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.

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.

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.

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.

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

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountants | Auckland
28 September 2017