' within operating activities.

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 FCA. Appointed December 1986. Mr Bell holds appointments on a number of boards of both public and private companies, and is a professional director.	Chairman of the Board 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, Spotlight 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	ONZM, BCom, MBA, CFInstD. Appointed to the Board July 2018 and as Group Managing Director April 2019. Mary has extensive executive experience with specific expertise in strategy, transformation and multi channel retailing. She has also had a distinguished governance career, with previous directorships on a number of significant New Zealand companies.	Group Managing 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 Ltd (involved in the retail of women's apparel), Hallenstein Bros Limited and Hallenstein Brothers Australia Limited (retail of men's apparel). The subsidiaries are 100% owned by Hallenstein Glasson Holdings Limited.

GENERAL DISCLOSURES

Review of operations

(a) Consolidated results for the year ended 1 August 2020

$'000	2020	2019
Operating revenue	**287,763**	287,550
Profit before income tax	**36,731**	39,442
Income tax	**(8,957)**	(10,422)
Profit for the year	**27,774**	29,020

(b) Dividend
Subsequent to balance date the Directors declared an interim dividend of 15.0 cents per share together with a supplementary dividend of 2.6471 cents per share to non-resident shareholders. The interim dividend was paid on 4th September 2020.

Subsequent to balance date the Directors have declared a final dividend of 24.0 cents per share payable 15th December 2020. 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.4.2353 cents per share. Dividends are fully imputed to New Zealand resident shareholders.

Directors
(a) Remuneration and all other benefits

Remuneration of Directors	2020			2019		
$'000	DIRECTORS FEES	OTHER PAYMENTS/ BENEFITS	TOTAL REMUNERATION	DIRECTORS FEES	OTHER PAYMENTS/ BENEFITS	TOTAL REMUNERATION
Mr T C Glasson	**89**	**-**	**89**	90	-	90
Mr W J Bell	**133**	**-**	**133**	135	-	135
Mr M Donovan	**84**	**-**	**84**	85	-	85
Mr M Ford	**103**	**-**	**103**	105	-	105
Mr G Popplewell	**84**	**103**	**187**	85	48	133
Ms K Bycroft	**93**	**-**	**93**	95	-	95
Ms M Devine*	**-**	**688**	**688**	60	244	304
Total	**586**	**791**	**1,377**	655	292	947

*Ms M Devine received Directors' Fees up to 1 April 2019, the date which she was appointed Group Managing Director. From this date, short term employee benefits paid to Ms M Devine are included in the other payments/benefits above.

(b) Shareholdings

Beneficially held	2020	2019
W J Bell	**7,643**	7,643
T C Glasson	**11,950,588**	11,950,588
M J Donovan	**100,000**	100,000
G J Popplewell	**203,604**	203,604
M Ford	**10,000**	10,000
Non-beneficially held		
M Ford and M J Donovan as custodians for Staff Share Scheme	**86,001**	119,234

GENERAL DISCLOSURES

(c) Interests in share dealing

M Ford and M Donovan as Trustees for the share purchase scheme

	DATE	PURCHASE / (SALE) NUMBER OF SHARES	$
Transfer to employees (off market)		(33,233)	-

d) Disclosures of interests by Directors

W J Bell

Chairman	St Georges Hospital Inc
Director	Ryman Healthcare Group of Companies
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	Hickman Family Trustees Limited

M Donovan

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

M Devine

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

None

G J Popplewell

Trustee	Hallenstein Glasson Staff Benefit Trust

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 and benefits above $100,000 in relation to the year ended 1 August 2020 was:

Employee Remuneration	2020	2019
100,000-109,999	**7**	6
110,000-119,999	**4**	4
120,000-129,999	**6**	4
130,000-139,999	**3**	3
140,000-149,999	**3**	4
150,000-159,999	**1**	-
160,000-169,999	**2**	1
170,000-179,999	**2**	2
180,000-189,999	**-**	2
190,000-199,999	**1**	2
200,000-209,999	**-**	2
210,000-219,999	**2**	2
220,000-229,999	**5**	1
230,000-239,999	**1**	1
240,000-249,999	**1**	2
250,000-259,999	**-**	1
270,000-279,999	**1**	-
310,000-319,999	**1**	1
330,000-339,999	**1**	-
350,000-359,999	**3**	1
370,000-379,999	**-**	1
380,000-389,999	**-**	2
390,000-399,999	**-**	1
500,000-509,999	**1**	-
520,000-529,999	**1**	-
540,000-549,999	**-**	1
570,000-579,999	**-**	1
690,000-699,999	**1**	-
730,000-739,999	**1**	-
1,150,000-1,159,999	**-**	1

Chief Executive and Managing Director Remuneration

The remuneration of the Group Managing Director for the year ended 1 August 2020 was:

	SALARY	KIWISAVER	SHORT-TERM INCENTIVE	OTHER BENEFITS	SUBTOTAL	LONG-TERM INCENTIVE	TOTAL REMUNERATION
Group Managing Director – Mary Devine	656,474	20,645	-	29,000	706,119	-	706,119

The remuneration of the Group Managing Director comprises fixed payments. Fixed remuneration includes a base salary, contributions to Kiwisaver, car allowance and a carpark.

Remuneration to Auditors

The fee for the audit of the Holding Company and subsidiaries, paid to PricewaterhouseCoopers, was $169,000.

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 is current at 25 September 2020 and follows the principles outlined in the NZX Corporate Governance Code (the Code) and outlines how HGHL is applying the recommendations in the Code or where it is not currently following a certain code recommendation (and the reason for this).

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 management of that subsidiary. The Board is responsible for the appointment of, and assessment of the performance of, the Group Managing Director 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

At the date of this annual report the Board comprises six non-executive Directors and one executive Director (being Mary Devine, the Group Managing Director). The Chairperson is a non-executive Director and is a different person to the Group Managing Director for the purposes of Code Recommendation 2.9.

INDEPENDENT DIRECTORS AT THE DATE OF THIS REPORT ARE:

Michael Donovan

Malcolm Ford

Karen Bycroft

OTHER NON-EXECUTIVE DIRECTORS ARE:

Warren Bell (Chairman)

Timothy Glasson

Graeme Popplewell

EXECUTIVE DIRECTOR IS:

Mary Devine

Although the Board does not currently comprise a majority of independent Directors (Code Recommendation 2.8), since Mary Devine was appointed as Group Managing Director on April 2019, the Board is of the view it has an optimal mix of skills and experience to govern the Group. The high proportion of non-executive Directors allows for robust oversight of the management of the Group and the Board is satisfied that it operates in an effective independent manner notwithstanding a number of its Directors are technically considered to not be independent for the purpose of the NZX Listing Rules.

Under the NZX Listing Rules a director must not hold office past the later of three years and the third annual meeting after their appointment without being re-elected by shareholders.

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 election by shareholders at that next meeting.

A list of the Directors and their profiles, experience and qualifications is on page 60 of this report. A list of their relevant ownership interests is on page 61 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 has established measurable objectives, including Senior Management gender diversity, and are making good progress in achieving these objectives. 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	2020	2019
Directors		
Female	**2**	2
Male	**5**	5
Officers		
Female	**1**	1
Male	**3**	4

CORPORATE GOVERNANCE STATEMENT

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.

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 Tim 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, and did not during the accounting period, 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.

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 Malcolm Ford. The other members of the Committee are Warren Bell and Graeme Popplewell. Although the Committee does not currently have a majority of independent Directors in line with Code recommendation 3.1, and did not during the accounting period, the Board believes the current membership has an optimal mix of skills and experience to ensure the Committee achieves its objectives. 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, and did not during the accounting period, 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 & 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 page 10. 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 the NZX Listing Rules 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 page 61 of this report.

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

PRINCIPLE 5 — REMUNERATION

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

Details of Directors' and Group Managing Director's remuneration are shown on page 61 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 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 of 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 Managing Director's remuneration are shown on page 63 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 Managing Director 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.

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.

CORPORATE GOVERNANCE STATEMENT

HEALTH & 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 above.

The Health & 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 & 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 & 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. There has been minimal lost time due to incidents or injuries over the last financial year. The company continues to work to mitigate risk both in store and in our Fulfilment Centres.

All staff are trained on Health & 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.

— Audit partner rotation.

— Relationships between the auditor and the Company.

— Approval of Auditor.

The Audit Committee shall only recommend the appointment of 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 recommend the approval of 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 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 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.

The Company refers any significant matters, as required by the Companies Act and NZX Listing Rules, 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 25 SEPTEMBER 2020

RANGE	HOLDER COUNT	HOLDER COUNT %	HOLDING QUANTITY	HOLDING QUANTITY %
1 to 499	592	10.1	129,261	0.22
500 to 999	510	8.7	346,343	0.58
1,000 to 1,999	1,076	18.3	1,393,851	2.34
2,000 to 4,999	1,750	29.7	5,232,676	8.77
5,000 to 9,999	999	17.0	6,497,448	10.89
10,000 to 49,999	846	14.4	14,546,683	24.39
50,000 to 99,999	65	1.1	4,216,714	7.07
100,000 to 499,999	41	0.7	7,753,840	13.00
500,000 to 999,999	4	0.1	2,334,839	3.91
1,000,000 to 9,999,999,999,999	4	0.1	17,197,406	28.83
Total	**5,887**		**59,649,061**	**100**

SHAREHOLDER INFORMATION

RANK	NAME	ADDRESS	UNITS	% OF UNITS
1.	Timothy Charles Glasson	PO Box 248, Christchurch, 8140	11,950,588	20.03
2.	Accident Compensation Corporation — NZCSD	c/- Jp Morgan Att: Asset Services, PO Box 5652, Wellington, 6140	2,589,250	4.34
3	FNZ Custodians Limited	PO Box 396, Wellington, 6140	1,410,679	2.36
4	FNZ Custodians Limited National Nominees Limited — NZCSD	PO Box 105390 Auckland City Auckland, 1143	1,246,889	2.09
5	HSBC Nominees (New Zealand) Limited — NZCSD	PO Box 5947 Victoria Street West Auckland, 1142	692,346	1.16
6	Citibank Nominees (New Zealand) Limited — NZCSD	GPO Box 764g Melbourne Vic, Australia, 3000	577,493	0.97
7	Hickman Family Trustees Limited — Hickman Family	PO Box 79084 Avonhead Christchurch, 8446	565,000	0.95
8	Kevin James Hickman & Joanna Hickman	24 Waiwetu Street Fendalton Christchurch, 8052	500,000	0.84
9	New Zealand Depository Nominee Limited	PO Box 2959 Wellington, 6140	482,559	0.81
10	Custodial Services Limited	C/- Craigs Investment Partners PO Box 13155 Tauranga, 3141	453,192	0.76
11	Investment Custodial Services Limited	PO Box 105183 Auckland City Auckland, 1143	425,568	0.71
12	Jbwere (NZ) Nominees Limited	Private Bag 92085 Victoria Street West Auckland, 1142	371,316	0.62
13	Forsyth Barr Custodians Limited	Private Bag 1999 Dunedin, 9054	365,984	0.61
14	Custodial Services Limited	PO Box 13155 Tauranga, 3141	283,647	0.48
15	Custodial Services Limited	C/- Craigs Investment Partners PO Box 13155 Tauranga, 3141	268,108	0.45
16	BNP Paribas Nominees (NZ) Limited — NZCSD	Level 13 PwC Tower 113-119 The Terrace Wellington, 6011	241,658	0.41
17	Jpmorgan Chase Bank NA NZ Branch-Segregated Clients ACCT — NZCSD	Att: Asset Services PO Box 5652 Wellington, 6140	224,025	0.38
18	ASB Nominees Limited	PO Box 35 Shortland Street Auckland, 1140	219,577	0.37
19	Graeme James Popplewell	26 Lemington Road Westmere Auckland, 1022	203,604	0.34
20	Brian William Drummond	1890 Avondale Road Rd 3 Winton, 9783	200,680	0.34
Totals: Top 20 holders of Ordinary Shares			**23,272,163**	**39.02**
Total Remaining Holders Balance			**36,376,898**	**60.98**

DIRECTORY

AUDITORS
PRICEWATERHOUSECOOPERS

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GLASSONS.COM
HALLENSTEINS.COM

CALENDAR

ANNUAL BALANCE DATE	**01 AUGUST**
PRELIMINARY PROFIT ANNOUNCEMENT	**SEPTEMBER**
REPORTS AND ACCOUNTS PUBLISHED	**OCTOBER**
HALF YEAR RESULTS	**MARCH**
INTERIM DIVIDEND	**APRIL**
FINAL DIVIDEND	**15 DECEMBER 2020**
ANNUAL GENERAL MEETING	**9 DECEMBER 2020**