HALLENSTEIN GLASSON HOLDINGS LIMITED

ANNUAL REPORT 2017


GLASSONS


HALLENSTEIN
BROTHERS


STORM

"Despite challenging retail conditions, our FY17 performance has delivered a strong result. By continuing to focus on our customers, our fashionability and digital; we are ensuring the business is in good shape for the future."

Mark Goddard
Group CEO

Contents

Financial Highlights

$'000	2017	2016	2015	2014	2013
FINANCIAL HIGHLIGHTS					
Sales	239,004	223,510	221,520	207,984	220,117
Profit after tax	17,269	13,679	17,386	14,278	18,669
Net cash flows from operating activities	29,195	14,101	31,170	22,788	21,818
FINANCIAL STATISTICS					
Total equity	58,473	55,877	63,415	63,137	66,935
Total assets	85,144	78,628	86,296	82,539	85,308
Profit as % of average shareholders' funds	30.20%	22.93%	27.48%	21.95%	27.97%
Profit per ordinary share	28.95	22.93	29.15	23.94	31.30
Ratio current assets to current liabilities	1.43:1	1.77:1	2.06:1	2.22:1	2.40:1
DIVIDEND (CENTS PER SHARE)					
Interim paid April	14.50	13.50	14.50	12.00	16.00
Final declared payable December	17.00	16.50	16.50	16.50	17.50
	31.50	30.00	31.00	28.50	33.50
Ordinary dividend cover	0.92	0.76	0.94	0.84	0.93
Net tangible assets per share (cents)	97.12	92.85	105.26	103.61	112.22
% shareholders' funds to total assets	68.67%	71.07%	73.49%	76.49%	78.46%


GLASSONS

The company advises that Group sales for the 12 months to 1 August 2017 were $239.00 million, an increase of 6.93% over the corresponding period last year ($223.51 million). The audited net profit after tax was $17.27 million, an increase of 26.24% over the corresponding period last year ($13.68 million).

The 2016/17 financial year has shown solid growth over the prior year with the first half being stronger than the second half. The improved buying strategy, focus on cost control and a favourable exchange rate led to the significant net profit improvement. The trading environment has remained tough in both New Zealand and Australia, however the brands have adapted and responded to these challenges to deliver the strong result.

Segment Results

Glassons New Zealand

Sales for the year were $89.50 million, an increase of 7.16% on the prior year. Although the second half was not as strong as the first, Glassons continued to deliver margin growth. A key driver in performance over the 12 months has been improvement in fashionability and speed to market. During the year a new store was opened in Christchurch CBD and one underperforming store in Glenfield was closed.

Following a review of the Glassons leadership structure we have created the roles of CEO New Zealand and CEO Australia, reporting directly to the Group CEO.

April Pokaia has been appointed as CEO of Glassons New Zealand, effective 1st December 2017. Prior to leaving Glassons in 2016, April had 13 years' experience with the brand. James Glasson, GM of Glassons Australia, was promoted to CEO Glassons Australia from 6th October 2017.

Glassons Australia

Sales for the year were $50.06 million, an increase of 21.57% on the prior year. The strategy to roll out the new concept stores has been successful along with the improved fashionability and speed to market. This has resulted in continued growth in Australia despite a particularly tough market for retail. The store portfolio continues to be reviewed and in the last year there has been three new stores opened, three non profitable stores closed and six stores refurbished to the new concept format. Investment will continue in Australia as we are encouraged by the results over the year. There are currently plans to open two new stores including the first Australian CBD store in Melbourne.

Hallenstein Brothers

Sales for the year were $91.10 million (including Australia), an increase of 1.89% on the prior year. The increase was driven by a much improved second half as the brand refocused and continued to differentiate in the market. Hallenstein Brothers continues to build on its established market position in New Zealand and during the last year has opened three stores in Australia. We will continue to review the performance in Australia and based on the success of these stores a decision will be made on any further rollout. Two new stores were opened in Newmarket and Christchurch CBD and one underperforming store was closed in The Hub in Christchurch.

Chairman's Report

Storm
Sales for the year were $8.34 million, a decrease of 11.24% on the prior year. Sales struggled to maintain momentum during the year due to tough trading in a highly competitive segment of the market. This has not been helped by major infrastructure works around three key Auckland stores which has had a material impact on trade. A review of the brand was carried out towards the end of the year and the decision made to close the Storm store in Australia to focus on the brand in New Zealand, this has seen trading improve. Christchurch CBD store opened this year replacing the Christchurch Container Store and a new store was opened in Queenstown. There were also one-off costs associated with the closure of Storm Australia.

E-Commerce

Online sales continue to grow at a significantly greater rate than bricks and mortar stores, as a result of the company's commitment to build and invest in digital. For the last financial year online sales grew 44% which now represents over 9% of Group turnover. We will continue to invest in technology and resources in this area to ensure that growth continues in this strategic area of the business.

Dividend

The Directors have declared a final dividend of 17 cents per share (fully imputed) to be paid on 18th December 2017. Together with the interim dividend of 14.5 cents per share paid on 13th April 2017 the dividend for the full year is 31.5 cents per share.

During the year capital expenditure was $12.138 million, which was considerably higher than historic levels of circa $6 million. This was primarily due to a higher number of new and refurbished stores in Australia, together with relocating all chains back to the Christchurch CBD. We anticipate capital expenditure will return to historic levels in the new financial year. The balance sheet continues to be strong, inventories well controlled and the current trading patterns have allowed the company to increase the dividend payment.

Future Outlook

The first seven weeks of the new financial year has seen sales grow +5.48% on the prior year. The improved buying strategy has allowed the gross margin rate to also increase on last year. Customers have reacted well to new seasons stock and web sales continue to show increased rates of growth. The company is continuing to invest in stores with refurbishments planned for both Hallenstein Brothers and Glassons in Queensgate shopping centre in Wellington this season and two new stores in Australia. The group is focused on ensuring our performance going into Christmas trading.

An update on performance will be provided at the Annual Meeting of Shareholders in December 2017.

Warren Bell
Chairman

> "Our investment in digital has delivered an encouraging 44% growth in online sales. We will continue to invest in this strategic area of our business."

“We are obsessed with giving our customers the most exciting experience we can; delivered through great service combined with innovative store design.”

Mark Goddard
Group CEO


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Independent auditor's report

to the shareholders of Hallenstein Glasson Holdings Limited

The financial statements comprise:

- the statement of financial position as at 1 August 2017;
- 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 a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements of Hallenstein Glasson Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 1 August 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carried out other services for the Group in the areas of IFRS training and Australian taxation compliance services. The provision of these other services has not impaired our independence.

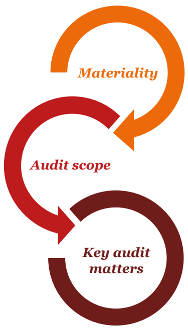
PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Independent auditor's report

to the shareholders of Hallenstein Glasson Holdings Limited

Our audit approach

Overview



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

Overall group materiality: $1,203,500, which represents 5% of profit before tax.

We applied this benchmark because, in our view, this is the metric against which the performance of the Group is most commonly measured, and is a generally accepted benchmark

We agreed with the Audit & Risk Committee that we would report to them misstatements identified during our audit above $120,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We have identified one key audit matter being inventory valuation.

Materiality

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

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

Audit scope

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

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

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

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

Independent auditor's report

to the shareholders of Hallenstein Glasson Holdings Limited

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. The matter below was 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 the matter below.

Key audit matter	How our audit addressed the key audit matter
Inventory Valuation As at 1 August 2017, the Group held $20.6 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 attention. As disclosed in Note 3.2, inventories are held at the lower of cost and net realisable value determined using the weighted average cost method. At year end, the valuation of inventory is reviewed by management and the cost of inventory is reduced where inventory is forecast to be sold below cost. The determination of whether inventory will be realised for a value less than cost requires management to exercise judgement and apply assumptions. Management undertake the following procedures for determining the level of write down required: • Use inventory ageing reports together with historical trends to estimate the likely future saleability of slow moving and older inventory lines; • For inventory aged greater than one year, management apply a percentage based write down to inventory. The percentages are derived from historical levels of write down; • Perform a line-by-line analysis of remaining inventory to ensure it is stated at the lower of cost and net realisable value and a specific write down is recognised if required. Refer to Note 3.2 of the financial statements – Inventories.	We have performed the following procedures over the valuation of inventory: • For a sample of inventory items, re-performed the weighted average cost calculation and compared the weighted average cost to the last purchase invoices; • We tested that the ageing report used by management correctly aged inventory items by agreeing a sample of aged inventory items to the last recorded invoice; • On a sample basis we tested the net realisable value of inventory lines to recent selling prices; • We assessed the percentage write down applied to older inventory with reference to historic inventory write downs and recoveries on slow moving inventory; and • We re-performed the calculation of the inventory write down. We also made enquires of management, including those outside of the finance function, and considered the results of our testing above to determine whether any specific write downs were required. From the procedures performed we have no matters to report.

Independent auditor's report

to the shareholders of Hallenstein Glasson Holdings Limited

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

This description forms part of our auditor's report.

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.

Independent auditor's report

to the shareholders of Hallenstein Glasson Holdings Limited

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

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountants
28 September 2017

Auckland

HALLENSTEIN
BROTHERS

Statement of comprehensive income

For the year ended 1 August 2017

$'000	NOTE	2017	2016
Sales revenue	2.1	239,004	223,510
Cost of Sales	2.1	(98,350)	(96,920)
Gross profit		140,654	126,590
Other operating income	2.2	954	784
Selling expenses		(87,836)	(80,921)
Distribution expenses		(7,327)	(6,630)
Administration expenses		(22,614)	(21,080)
Total expenses		(117,777)	(108,631)
Operating profit		23,831	18,743
Finance income	2.1	239	318
Profit before income tax		24,070	19,061
Income tax	6.1	(6,801)	(5,382)
Net profit after tax attributable to the shareholders of the Holding Company	2.1	17,269	13,679
Other comprehensive income			
- Items that will not be reclassified to profit or loss			
Gains (net of tax) on revaluation of land and buildings		3,298	–
Increase in share option reserve		129	105
- Items that may be subsequently reclassified to profit or loss			
Fair value (loss)/ gain (net of tax) in cash flow hedge reserve		764	(3,480)
Total comprehensive income for the year attributable to the shareholders of the Holding Company		21,460	10,304
Earnings per share			
Basic and diluted earnings per share	2.4	28.95	22.93

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 2017

$'000	NOTE	2017	2016
EQUITY			
Contributed equity	5.1	27,270	27,649
Asset revaluation reserve		15,915	12,617
Cashflow hedge reserve		(1,654)	(2,418)
Share option reserve		327	203
Retained earnings		16,615	17,826
Total equity		58,473	55,877
Represented by			
CURRENT ASSETS			
Cash and cash equivalents	3.1	12,552	14,191
Trade and other receivables		779	1,660
Advances to employees		238	346
Prepayments		3,873	3,419
Inventories	3.2	20,605	20,001
Total current assets		38,047	39,617
NON-CURRENT ASSETS			
Property, plant and equipment	4.2	44,864	36,227
Intangible assets		539	493
Deferred tax	6.2	1,694	2,291
Total non-current assets		47,097	39,011
Total assets		85,144	78,628
CURRENT LIABILITIES			
Trade payables	3.3	9,169	7,921
Employee benefits	7.1	4,500	3,929
Other payables	3.3	8,187	6,208
Derivative financial instruments	7.5	2,298	3,694
Taxation payable		2,517	999
Total current liabilities		26,671	22,751
Total liabilities		26,671	22,751
Net assets		58,473	55,877

The notes to the financial statements form an integral part of and are to be read in conjunction with these financial statements.
The financial statements are signed for and on behalf of the Board and were authorised for issue on 28 September 2017.

Graeme Popplewell
Director
28 September 2017

Malcolm Ford
Director
28 September 2017

Statement of changes in equity

For the year ended 1 August 2017

$'000	NOTE	SHARE CAPITAL	TREASURY STOCK	ASSET REVALUATION RESERVE	CASH FLOW HEDGE RESERVE	SHARE OPTION RESERVE	RETAINED EARNINGS	TOTAL EQUITY
Balance at 1 August 2015		29,279	(1,799)	12,617	1,062	242	22,014	63,415
COMPREHENSIVE INCOME								
Profit for year		–	–	–	–	–	13,679	13,679
Revaluation net of tax		–	–	–	–	–	–	–
Cash flow hedges net of tax		–	–	–	(3,480)	–	–	(3,480)
Increase in share option reserve		–	–	–	–	105	–	105
Total comprehensive income		–	–	–	(3,480)	105	13,679	10,304
TRANSACTIONS WITH OWNERS								
Purchase of treasury stock	5.1, 5.2	–	(848)	–	–	–	–	(848)
Sale of treasury stock	5.1, 5.2	–	520	–	–	–	–	520
Dividends	2.3, 5.1	–	149	–	–	–	(17,895)	(17,746)
Transfer to employee advances	5.1	–	232	–	–	–	–	232
Transfer of share option reserve to retained earnings		–	–	–	–	(144)	144	–
(Gain)/loss on sale of treasury stock transferred to retained earnings	5.1	–	116	–	–	–	(116)	–
Total transactions with owners		–	169	–	–	(144)	(17,867)	(17,842)
Balance at 1 August 2016		29,279	(1,630)	12,617	(2,418)	203	17,826	55,877
Comprehensive income								
Profit for year		–	–	–	–	–	17,269	17,269
Revaluation net of tax		–	–	3,298	–	–	–	3,298
Cash flow hedges net of tax		–	–	–	764	–	–	764
Increase in share option reserve		–	–	–	–	129	–	129
Total comprehensive income		–	–	3,298	764	129	17,269	21,460
TRANSACTIONS WITH OWNERS								
Purchase of treasury stock	5.1, 5.2	–	(600)	–	–	–	–	(600)
Sale of treasury stock	5.1, 5.2	–	52	–	–	–	–	52
Dividends	2.3, 5.1	–	175	–	–	–	(18,491)	(18,316)
Transfer to employee advances	5.1	–	–	–	–	–	–	–
Transfer of share option reserve to retained earnings		–	–	–	–	(5)	5	–
(Gain)/loss on sale of treasury stock transferred to retained earnings	5.1	–	(6)	–	–	–	6	–
Total transactions with owners		–	(379)	–	–	(5)	(18,480)	(18,864)
Balance at 1 August 2017		29,279	(2,009)	15,915	(1,654)	327	16,615	58,473

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 2017

$'000	NOTE	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Sales to customers		239,885	222,568
Rent received	2.2	781	784
Interest income	2.1	214	285
Interest on debtors	2.1	25	33
		240,905	223,670
Cash was applied to:			
Payments to suppliers		159,875	158,972
Payments to employees	2.2	45,863	43,102
Taxation paid		5,972	7,495
		211,710	209,569
Net cash flows from/(applied to) operating activities		29,195	14,101
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from sale of property, plant and equipment and intangible assets		63	133
Repayment of employee advances		105	228
		168	361
Cash was applied to:			
Purchase of property, plant and equipment and intangible assets	4.2	12,138	5,917
		12,138	5,917
Net cash flows from/(applied to) investing activities		(11,970)	(5,556)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Sale of treasury stock and dividends	5.1, 5.2	227	669
		227	669
Cash was applied to:			
Dividend paid	2.3	18,491	17,895
Purchase of treasury stock	5.1, 5.2	600	848
		19,091	18,743
Net cash flows from/(applied to) financing activities		(18,864)	(18,074)
Net (decrease)/increase in funds held		(1,639)	(9,530)
Cash and cash equivalents at the beginning of the year		14,191	23,721
Cash and cash equivalents at the end of the year	3.1	12,552	14,191

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 2017

RECONCILIATION OF PROFIT AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

$'000	NOTE	2017	2016
NET PROFIT AFTER TAXATION		17,269	13,679
ADD/(DEDUCT) ITEMS CLASSIFIED AS INVESTING OR FINANCING ACTIVITIES			
Loss on sale of plant and equipment	2.2	35	369
ADD/(DEDUCT) NON CASH ITEMS			
Depreciation and amortisation	2.2	7,565	7,512
Deferred taxation	6.2	(688)	(176)
Revaluation of financial instruments		(254)	372
Share option expense		129	105
ADD/(DEDUCT) MOVEMENTS IN WORKING CAPITAL ITEMS			
Taxation payable		1,518	(1,937)
Trade and other receivables and prepayments		427	(3,762)
Trade and other payables and employee benefits		3,798	(1,887)
Inventories		(604)	(174)
NET CASH FLOWS FROM/(APPLIED TO) OPERATING ACTIVITIES		29,195	14,101

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 2017

Hallenstein Glasson Holdings is pleased to present a new structure designed to improve the clarity and usefulness of these financial statements. The structure changes are regrouping the accounting policies and related notes, and simplifying the disclosures. Accounting policies are disclosed in a shaded box.

1. BASIS OF PREPARATION

1.1 General information

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

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

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

The financial statements were approved for issue by the Board of Directors on 28 September 2017.

1.2 General accounting policies

Statement of compliance
These financial statements for the year ended 1 August 2017 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.

Notes to the financial statements

For the year ended 1 August 2017

1. BASIS OF PREPARATION (CONTINUED)

Investments in subsidiaries

PRINCIPAL SUBSIDIARIES	INTEREST HELD BY PARENT AND GROUP		PRINCIPAL ACTIVITIES
	2017	2016	
Hallenstein Bros Limited	100%	100%	Retail of menswear in New Zealand
Hallenstein Brothers Australia Limited	100%	n/a	Retail of menswear in Australia
Glassons Limited	100%	100%	Retail of womenswear in New Zealand
Glassons Australia Limited	100%	100%	Retail of womenswear in Australia
Retail 161 Limited	100%	100%	Retail of womenswear in New Zealand
Retail 161 Australia Limited	100%	100%	Retail of womenswear in Australia
Hallenstein Properties Limited	100%	100%	Property ownership in New Zealand

Historical cost convention

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

Critical accounting estimates, judgements and assumptions

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

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

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

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

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 Company's functional and the Group's presentation 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 2017

2. PERFORMANCE

2.1 Segment information

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

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

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

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

Segment results

FOR THE YEAR ENDED 1 AUGUST 2017 $'000	GLASSONS NEW ZEALAND	GLASSONS AUSTRALIA	HALLENSTEINS	STORM	PROPERTY	PARENT	TOTAL GROUP
INCOME STATEMENT							
Sales revenue from external customers	89,500	50,062	91,101	8,341	–	–	239,004
Cost of sales	(38,166)	(18,791)	(38,145)	(3,248)	–	–	(98,350)
Finance income	130	4	84	5	–	16	239
Depreciation and software amortisation	2,444	2,031	2,511	298	281	–	7,565
Profit/(loss) before income tax	11,297	1,934	10,434	(434)	839	–	24,070
Income tax	(3,186)	(548)	(2,953)	121	(235)	–	(6,801)
Net profit/(loss) after income tax	8,111	1,386	7,481	(313)	604	–	17,269
BALANCE SHEET							
Current assets	13,103	4,325	17,708	1,078	1,876	(43)	38,047
Non current assets	10,593	7,965	10,055	1,128	17,356	–	47,097
Current liabilities	8,608	6,131	11,094	487	319	32	26,671
Purchase of property, plant and equipment and intangibles	2,228	3,978	5,247	577	108	–	12,138

Notes to the financial statements

For the year ended 1 August 2017

2. PERFORMANCE (CONTINUED)

FOR THE YEAR ENDED 1 AUGUST 2016 $'000	GLASSONS NEW ZEALAND	GLASSONS AUSTRALIA	HALLENSTEINS	STORM	PROPERTY	PARENT	TOTAL GROUP
INCOME STATEMENT							
Sales revenue from external customers	83,518	41,181	89,414	9,397	–	–	223,510
Cost of sales	(38,082)	(17,317)	(38,258)	(3,263)	–	–	(96,920)
Finance income	125	1	176	11	–	5	318
Depreciation and software amortisation	2,751	1,942	2,287	252	280	–	7,512
Profit/(loss) before income tax	7,666	(2,646)	11,888	1,208	945	–	19,061
Income tax	(2,155)	737	(3,359)	(340)	(265)	–	(5,382)
Net profit/(loss) after income tax	5,511	(1,909)	8,529	868	680	–	13,679
BALANCE SHEET							
Current assets	17,885	2,666	13,674	1,949	3,137	306	39,617
Non current assets	10,064	5,905	7,430	975	14,637	–	39,011
Current liabilities	7,482	3,716	10,204	1,056	260	32	22,751
Purchase of property, plant and equipment and intangibles	2,033	2,179	1,433	262	11	–	5,918

2.2 Income and expenses

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

Revenue is recognised as follows:

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

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

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

Notes to the financial statements

For the year ended 1 August 2017

2. PERFORMANCE (CONTINUED)

Income and expenses

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

$'000	2017	2016
INCOME		
Rental income	781	784
Insurance proceeds	173	–
EXPENSES		
Occupancy costs	27,415	25,422
Amounts paid to auditors - statutory audit	126	123
Other services from auditors*	20	10
Directors' fees	383	382
Wages, salaries and other short term benefits	45,863	43,102
Total depreciation	7,294	7,220
Amortisation of software	271	292
Total depreciation and amortisation	7,565	7,512
Loss on sale of property, plant and equipment	35	369

* Amount paid in respect of IFRS training and tax and compliance work performed in Australia, whilst prior year relates to tax work performed in Australia.

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

	2017 CENTS PER SHARE	2016 CENTS PER SHARE	2017 $000'S	2016 $000'S
Interim dividend for the year ended 1 August 2017	14.50		8,649	
Final dividend for the year ended 1 August 2016	16.50		9,842	
Interim dividend for the year ended 1 August 2016		13.50		8,053
Final dividend for the year ended 1 August 2015		16.50		9,842
Total	31.00	30.00	18,491	17,895

All dividends paid were fully imputed. Supplementary dividends of $100,210 (2016: $105,207) were paid to shareholders not resident in New Zealand for tax purposes for which the Group received a foreign investor tax credit.

2.4 Earnings per share

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

Basic

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

Notes to the financial statements

For the year ended 1 August 2017

2. PERFORMANCE (CONTINUED)

Diluted

Diluted earnings per share is calculated by adjusting profit after tax and the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There are no options convertible into shares as at 1 August 2017 (2016: Nil).

Earnings per share

$'000	2017	2016
Profit after tax	17,269	13,679
Weighted average number of ordinary shares outstanding	59,649	59,649
Basic and diluted earnings per share (cents per share)	28.95	22.93

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	2017	2016
Cash at bank	3,767	1,978
Short term bank deposits	8,722	12,152
Cash on hand	63	61
	12,552	14,191

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

3.2 Inventories

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

Notes to the financial statements

For the year ended 1 August 2017

3. WORKING CAPITAL (CONTINUED)

Inventories

$'000	2017	2016
Finished goods	21,141	20,746
Inventory adjustments	(536)	(745)
Net inventories	20,605	20,001

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 $95,035,127 (2016: $96,668,046).

3.3 Trade and other payables

Trade and other payables amounts represent liabilities for goods and services provided to the Group prior to the end of a financial period, which are unpaid. Trade and other payables are recognised initially at fair value and subsequently accounted for at amortised cost using the effective interest method.

Trade and other payables

$'000	2017	2016
Trade payables	9,169	7,921
Other payables	8,187	6,208
Total trade and other payables	17,356	14,129

4. LONG TERM ASSETS

4.1 Leases

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

The Group is the lessor
Assets leased to third parties under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term.

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

Lease commitments

$'000	2017	2016
At balance date the future aggregate minimum lease commitments was as follows:		
Due within one year	22,508	18,341
One to two years	19,347	14,985
Two to five years	34,409	23,884
Later than five years	7,254	5,002
Total operating lease commitments	83,518	62,212

Notes to the financial statements

For the year ended 1 August 2017

4. LONG TERM ASSETS (CONTINUED)

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

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

Lease receivables

$'000	2017	2016
Due within one year	862	722
One to two years	763	716
Two to five years	1,849	1,848
Later than five years	128	725
Total lease receivables	3,602	4,011

4.2 Property, plant and equipment

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

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

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

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

Notes to the financial statements

For the year ended 1 August 2017

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 2017 $000'S	VALUATION TECHNIQUE	UNOBSERVABLE INPUTS	RANGE OF UNOBSERVABLE INPUTS	RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE
Land and buildings – retail	12,490	Income capitalisation approach and discounted cash flow analysis	Net market rent	$408 – $1,164 per m^2	The higher the rent per square metre the higher the fair value
			Capitalisation rate (yield)	6.53% – 7.35%	The lower the yield the higher the fair value
			Discount rate	7.37% – 9.00%	The higher the discount rate the lower the fair value
			Terminal capitalisation rate	7.00% – 7.75%	The higher the terminal rate the lower the fair value
			Rental growth rate	1.50% – 2.52%	The higher the rental growth rate the higher the fair value
			Expenses growth	$3,129 – $5,000	The higher the expenses the lower the fair value
Land and buildings – warehouse	11,500	Income capitalisation approach and discounted cash flow analysis	Net market rent	$96 – $122 per m^2	The higher the rent per square metre the higher the fair value
			Capitalisation rate (yield)	5.375% – 7.05%	The higher the yield the lower the fair value
			Discount rate	7.25% – 8.30%	The higher the discount rate the lower the fair value
			Terminal capitalisation rate	5.75% – 8.50%	The higher the terminal rate the lower the fair value
			Rental growth rate	2.50% – 3.00%	The higher the Rental growth rate the higher the fair value
			Expenses growth	$3,687 – $10,546	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.

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'.

Notes to the financial statements

For the year ended 1 August 2017

4. LONG TERM ASSETS (CONTINUED)

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.

YEAR ENDED 1 AUGUST 2017

$'000	LAND AT FAIR VALUE	BUILDINGS AT FAIR VALUE	FIXTURES & FITTINGS	PLANT & EQUIPMENT	TOTAL
Opening NBV	8,455	12,549	11,954	3,269	36,227
Additions	–	84	9,048	2,683	11,815
Disposals	–	–	(85)	(86)	(171)
Depreciation	–	(290)	(5,317)	(1,687)	(7,294)
Revaluations	755	3,532	–	–	4,287
Closing NBV	9,210	15,875	15,600	4,179	44,864
Cost/Valuation	9,210	15,875	54,614	17,962	97,661
Accumulated depreciation	–	–	(39,014)	(13,783)	(52,797)
Closing NBV	9,210	15,875	15,600	4,179	44,864

YEAR ENDED 1 AUGUST 2016

$'000	LAND AT FAIR VALUE	BUILDINGS AT FAIR VALUE	FIXTURES & FITTINGS	PLANT & EQUIPMENT	TOTAL
Opening NBV	8,455	12,843	13,214	3,679	38,191
Additions	–	–	4,392	1,367	5,759
Disposals	–	–	(311)	(193)	(503)
Deprecation	–	(290)	(5,277)	(1,652)	(7,220)
Transfers	–	(4)	(64)	68	–
Closing NBV	8,455	12,549	11,954	3,269	36,227
Cost/Valuation	8,455	12,839	46,864	12,473	80,631
Accumulated depreciation	–	(290)	(34,910)	(9,204)	(44,404)
Closing NBV	8,455	12,549	11,954	3,269	36,227

Notes to the financial statements

For the year ended 1 August 2017

4. LONG TERM ASSETS (CONTINUED)

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

$'000	2017	2016
Land	7,809	7,809
Buildings	10,650	10,566
Cost	18,459	18,375
Accumulated depreciation	(2,243)	(2,030)
Net book amount	16,216	16,345

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

	2017 SHARES	2016 SHARES	2017 $000'S	2016 $000'S
Balance at beginning of year	59,107,425	59,113,759	27,649	27,480
Purchase of treasury stock	(174,715)	(289,857)	(600)	(848)
Sale of treasury stock	14,591	192,423	52	520
Dividends	–	–	175	149
Transfer to employee advances	–	91,100	–	232
(Gain)/loss on sale of treasury stock transferred to retained earnings	–	–	(6)	116
Balance at end of year	58,947,301	59,107,425	27,270	27,649
Representing:				
Share capital	59,649,061	59,649,061	29,279	29,279
Treasury stock (net of dividends)	(701,760)	(541,636)	(2,009)	(1,630)
Total	58,947,301	59,107,425	27,270	27,649

All shares are fully paid and rank equally.

Notes to the financial statements

For the year ended 1 August 2017

5. EQUITY (CONTINUED)

5.2 Executive share scheme

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

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

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

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

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

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

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

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

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

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

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

The model inputs for shares issued during the year ended 1 August 2017 included a share issue price ranging between \$3.01–\$3.53, (2016: \$2.72–\$3.41) an expected price volatility of 30% (2016: 30%), a risk free interest rate of 1.9% (2016: 2.25%–2.5%) and an estimated 3 year vesting period.

Executive share scheme

	YEAR ENDED 1 AUGUST 2017		YEAR ENDED 1 AUGUST 2016	
	NUMBER OF SHARES	PURCHASE/ (SALE) PRICE	NUMBER OF SHARES	PURCHASE/ (SALE) PRICE
Balance at beginning of financial year	541,636		535,302	
Purchased on market during the year	174,715	3.43	289,857	2.93
Forfeited during the year	(14,591)	(3.55)	(192,423)	(2.70)
Exercised during the year	–		(91,100)	
Balance at end of financial year	701,760		541,636	
Percentage of total shares hold by scheme	1.18%		0.91%	

Notes to the financial statements

For the year ended 1 August 2017

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	2017	2016
Income tax expense		
The tax expense comprises:		
Current tax expense	7,489	5,558
Deferred tax expense (note 6.2)		
– Future tax benefit current year	(688)	(176)
Total income tax expense	6,801	5,382
Reconciliation of income tax expense to tax rate applicable to profits		
Profit before income tax expense	24,070	19,061
Tax at 28% (2016: 28%)	6,740	5,337
Tax effect of:		
– Expenses not deductible for tax	61	45
Total income tax expense	6,801	5,382

The effective tax rate for the year was 28% (2016: 28%).

The Group has no tax losses (2016: Nil) and no unrecognised temporary differences (2016: Nil).

Notes to the financial statements

For the year ended 1 August 2017

6. TAXATION (CONTINUED)

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

	2017			2016		
	BEFORE TAX	TAX (CHARGE) /CREDIT	AFTER TAX	BEFORE TAX	TAX (CHARGE) /CREDIT	AFTER TAX
Gains (net of tax) on revaluation of land and buildings	4,287	(989)	3,298	–	–	–
Fair value (loss)/gain (net of tax) in cash flow hedge reserve	1,060	(296)	764	(4,833)	1,353	(3,480)
Increase in share option reserve	129	–	129	105	–	105

6.2 Deferred tax

Deferred tax

$'000	2017	2016
AMOUNTS RECOGNISED IN PROFIT OR LOSS		
Depreciation	908	395
Amortisation – fixed rent	301	244
Provisions and accruals	830	712
	2,039	1,351
AMOUNTS RECOGNISED DIRECTLY IN EQUITY		
Asset revaluation reserve	(989)	–
Cash flow hedges	644	940
Total amount recognised	1,694	2,291
MOVEMENTS		
Balance at beginning of year	2,291	763
Credited/(charged) to the income statement	688	176
Credited/(charged) to equity	(1,285)	1,352
Balance at end of the year	1,694	2,291

6.3 Imputation credits

$'000	2017	2016
Imputation credits available for subsequent reporting periods	14,186	13,045

Notes to the financial statements

For the year ended 1 August 2017

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	2017	2016
Holiday pay accrual and other benefits	4,500	3,929

7.2 Capital expenditure commitments

$'000	2017	2016
Commitments in relation to store fitouts	792	1,285

7.3 Contingencies

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

$'000	2017	2016
Letters of credit	224	197
Bank guarantee provided to the New Zealand Stock Exchange Limited	75	75

Letters of credit

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

7.4 Related party transactions

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

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

$'000	2017	2016
T C Glasson		
Rent on retail premises based on independent valuations	2,010	1,087

Notes to the financial statements

For the year ended 1 August 2017

7. OTHER (CONTINUED)

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

	DIRECTORS' FEES		DIVIDENDS	
$'000	**2017**	**2016**	**2017**	**2016**
Mr T C Glasson	68	68	3,447	3,336
Mr W J Bell	97	97	6	4
Ms K Bycroft	75	75	–	–
Mr M Donovan	68	68	15	3
Mr G Popplewell	–	–	59	57
Mr M Ford	75	74	–	–

Advances to employees under the executive share scheme (refer note 5.2)

$'000	**2017**	**2016**
Mr G Popplewell	–	85

Payments to Mr G Popplewell

$'000	**2017**	**2016**
Consulting fees	55	–

Key management compensation was as follows:

$'000	**2017**	**2016**
Short term employee benefits	2,844	2,923
Share scheme benefit	129	105

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

Notes to the financial statements

For the year ended 1 August 2017

7. OTHER (CONTINUED)

7.5 Financial risk management

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

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

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

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

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

Derivatives
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

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

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss component of statement of comprehensive income.

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

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

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

Notes to the financial statements

For the year ended 1 August 2017

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 $12.552 million (2016: $14.191 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 2017

$'000	LESS THAN 3 MONTHS	3-12 MONTHS	TOTAL	CARRYING VALUE
Trade and other payables	17,355	–	17,355	17,355
Employee benefits	4,500	–	4,500	4,500
Total	21,855	–	21,855	21,855
Forward foreign exchange contracts				
Cash flow hedges:				
– Outflow	(14,134)	(40,233)	(54,366)	(54,366)
– Inflow	13,378	39,091	52,469	52,068
Net	(756)	(1,142)	(1,897)	(2,298)

AS AT 1 AUGUST 2016

$'000	LESS THAN 3 MONTHS	3-12 MONTHS	TOTAL	CARRYING VALUE
Trade and other payables	14,129	–	14,129	14,129
Employee benefits	3,929	–	3,929	3,929
Total	18,058	–	18,058	18,058
Forward foreign exchange contracts				
Cash flow hedges:				
– Outflow	(20,160)	(32,264)	(52,424)	(52,424)
– Inflow	17,924	31,142	49,066	48,730
Net	(2,236)	(1,122)	(3,358)	(3,694)

Notes to the financial statements

For the year ended 1 August 2017

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. 0.4% (2016: 0.7%) of sales give rise to trade receivables. This maximum exposure to credit risk is 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 61% (2016: 58%) 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$54.366 million (2016: NZ$52.424 million), primarily in US Dollars. At balance date these contracts are represented by assets of $Nil (2016: $Nil) and liabilities of $2.298 million (2016: $3.694 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 (2016: $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 0.7508 (2016: 0.7103)
- A parallel shift of +1% / -1% in the market interest rates from the year end deposit rate of 1.90% (2016: 2.00%)

Notes to the financial statements

For the year ended 1 August 2017

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 2017		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	12,552	(126)	(126)	126	126	–	–	–	–
Accounts receivable	779	–	–	–	–	–	–	–	–
Advances to employees	238	–	–	–	–	–	–	–	–
FINANCIAL LIABILITIES									
Liabilities at amortised cost									
Trade and other payables	17,355	–	–	–	–	445	–	(364)	–
Employee benefits	4,500	–	–	–	–	–	–	–	–
Derivatives used for Hedging									
Derivatives designated as cash flow hedges (forward foreign exchange contracts)	2,298	–	–	–	–	–	(745)	–	400
Total increase/decrease		(126)	(126)	126	126	445	(745)	(364)	400

AS AT 1 AUGUST 2016		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	14,191	(142)	(142)	142	142	–	–	–	–
Accounts receivable	1,660	–	–	–	–	–	–	–	-
Advances to Employees	346	–	–	–	–	–	–	–	–
FINANCIAL LIABILITIES									
Liabilities at amortised cost									
Trade and other payables	14,129	–	–	–	–	549	–	(449)	–
Employee benefits	3,929	–	–	–	–	–	–	–	–
Derivatives used for Hedging									
Derivatives designated as cash flow hedges (forward foreign exchange contracts)	3,694	–	–	–	–	–	(335)	–	274
Total increase/decrease		(142)	(142)	142	142	549	(335)	(449)	274

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

Notes to the financial statements

For the year ended 1 August 2017

7. OTHER (CONTINUED)

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

7.6 Events subsequent to balance date
Subsequent to year end, the Board has resolved to pay a final dividend of 17.0 cents (2016: 16.5 cents) per share (fully imputed). The dividend will be paid on 18th December 2017 to all shareholders on the Company's register as at 5:00pm, 11 December 2017.

7.7 Standards, amendments and interpretations to existing standards

No new accounting policies have been adopted that are considered to have a significant impact on the financial statements.
There have been no significant changes in accounting policies during the year.

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

NZ IFRS 15: Revenue from contracts with customers (Effective date: periods beginning on or after 1 January 2018)
NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group intends to adopt NZ IFRS 15 on its effective date and does not expect it to materially impact the Group.

NZ IFRS 9: Financial Instruments (Effective date: periods beginning on or after 1 January 2018)
NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 on its effective date and does not expect it to materially impact the Group.

Notes to the financial statements

For the year ended 1 August 2017

7. OTHER (CONTINUED)

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

For lessors, the accounting for leases under NZ IFRS 16 is almost the same as NZ IAS 17. However, the guidance on the definition of a lease has been updated (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers'.

The Group currently intends to adopt NZ IFRS 16 on its effective date being for the year ended 1 August 2020, and has yet to assess its full impact.

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

General disclosures

BOARD OF DIRECTORS

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

DIRECTOR	QUALIFICATIONS/EXPERIENCE	SPECIAL RESPONSIBILITIES
Warren James Bell	M Com CA. Appointed December 1986. Mr Bell holds appointments on a number of boards of private companies, and is a professional director.	Chairman of Directors Non-executive Director
Michael John Donovan	ANZIM. Appointed May 1990.	Non-executive Independent Director
Timothy Charles Glasson	Founder of Glassons womenswear retail chain. Appointed November 1985 on merger with Hallensteins.	Non-executive Director
Graeme James Popplewell	Former CEO, B Com CA. Appointed March 1985.	Non-executive Director
Malcolm Ford	Appointed June 2010. Background includes 20 years with experience in direct sourcing particularly in Asia, Mr Ford also has experience in brand management across wholesale and retail markets.	Non-executive Independent Director
Karen Bycroft	BSC, Postgrad Marketing. Appointed November 2014. Background includes 25 years in Retail in the UK and Australia with Marks and Spencer, Sears, Woolworths and Country Road. Experience in Strategy, Marketing, and Leadership. Also an Associate of Melbourne Business School and Executive Coach.	Non-executive Independent Director

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), Retail 161 Limited, Retail 161 Australia Ltd (Storm brand), Hallenstein Bros Limited and Hallenstein Brothers Australia Limited (retail of men's apparel). The subsidiaries are 100% owned by Hallenstein Glasson Holdings Limited.

REVIEW OF OPERATIONS

(a) Consolidated results for the year ended 1 August 2017

$'000	2017	2016
Operating revenue	239,004	223,510
Profit before income tax	24,070	19,061
Income tax	(6,801)	(5,382)
Profit for the year	17,269	13,679

(b) Dividend

An interim dividend of 14.5 cents per share together with a supplementary dividend of 2.558 cents per share to non-resident shareholders was paid on 13th April 2017.

Subsequent to balance date the Directors have declared a final dividend of 17.0 cents per share payable 18th December 2017. Non-resident shareholders of the Company will also receive a supplementary dividend of 3.0 cents per share. Dividends are fully imputed to New Zealand resident shareholders.

General disclosures

DIRECTORS

(a) Remuneration and all other benefits

Remuneration of Directors

$'000	2017	2016
Mr T C Glasson	68	68
Mr W J Bell	97	97
Mr M Donovan	68	68
Mr M Ford	75	74
Mr G Popplewell	364	623
Ms K Bycroft	75	75
	747	1,005

(b) Shareholdings

Beneficially held

	2017	2016
W J Bell	20,143	15,143
T C Glasson	11,950,588	11,950,588
M J Donovan	–	10,000
G J Popplewell	203,604	203,604
M Ford	10,000	10,000

Non-beneficially held

	2017	2016
M Ford and M J Donovan as custodians for Staff Share Scheme	701,760	541,636

(c) Interests in share dealing

M Ford and M Donovan as Trustees for share purchase scheme

	DATE	PURCHASE/(SALE) NUMBER OF SHARES	$
On market purchase	06/04/2017	24,273	84,302
On market purchase	07/04/2017	32,482	112,399
On market purchase	05/04/2017	84,727	303,294
On market purchase	02/11/2016	12,733	38,313
On market purchase	1/11/2016	20,500	61,685
On market sale	05/04/2017	(14,591)	(51,788)
Mr W J Bell			
Off market transfer	16/11/2016	5,000	–

General disclosures

(d) Disclosures of interests by Directors

W J Bell

Chairman	St Georges Hospital Inc
Director	Ryman Healthcare Group of Companies
Director	Alpine Energy Group of Companies
Director	Cyprus Enterprises and Meadow Mushrooms Group of Companies
Director	Sabina Ltd
Director	Glasson Trustee Ltd
Director	152 Hereford Ltd
Director	CHC Properties Ltd
Director	Warren Bell Ltd
Director	Poraka Ltd

M Donovan

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

G J Popplewell

None

T C Glasson

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

M Ford

Trustee	Hallenstein Glasson Staff Benefit Trust

K Bycroft

Advisory Board Member	Spotlight Retail Group

(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 2017 was:

EMPLOYEE REMUNERATION	2017	2016
100,000-109,999	6	1
110,000-119,999	1	3
120,000-129,999	4	4
130,000-139,999	2	2
140,000-149,999	2	1
150,000-159,999	1	1
160,000-169,999	1	4
170,000-179,000	3	1
180,000-189,999	1	–
190,000-199,999	–	–
200,000-209,999	2	–
210,000-219,999	2	5
220,000-229,999	1	2
230,000-239,999	1	1
250,000-259,999	–	–
260,000-269,999	1	2
270,000-279,999	1	1
280,000-289,999	1	1
290,000-299,999	1	–
300,000-309,999	–	2
310,000-319,999	1	–
350,000-359,999	1	–
360,000-369,999	–	1
390,000-399,999	1	–
400,000-409,999	–	–
440,000-449,999	–	1
580,000-589,999	–	–
590,000-599,999	–	–
610,000-619,999	–	1
620,000-629,999	1	–
640,000-649,999	1	–
730,000-739,999	1	–

REMUNERATION TO AUDITORS

The fee for the audit of the Holding Company and subsidiaries, paid to PricewaterhouseCoopers, was $125,980.

Corporate governance

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 charter incorporating the features of the NZX Corporate Governance Best Practice code. The charter is available at www.hallensteinglasson.co.nz.

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.

The principal trading activities, Glassons and Hallensteins, comprise separate subsidiaries, each with its own management team and Board. The Group Board delegates the responsibility for the day-to-day management of each subsidiary to the Board and management of that subsidiary. The Board is responsible for the appointment of, and assessment of the performance of, the Chief Executive Officer 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.

BOARD MEMBERSHIP

At the date of signing the Annual Report, the Board consisted of six non-executive Directors. In recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chairperson is a non-executive Director.

Independent Directors at the date of this report are:

M J Donovan
M J Ford
K Bycroft

Other non-executive Directors are:

W J Bell (Chairman)
T C Glasson
G Popplewell

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

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

A list of the Directors and their qualifications is on page 43 of this report.

Corporate governance

COMMITTEE STRUCTURE

The Board has established three committees, comprising non-executive Directors.

Remuneration Committee

- Comprises the non-executive members of the Board, and is chaired by Mr T Glasson. The function of the Committee is to make specific recommendations on remuneration packages and other terms of employment for Directors and executive Directors. 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. The remuneration committee charter is available at www.hallensteinglasson.co.nz.

Audit Committee

- Comprises the non-executive members of the Board, and is chaired by Mr M J Ford. The Committee meets directly with the external auditors at least twice a year, and receives all correspondence between the Company and its auditors. The other main responsibilities of the Committee is to ensure internal controls are effective, financial reporting is reliable, applicable laws and regulations are complied with, and auditor independence is maintained. The audit committee charter is available at www.hallensteinglasson.co.nz.

Nomination Committee

- Comprises the non-executive members of the Board, and is chaired by Mr M J Donovan. When appropriate, the committee will make recommendations on the appointment of Directors. The nominations committee charter is available at www.hallensteinglasson.co.nz.

Health and Safety Committee

- Comprises the non- executive members of the Board and is chaired by Ms K Bycroft. The committee oversees the:
  - Existing systems and processes
  - Approval of health & safety policies and procedures
  - Monitoring of any incidents, hazards and risks
  - Communication to the Board and ensures the Board and Directors are 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 at www.hallensteinglasson.co.nz.

DIVERSITY

A breakdown of gender composition of Directors and Officers as at 1 August 2017 is shown below:

Gender Diversity as at 1 August

	2017	2016
Directors		
Female	1	1
Male	5	5
Officers		
Female	2	2
Male	6	6

The Company does not have a formal diversity policy.

Corporate governance

REPORTING AND DISCLOSURE

Reporting to shareholders and the market generally is in accordance with generally accepted accounting principles, and the Board ensures compliance with relevant legislation and NZX requirements. The Board is responsible for ensuring it meets its obligation for continuous disclosure in accordance with the NZX Listing Rule 10.1 and acknowledges that shareholders and the investment market generally should be promptly informed of any events that may be price sensitive as regards the Company's' share value.

The Board has a formal procedure which must be followed when Directors, senior employees, or related parties wish to trade in the Company's shares. They must notify and obtain consent from the Board prior to trading in HLG shares, and are only permitted to trade within two window periods. They are between the full year announcement date (during September) and 1 January, and between the half year announcement date (during March) and 1 July.

The Directors' shareholdings, trading of shares together with other matters for disclosure are set out on page 44 of this report.

BOARD REMUNERATION

Details of Directors remuneration are shown on page 44 of this report.

Shareholders are asked to approve fees each year. Fees are established using independent surveys covering New Zealand based organisations of a similar scope and size.

Key executive remuneration comprises a base salary, together with an "at risk" component which is earned subject to Company profitability. The remuneration committee seeks independent advice where appropriate when setting key executive remuneration.

RISK ASSESSMENT

The Board regularly reviews risk, and maintains insurance cover with reputable insurers for most types of insurable risk.

HEALTH AND SAFETY

The Company has health and safety systems and processes in place that includes training employees and recording any incidents, hazards and risks. These systems ensure we continue to provide a safe working environment for staff, contractors and customers.

The Parent indemnifies all Directors named in this report, and current and former executives of the Group against all liabilities (other than to the Parent or member of the Group), which arise out of their normal duties as Director or executive Officers, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group has indemnity insurance.

AUDIT

The external audit is undertaken by PricewaterhouseCoopers. The Board acknowledges the independence of auditors, and only seeks additional services from PricewaterhouseCoopers where any threats to independence can be appropriately mitigated.

SHAREHOLDER RELATIONS

The Company releases all information to the NZX, and also posts any announcements to the Company website at www.hallensteinglasson.co.nz. Key information, including annual reports, the constitution and Board charters are also posted for ease of reference. The Board approves all communication with shareholders.

Shareholders are encouraged to attend annual meetings, and these are held at different cities within New Zealand on a rotation basis so that as many shareholders as possible have the opportunity to attend. The external auditors are required to be available at each annual meeting.

Shareholder information

ANALYSIS OF SHAREHOLDING AS AT 28 SEPTEMBER 2017

RANGE	HOLDER COUNT	HOLDER COUNT %	HOLDING QUANTITY	HOLDING QUANTITY %
1 to 99	76	1.24	2,353	0.00
100 to 199	101	1.65	13,468	0.02
200 to 499	292	4.78	93,480	0.16
500 to 999	446	7.31	296,612	0.50
1,000 to 1,999	1,155	18.92	1,516,912	2.54
2,000 to 4,999	1,909	31.27	5,759,736	9.66
5,000 to 9,999	1,056	17.30	6,788,551	11.38
10,000 to 49,999	955	15.64	16,556,813	27.76
50,000 to 99,999	61	1.00	4,004,824	6.71
100,000 to 499,999	46	0.75	8,219,696	13.78
500,000 to 999,999	6	0.10	3,439,873	5.77
1,000,000 to 9,999,999,999,999	2	0.03	12,956,743	21.72
Total	6,105	99.99	59,649,061	100.00

TOP 20 SHAREHOLDERS AS AT 28 SEPTEMBER 2017

RANK	NAME	ADDRESS	UNITS	% OF UNITS
1.	TIMOTHY CHARLES GLASSON	PO Box 248, Christchurch 8140	11,950,588	20.035
2.	FNZ CUSTODIANS LIMITED	PO Box 396, Wellington 6140	1,006,155	1.687
3.	FORSYTH BARR CUSTODIANS LIMITED	Private Bag 1999, Dunedin 9054	775,167	1.300
4.	HSBC NOMINEES (NEW ZEALAND) LIMITED – NZCSD	PO Box 5947, Wellesley Street, Auckland 1141	585,194	0.981
5.	KEVIN JAMES HICKMAN & JOANNA HICKMAN & JOHN ANTHONY CALLAGHAN	PO Box 79084, Avonhead, Christchurch 8446	565,000	0.947
6.	JBWERE (NZ) NOMINEES LIMITED	Private Bag 92085, Victoria Street West, Auckland 1142	511,665	0.858
7.	INVESTMENT CUSTODIAL SERVICES LIMITED	PO Box 35, Shortland Street, Auckland 1140	502,847	0.843
8.	KEVIN JAMES HICKMAN & JOANNA HICKMAN	24 Waiwetu Street, Fendalton, Christchurch 8052	500,000	0.838
9.	CUSTODIAL SERVICES LIMITED	PO Box 13155, Tauranga 3141	491,957	0.825
10.	ACCIDENT COMPENSATION CORPORATION – NZCSD	c/- Jp Morgan Att Asset Services, PO Box 5652, Wellington 6140	450,000	0.754
11.	CUSTODIAL SERVICES LIMITED	PO Box 13155, Tauranga 3141	447,153	0.750
12.	JOHN FRANCIS MANAGH	PO Box 1022, Napier 4140	389,063	0.652
13.	CITIBANK NOMINEES (NEW ZEALAND) LIMITED – NZCSD	GPO Box 764G, Melbourne VIC 3000, AUSTRALIA	357,732	0.600
14.	CUSTODIAL SERVICES LIMITED	PO Box 13155, Tauranga 3141	298,578	0.501
15.	JPMORGAN CHASE BANK NA NZ BRANCH-SEGREGATED CLIENTS ACCT – NZCSD	Att: Asset Services, PO Box 5652	240,259	0.403
16.	CUSTODIAL SERVICES LIMITED	PO Box 13155, Tauranga 3141	237,878	0.399
17.	ASB NOMINEES LIMITED	PO Box 35, Shortland Street, Auckland 1140	228,310	0.383
18.	GRAEME JAMES POPPLEWELL	26 Lemington Road, Westmere, Auckland 1022	203,604	0.341
19.	ASB NOMINEES LIMITED	PO Box 35, Shortland Street, Auckland 1140	201,459	0.338
20.	GEM LIMITED	PO Box 209, Dunedin 9054	200,000	0.335
Totals: Top 20 holders of ordinary shares			20,142,609	33.77
Total remaining holders balance			39,506,452	66.23


STORM


HALLENSTEIN
BROTHERS