

# Interim Report



FOR 26 WEEK PERIOD ENDED  
26 JULY 2009



BRISCOE  
GROUP LIMITED

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# Chairman's and Managing Director's Report



On behalf of the Board of Directors, we are pleased to present the Interim Report of Briscoe Group Limited for the 26 week period ended 26 July 2009. The results for this period represent a significant improvement on those reported for the first half of last year. While we recognise there is still improvement required to reach the profit levels of 2006 and 2007, we do consider that the Group has made a much more satisfactory start to this financial year given the difficult trading conditions, which continue to pervade the New Zealand retail environment.

Our focus during the second half of last year and the first half of this year was on maintaining market share and increasing profitability through improved cost and inventory management.

In a market during that period, which at best could be described as flat, we are pleased overall with how our major brands have performed and are confident that the initiatives we have implemented around inventory management and cost control will continue to produce benefits during the second half of this year.

We limited the expansion of store numbers choosing to focus on getting the best from our existing store network. The stores opened during the previous financial year have now established stable trading levels allowing us to fine-tune the inventory levels for these locations.

Included in the half-year results is an asset impairment adjustment of \$827,627 in respect of four specialty stores within the Group's 58 store homeware segment. These stores have to date been unable to achieve acceptable levels of profitability in the highly competitive and unpredictable markets in which they operate. We have slowed considerably the expansion of Living & Giving stores and will continue with a conservative approach until market conditions support profitable expansion in this highly discretionary area of the homeware segment.

We continue to gain benefits through better use of the information available from our SAP systems. These have

now been fully operational across the entire Group for more than twelve months. The quality of range reviews and the achievement of optimal inventory levels through automated replenishment are key to the suitability and availability of the products we offer our customers.

We have implemented major changes to the way in which we structure and reward the people within our business. Our goal in making these changes was to create a structure supported by a remuneration philosophy which would focus our store managers, buyers and support team on the creation of incremental profit.

These changes have included:

- *Continuing to develop the profit centre structure across stores.*  
Under this initiative, announced in last year's Annual Report, Senior Profit Partners responsible for one or a number of stores, share in the store profit generated above budgeted levels. This was a major change for most of our store managers and was accepted positively by them. These Profit Centres are delivering reduced costs and creating a real focus in every store on the generation of incremental profit. The composition of the Profit Centres will be reviewed periodically to ensure we are using our best people to drive our most important stores.
- *The formation of Buying Steering Committees.*  
This enables experienced store managers to give more input to the buying team and to influence ranging decisions. We are still at an early stage in this process but believe that the quality of the ranges we present to our customers will improve further.
- *Continuing to evolve the expense reduction initiatives.*  
Launched in the middle of last year, these initiatives have delivered improved services at lower costs across many functions of the Group. Freight, wrapping, communications, in-store labour and store cleaning are examples of areas that have benefited from cost reduction initiatives. The commitment to achieve better value for spend is shared throughout the stores and support office.
- *Significantly reducing the size of the marketing function.*  
Retaining one senior marketing manager to co-ordinate and drive all marketing and promotional activity has increased the level of involvement of senior merchandise and operational management in the day to day promotional activity of our retail brands. The business is heavily dependent on the quality and responsiveness of our promotional programme and this change has increased the accountability for the successful execution of every promotion we run.



For the six months ended 26 July 2009, the directors reported an unaudited Net Profit After Tax of \$6.52 million in comparison to the \$3.09 million for the corresponding period a year ago. This represents an increase of 111% and reflects the improved gross margin and benefits of operating efficiency initiatives outlined above.

The earnings were generated on sales of \$185.29 million compared to the \$181.95 million generated in the same period last year.

Gross margins improved from 39.39% to 40.34% as a result predominantly of benefits being obtained from the SAP system.

Reduced operating costs have been incurred as a result of the cost reduction initiatives implemented progressively since early last year.

Notwithstanding the deliberate slow-down in store expansion, the Board and management remain committed to growing the Group through a number of channels, including new stores where locations are viable and the underlying economics justify the opportunity.

## Segmental Performance

### Homeware

Sales from homeware stores were \$126.03 million compared to \$126.14 million for last year.

Competition in the homeware segment has heightened with all major players chasing a contracting pool of customer expenditure. The level and frequency of discounting has further increased. Against this background we have concentrated on enhancing gross margin and retaining market share through the execution of a focused and aggressive promotional programme.

The significant improvement in year-on-year gross margin percentage is a result of improved sourcing arrangements together with improvement in range and inventory management. Planned reductions in store costs have all been achieved.

The number of homeware stores increased by one to 58 during the period with the opening of the Living & Giving store at Riccarton in Christchurch. Subsequently total store area for homeware stores has increased to 94,852 square metres.

### Sporting Goods

Sales from our sporting goods stores were \$59.25 million compared to \$55.81 million for the first half of last year. Sporting goods store numbers remained at 32 with total store area at 53,714 square metres.

With better visibility of inventory through SAP our ability to conduct detailed range reviews has improved. This has assisted to identify potential problem stock at an early date so it can be exited by stores without the need to discount too deeply. The improved analytical ability has helped to enhance the quality of our indent orders, which are often placed more than six months in advance of dispatch.

The improvement in profitability achieved by the sporting goods segment is due to a number of factors. The focus on inventory management has improved the availability of core stock in all stores. Driving automated replenishment through the SAP system has resulted in having more of the right stock in the right store at the right time, which in turn has driven an improvement in sales and margin.

All planned reductions in store costs have been achieved and there is a clear focus by store managers towards producing incremental profit.

## Financial Position

As at 26 July 2009 the Group had cash and bank balances of \$51.77 million, compared to \$29.11 million at 27 July 2008. This increase in cash resulted from net operating cash inflows for the 12 month period being in excess of cash outflows relating to capital expenditure and dividend payments of \$2.5 million and \$9.5 million, respectively.

In the current difficult trading environment we recognise the importance of preserving cash reserves to service the normal seasonal fluctuations of our working capital requirements and also to provide flexibility in the event acquisition opportunities arise. A recent example of this was the purchase of property in Palmerston North. Our existing Briscoes Homeware and Rebel Sport stores will eventually be relocated to this site.

Inventory levels at 26 July 2009 were \$64.89 million compared to \$65.21 million at the same time last year. The decrease of \$0.32 million reflects the continued focus the Group has had on its inventory control during a challenging period for retailers in which the Group opened an additional four stores.

Capital expenditure of \$0.71 million was incurred during the six months to 26 July 2009. The main areas of expenditure were the fit-out of the new Living & Giving store at Riccarton, store hardware upgrade programme, and a deposit paid on the new Palmerston North property.

## Dividend

The directors have declared a fully imputed interim dividend of 2.00 cents per share (last year interim 1.00 cent per share), consistent with the Group's dividend policy to distribute at least 60% of tax paid earnings.

Books close to determine entitlements at 5pm on 25 September 2009 and payment will be made on 2 October 2009.

In addition to the interim dividend, a supplementary dividend of 0.3529 cents per share has been declared and will be paid to non-resident shareholders.

## Outlook

The Board and management are optimistic about Group performance as we move through the second half of this year but the continued unpredictability of the economic environment makes it difficult to accurately predict a result for the second half of this year. While we remain confident that we will exceed the \$8.5 million achieved for the second half of last year, the percentage increase is likely to be considerably less than the increase achieved for the first half of this year.

Briscoe Group is well placed to continue to improve on the disappointing results reported last year as a result of the economic downturn. The Group's cash position is strong, inventory remains well controlled and the focus on operating efficiencies will continue to deliver benefits to the bottom line.



Rosanne Meo  
CHAIRMAN



Rod Duke  
GROUP MANAGING

9 SEPTEMBER 2009

# Financial Statements

The Board of Directors is pleased to present the Interim Financial Statements of Briscoe Group Limited for the 26 week period ended 26 July 2009. The Interim Financial Statements presented are signed for and on behalf of the Board, and were authorised for issue on the date below.



Rod Duke  
GROUP MANAGING DIRECTOR



Stuart Johnstone  
DIRECTOR

9 September 2009

## Consolidated Income Statement

For the 26 week period ended 26 July 2009 (unaudited)

		26 Week Period Ended 26 July 2009 Unaudited \$000	26 Week Period Ended 27 July 2008 Unaudited \$000
	Notes		
Sales revenue	2	185,285	181,952
Cost of goods sold		(110,538)	(110,282)
<b>Gross profit</b>		<b>74,747</b>	<b>71,670</b>
Other operating income		56	61
Store expenses	3	(41,586)	(42,011)
Administration expenses	3	(24,102)	(26,075)
<b>Operating profit</b>		<b>9,115</b>	<b>3,645</b>
Net finance income		621	798
<b>Profit before income tax</b>		<b>9,736</b>	<b>4,443</b>
Income tax expense		(3,215)	(1,352)
<b>Net profit attributable to shareholders</b>	2	<b>6,521</b>	<b>3,091</b>

### Earnings per share for profit attributable to shareholders:

Basic earnings per share (cents)	3.07	1.46
Diluted earnings per share (cents)	3.01	1.43

The above consolidated income statement should be read in conjunction with the accompanying notes.

## Consolidated Statement of Comprehensive Income

For the 26 week period ended 26 July 2009 (unaudited)

		26 Week Period Ended 26 July 2009 Unaudited \$000	26 Week Period Ended 27 July 2008 Unaudited \$000
	Notes		
<b>Net profit attributable to shareholders</b>	2	<b>6,521</b>	<b>3,091</b>
<b>Other comprehensive income</b>			
Share options charged to income statement		145	120
Fair value (gain)/loss recycled to income statement		(3,253)	616
Fair value gain/(loss) taken to the cash hedge reserve		(3,651)	37
Deferred tax on fair value hedge taken to income statement		976	(188)
Deferred tax on fair value transfers to hedge reserve		1,095	(11)
<b>Total other comprehensive income</b>		<b>(4,688)</b>	<b>574</b>
<b>Total comprehensive income attributable to shareholders</b>		<b>1,833</b>	<b>3,665</b>

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

For the 26 week period ended 26 July 2009 (unaudited)

	Share Capital	Cashflow Hedge Reserve	Share Options Reserve	Retained Earnings	Total Equity
	Unaudited \$000	Unaudited \$000	Unaudited \$000	Unaudited \$000	Unaudited \$000
<b>Balance at 27 January 2008</b>	40,625	(99)	440	77,013	117,979
Net profit attributable to shareholders for the period	–	–	–	3,091	3,091
Share options charged to income statement	–	–	120	–	120
Transfer for share options lapsed and forfeited	–	–	(4)	4	–
Fair value (gain)/loss recycled to income statement	–	616	–	–	616
Fair value gain/(loss) taken to the cash hedge reserve	–	37	–	–	37
Deferred tax on fair value hedge taken to income statement	–	(188)	–	–	(188)
Deferred tax on fair value transfers to hedge reserve	–	(11)	–	–	(11)
Total comprehensive income and expenses for the period	–	454	116	3,095	3,665
Dividends paid	–	–	–	(9,547)	(9,547)
<b>Balance at 27 July 2008</b>	40,625	355	556	70,561	112,097
Net profit attributable to shareholders for the period	–	–	–	8,543	8,543
Share options charged to income statement	–	–	125	–	125
Transfer for share options lapsed and forfeited	–	–	(195)	195	–
Fair value (gain)/loss recycled to income statement	–	(1,953)	–	–	(1,953)
Fair value gain/(loss) taken to the cash hedge reserve	–	6,106	–	–	6,106
Deferred tax on fair value hedge taken to income statement	–	585	–	–	585
Deferred tax on fair value transfers to hedge reserve	–	(1,832)	–	–	(1,832)
Total comprehensive income and expenses for the period	–	2,906	(70)	8,738	11,574
Dividends paid	–	–	–	(2,121)	(2,121)
<b>Balance at 25 January 2009</b>	40,625	3,261	486	77,178	121,550
Net profit attributable to shareholders for the period	–	–	–	6,521	6,521
Share options charged to income statement	–	–	145	–	145
Transfer for share options lapsed and forfeited	–	–	–	–	–
Fair value (gain)/loss recycled to income statement	–	(3,253)	–	–	(3,253)
Fair value gain/(loss) taken to the cash hedge reserve	–	(3,651)	–	–	(3,651)
Deferred tax on fair value hedge taken to income statement	–	976	–	–	976
Deferred tax on fair value transfers to hedge reserve	–	1,095	–	–	1,095
Total comprehensive income and expenses for the period	–	(4,833)	145	6,521	1,833
Dividends paid	–	–	–	(7,425)	(7,425)
<b>Balance at 26 July 2009</b>	40,625	(1,572)	631	76,274	115,958

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheet

As at 26 July 2009 (unaudited)

	Notes	As at 26 July 2009 Unaudited \$000	As at 27 July 2008 Unaudited \$000	As at 25 January 2009 Audited \$000
<b>EQUITY</b>				
Share capital		40,625	40,625	40,625
Share options reserve		631	556	486
Cashflow hedge reserve		(1,572)	355	3,261
Retained earnings		76,274	70,561	77,178
<b>Total equity</b>		<b>115,958</b>	<b>112,097</b>	<b>121,550</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Employee benefits		417	343	427
<b>Total non-current liabilities</b>		<b>417</b>	<b>343</b>	<b>427</b>
<b>Current liabilities</b>				
Trade and other payables		42,925	35,848	50,426
Provisions		18	25	49
Employee benefits		5,086	4,173	3,937
Taxation payable		–	–	795
Derivative financial instruments		2,217	19	–
<b>Total current liabilities</b>		<b>50,246</b>	<b>40,065</b>	<b>55,207</b>
<b>TOTAL LIABILITIES</b>		<b>50,663</b>	<b>40,408</b>	<b>55,634</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>166,621</b>	<b>152,505</b>	<b>177,184</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	4	42,506	48,820	46,330
Intangible assets		2,160	3,117	2,797
Deferred tax		2,788	1,457	381
<b>Total non current assets</b>		<b>47,454</b>	<b>53,394</b>	<b>49,508</b>
<b>Current assets</b>				
Cash and cash equivalents		51,774	29,113	63,291
Trade and other receivables		2,343	2,375	2,629
Inventories		64,886	65,206	57,460
Taxation receivable		161	1,895	–
Derivative financial instruments		3	522	4,296
<b>Total current assets</b>		<b>119,167</b>	<b>99,111</b>	<b>127,676</b>
<b>TOTAL ASSETS</b>		<b>166,621</b>	<b>152,505</b>	<b>177,184</b>
<b>Net Tangible Assets per Security (cents)</b>		<b>53.64</b>	<b>51.37</b>	<b>55.98</b>

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

For the 26 week period ended 26 July 2009 (unaudited)

	26 Week Period Ended 26 July 2009 Unaudited \$000	26 Week Period Ended 27 July 2008 Unaudited \$000
<b>OPERATING ACTIVITIES</b>		
<b>Cash was provided from</b>		
Receipts from customers	185,814	183,442
Rent received	56	61
Interest received	740	803
	186,610	184,306
<b>Cash was applied to</b>		
Payments to suppliers	(158,027)	(164,189)
Payments to employees	(20,770)	(22,559)
Interest paid	(2)	(5)
Net GST paid	(6,289)	(6,193)
Income tax paid	(4,508)	(903)
	(189,596)	(193,849)
<b>Net cash (outflows) from operating activities</b>	<b>(2,986)</b>	<b>(9,543)</b>
<b>INVESTING ACTIVITIES</b>		
<b>Cash was provided from</b>		
Proceeds from sale of property, plant and equipment	16	–
	16	–
<b>Cash was applied to</b>		
Purchase of property, plant and equipment	(702)	(989)
Purchase of intangible assets	(24)	(208)
	(726)	(1,197)
<b>Net cash (outflows) from investing activities</b>	<b>(710)</b>	<b>(1,197)</b>
<b>FINANCING ACTIVITIES</b>		
<b>Cash was applied to</b>		
Dividends paid	(7,425)	(9,547)
	(7,425)	(9,547)
<b>Net cash (outflows) from financing activities</b>	<b>(7,425)</b>	<b>(9,547)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(11,121)</b>	<b>(20,287)</b>
Cash and cash equivalents at beginning of period	63,291	49,361
Foreign cash balance cash flow hedge adjustment	(396)	39
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>51,774</b>	<b>29,113</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.



# Consolidated Statement of Cash Flows continued

For the 26 week period ended 26 July 2009 (unaudited)

	26 Week Period Ended 26 July 2009 Unaudited \$000	26 Week Period Ended 27 July 2008 Unaudited \$000
<b>RECONCILIATION WITH NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		
<b>Reported net profit attributable to shareholders</b>	<b>6,521</b>	<b>3,091</b>
<b>Items not involving cash flows</b>		
Depreciation and amortisation expense	4,341	4,517
Bad debts written off and movement in doubtful debts	16	42
Impairment	828	–
Amortisation of executive share options	145	120
Loss on disposal of assets	3	–
	<b>5,333</b>	<b>4,679</b>
<b>Impact of changes in working capital items</b>		
Decrease (increase) in trade and other receivables	270	1,443
Decrease (increase) in inventories	(7,426)	2,620
Decrease (increase) in taxation receivable	(956)	164
Increase (decrease) in trade payables	(5,607)	(18,032)
Increase (decrease) in other payables and accruals	(1,121)	(3,508)
	<b>(14,840)</b>	<b>(17,313)</b>
<b>Net cash (outflows) from operating activities</b>	<b>(2,986)</b>	<b>(9,543)</b>

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

## 1. Summary of significant accounting policies

These general purpose financial statements for the interim 26 week reporting period ended 26 July 2009 have been prepared in accordance with Accounting Standard NZ IAS 34 and IAS 34 *Interim Financial Reporting*. They do not include all the notes included in the full annual financial statements and are to be read in conjunction with the Annual Report for the year ended 25 January 2009.

The accounting policies used are compliant with NZIFRS and will be used in the full year financial statements for the year ending 31 January 2010.

### (a) Basis of preparation of interim financial statements

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

#### Entity reporting

Briscoe Group Limited ("Company" or "Parent") and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

The Company and its subsidiaries are designated as profit-oriented entities for financial reporting purposes. No separate Parent results are disclosed in the interim financial statements.

#### Reporting period

These financial statements are in respect of the 26 week period 26 January 2009 to 26 July 2009. The year-end balance date will be 31 January 2010 and the full financial statements will cover the 53 week period 26 January 2009 to 31 January 2010.

#### Statutory base

Briscoe Group Limited is a company incorporated in New Zealand, registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978. The Company is also listed on the New Zealand Stock Exchange (NZX).

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

#### Historical cost convention

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

#### Critical accounting estimates

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 Company's accounting policies.

The Directors regularly review all accounting policies and areas of judgement in presenting the financial statements.

The Group tests whether intangible and tangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 1(h) and as disclosed in Note 4.

# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

The Group also reviews at each reporting date, whether the provisions for inventory obsolescence and store shrinkage calculated in accordance with the accounting policy stated in Note 1(k), are adequate.

## **(b) Principles of consolidation**

### **Subsidiaries**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Briscoe Group Limited as at 26 July 2009 and the results of all subsidiaries for the 26 week period then ended.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between subsidiary companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

## **(c) Segment reporting**

An operating segment is a component of an entity that engages in business activities which earns revenue and incurs expenses and for which the chief operating decision maker (CODM) reviews the operating results on a regular basis and makes decisions on resource allocation. The Group has determined its CODM to be the group of executives comprising the Managing Director, Chief Operating Officer and Chief Financial Officer on the basis that it is this group which determines the allocation of resources to segments and assesses their performance.

The reportable operating segments of the Group have been determined based on the components of the Group that the CODM monitors in making decisions about operating matters. Such components have been identified on the basis of internal reports that the CODM reviews regularly in order to allocate resources and to assess the performance of the entity.

The Group is organised into two reportable operating segments, namely homeware and sporting goods, reflecting the different retail sectors solely in New Zealand, within which the Group operates. The corporate structure of the Group also reflects these segments with its two trading subsidiaries, Briscoes (NZ) Limited and The Sports Authority Limited. Financial details of these segments are outlined in Note 2.

# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

## **(d) 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 currency and the Group's presentation currency.

### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

## **(e) Revenue recognition**

Revenue comprises the fair value for the sale of goods and services, net of Goods and Services Tax (GST), 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 sells a product to the customer. Retail sales are usually in cash or by credit card.

### **Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

### **Rental income**

Rental income from operating leases is recognised on an accruals basis in accordance with the substance of the relevant agreements.

## **(f) Income tax**

The income tax expense for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to 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. 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.

# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in operations where the Group 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.

Deferred tax is not recognised in relation to brands where they are deemed to have an indefinite life.

## **(g) 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 income statement 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 balance sheet. 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 period of the lease.

## **(h) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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 the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## **(i) Cash and cash equivalents**

Cash and cash equivalents includes 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.

## **(j) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables arise from sales made to customers on credit or through the collection of purchasing rebates from suppliers not otherwise deducted from suppliers' payable accounts.

Trade receivable balances are reviewed on an ongoing basis. Debts known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and inconsistency in timing of payments are considered indicators that the collection of a particular trade receivable is doubtful. The amount of the provision is the difference between an asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against the income statement.



# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

## **(k) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) 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.

## **(l) Investments and other financial assets**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. Loans and receivables are recognised initially at fair value plus transaction costs and are subsequently measured at amortised cost. They are included in current assets, except for those with maturities greater than 12 months after the balance date, which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

## **(m) 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 Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

Certain subsidiaries document 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. These subsidiaries also document their assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be effective in offsetting changes in fair values or cash flows of hedged items.

### **Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

### **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 hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast purchase that is hedged takes place). However, when a 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.

# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

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 a forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

## **Derivatives that do not qualify for hedge accounting**

Hedge accounting has not been adopted for some hedges including certain derivative instruments that do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

## **(n) Fair value estimation**

The fair value of financial assets and financial liabilities is estimated for recognition, measurement and disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

## **(o) Property, plant and equipment**

All property, plant and equipment is stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

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 an item will flow to the Group and the cost of an item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

- |  |              |
|--|--------------|
| – Freehold Buildings                       | 33 years     |
| – Plant and equipment                      | 2 - 15 years |
| – Furniture, fittings and office equipment | 8 - 15 years |

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

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These gains and losses are included in the income statement.

# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

## **(p) Intangible assets**

### **Brands**

Brands are valued independently as part of the fair value of a business acquired from third parties where the brand has a value which is substantial and long-term and where the brand can be sold separately from the rest of the business acquired. Brands are amortised over their estimated lives, except where it is considered that the economic useful life is indefinite.

Indefinite life brands are subject to an annual impairment review.

### **Software**

Software has a finite useful life. Software costs are capitalised and amortised over the estimated useful economic life of 2 to 5 years.

## **(q) Trade and other payables**

Trade and other payable amounts represent liabilities for goods and services provided to the Group prior to the end of a financial period, which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. They are initially recognised at fair value then subsequently recognised at amortised cost.

## **(r) Goods and Services Tax (GST)**

The income statement, statement of comprehensive income and statement of cash flows have been prepared exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of trade receivables and trade payables, which include GST invoiced.

## **(s) Provisions**

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

## **(t) Share capital**

Ordinary shares are classified as capital.

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.

# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

## **(u) Deferred landlord contributions**

Landlord contributions to fit-out costs are capitalised as deferred contributions and amortised to the income statement over the period of the lease.

## **(v) 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.

### **Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, history of employee departure rates and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

### **Equity settled share based compensation**

The Executive Share Option Plan allows Group employees to be granted options to acquire shares of the Parent. The fair value of options granted is recognised as an employee expense in the income statement with a corresponding increase in the share options reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the options granted is measured using the Black Scholes valuation model, taking into account the terms and conditions upon which the options are granted. When options are exercised the amount in the share options reserve relating to those options, together with the exercise price paid by the employee, is transferred to share capital.

## **(w) Dividends**

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

## **(x) Earnings per share**

Basic earnings per share is computed by dividing net profit attributable to shareholders by the weighted average number of ordinary shares on issue during the period.

Diluted earnings per share is computed by dividing net profit attributable to shareholders by the weighted average number of ordinary shares on issue during the period, adjusted to include the potentially dilutive effect if share options to issue ordinary shares were exercised and converted into shares.

## **(y) Financial assets and liabilities**

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations for payment of cash flows have expired or have been transferred and the Group has transferred substantially all of the obligations.

# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

## (z) Statements of cash flows

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

- Cash comprises cash and bank balances;
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and investments;
- 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; and
- Operating activities include all transactions and other events that are not investing or financing activities.

## (aa) New accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the period ended 25 January 2009, as described in those annual financial statements.

The following new standards and amendments to standards are mandatory and are required to be applied for the first time for financial years beginning on or after 1 January 2009.

- **NZ IAS 1 Presentation of Financial Statements (revised)**

The revised standard requires 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present two statements; an income statement and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

- **NZ IFRS 8 Operating Segments**

NZ IFRS 8 replaces NZ IAS 14 *Segment* reporting. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Application of NZ IFRS 8 did not identify any new operating segments. Refer Note 2 for further information.

## 2. Segment information

The Group has two reportable operating segments that are defined by the retail sectors within which the Group operates namely homeware and sporting goods. The following is an analysis of the Group's revenue and results by operating segment. Revenue reported below represents revenue generated from external customers. There were no inter-segment sales in the period. (2008: \$ Nil)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 1.



# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

Information regarding the operations of each reportable operating segment is included below. Segment profit represents the profit earned by each segment and reflects the income statements associated with the two trading subsidiary companies, Briscoes (NZ) Limited and The Sports Authority Limited. Finance costs and income tax expense associated with the parent company are not allocated to the reportable operating segments.

For the period ended 26 July 2009	Homeware \$000	Sporting goods \$000	Eliminations/ unallocated \$000	Total Group \$000
<b>INCOME STATEMENT</b>				
<b>Total sales revenue</b>	<b>126,033</b>	<b>59,252</b>	<b>–</b>	<b>185,285</b>
<b>Earnings before interest and tax</b>	<b>8,084</b>	<b>494</b>	<b>537</b>	<b>9,115</b>
Finance income	–	94	527	621
Income tax expense	(2,674)	(178)	(363)	(3,215)
<b>Net profit after tax</b>	<b>5,410</b>	<b>410</b>	<b>701</b>	<b>6,521</b>
<b>BALANCE SHEET</b>				
<b>Assets</b>	<b>85,158</b>	<b>44,278</b>	<b>37,185</b>	<b>166,621</b>
<b>Liabilities</b>	<b>44,467</b>	<b>16,384</b>	<b>(10,188)</b>	<b>50,663</b>
<b>Other segmental items:</b>				
Acquisitions of property, plant and equipment, intangibles and investments	633	93	–	726
Impairment	828	–	–	828
Depreciation and amortisation	2,871	1,470	–	4,341

For the period ended 27 July 2008	Homeware \$000	Sporting goods \$000	Eliminations/ unallocated \$000	Total Group \$000
<b>INCOME STATEMENT</b>				
<b>Total sales revenue</b>	<b>126,142</b>	<b>55,810</b>	<b>–</b>	<b>181,952</b>
<b>Earnings before interest and tax</b>	<b>4,415</b>	<b>(1,283)</b>	<b>513</b>	<b>3,645</b>
Finance income	31	52	715	798
Income tax expense	(1,331)	369	(390)	(1,352)
<b>Net profit after tax</b>	<b>3,115</b>	<b>(862)</b>	<b>838</b>	<b>3,091</b>
<b>BALANCE SHEET</b>				
<b>Assets</b>	<b>90,648</b>	<b>38,863</b>	<b>22,994</b>	<b>152,505</b>
<b>Liabilities</b>	<b>50,902</b>	<b>12,105</b>	<b>(22,599)</b>	<b>40,408</b>
<b>Other segmental items:</b>				
Acquisitions of property, plant and equipment, intangibles and investments	1,046	151	–	1,197
Depreciation and amortisation expense	2,956	1,561	–	4,517

# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

## 3. Expenses by nature

	26 Week Period Ended 26 July 2009 \$000	26 Week Period Ended 27 July 2008 \$000
Depreciation		
Freehold buildings	170	169
Plant and equipment	3,514	3,739
Total depreciation	3,684	3,908
Amortisation		
Software	657	609
Total amortisation	657	609
Total depreciation and amortisation	4,341	4,517
Loss on disposal of property, plant and equipment	3	–
Asset impairment adjustment	828	–
Wages, salaries and other short term benefits	22,055	23,106
Operating lease rental expense	14,514	13,524

## 4. Property, plant and equipment

### Acquisitions and disposals

During the 26 week period ended 26 July 2009, the Group acquired property, plant and equipment with a total cost of \$701,873 (2008: \$988,926), including a deposit of \$88,889 for property purchased in Palmerston North by Briscoes (New Zealand) Limited. Settlement of this purchase occurred on 19 August 2009 with payment of \$4,761,111, being the balance owing for purchase of the property. Assets with a cost of \$21,833 (2008: \$Nil) were disposed of during the 26 week period ended 26 July 2009, resulting in a net loss of \$3,476 (2008: \$Nil).

For the purposes of assessing impairment, property, plant and equipment are grouped at the lowest levels for which there are separately identifiable cash flows – cash generating unit – ('CGU'). An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use.

Impairment testing is performed when certain trigger events indicate that an impairment in asset values may exist. The primary impairment indicator is the significant underperformance of a CGU in relation to management's expectations. For CGUs that are significantly underperforming, value-in-use is calculated using pre-tax cash flow projections based on financial forecasts and assumptions prepared by management covering a five year period. A terminal growth rate in perpetuity is adopted to take account of cash flows beyond the five year period. The key assumptions used for the value-in-use calculations are as follows:

- Revenue growth 6% - 11%
- Pre-tax discount rate 13%
- Terminal growth rate 3%

# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

The growth rates adopted reflect management's forecasts. The discount rate used reflects the specific risks relating to the cash flows being discounted.

Based on the indicators and assumptions outlined above, four CGUs within the homeware segment were determined to have asset carrying values in excess of the greater of either the CGU's value-in-use calculation or the fair value less costs to sell of the CGU's assets. Therefore an impairment adjustment of \$827,627 has been recognised in the income statement and is included within 'store expenses'.

## 5. Related party transactions

During the 26 week period 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 subsidiaries and those with the Parent have been eliminated. All transactions with related parties were in the normal course of business and provided on normal commercial terms.

Material transactions between the Company and its subsidiaries were:

- Management fees charged by the Company to Briscoes (NZ) Limited \$3,980,656 (2008: \$3,861,556);
- Management fees charged by the Company to The Sports Authority Limited \$1,931,218 (2008: \$1,756,935);
- Dividends received by the Company from Briscoes (NZ) Limited \$7,452,250 (2008: \$9,546,750).

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

- The R A Duke Trust as owner of the Rebel Sport premises at Panmure, Auckland, received rental payments of \$273,500 (2008: \$259,675) from the Group, under agreements to lease those premises to The Sports Authority Limited.
- Patricia Duke, spouse of the Managing Director, received payments of \$32,500 (2008: \$32,500) in relation to her employment as an overseas buying specialist with Briscoe Group Limited.
- The Hualian Trust, of which Patricia Duke is a trustee, received dividends of \$44,275 during the 26 week period (2008: \$56,641).

Directors received directors' fees and dividends in relation to their personally held shares as detailed below:

	26 Week Period Ended 26 July 2009		26 Week Period Ended 27 July 2008	
	Directors' Fees \$000	Dividends \$000	Directors' Fees \$000	Dividends \$000
<b>Executive Director</b>				
Mr RA Duke	–	–	–	–
Mr AJ Wall	–	8	–	10
<b>Non Executive Directors</b>				
Mr SH Johnstone	20	35	20	45
Ms RPO Meo	40	4	40	5
Mr RJ Skippen	20	–	20	–
	<b>80</b>	<b>47</b>	<b>80</b>	<b>60</b>

# Notes to the Financial Statements

For the 26 week period ended 26 July 2009 (unaudited)

Directors received dividends in relation to their non-beneficially held shares as detailed below:

	26 Week Period Ended 26 July 2009 \$000	26 Week Period Ended 27 July 2008 \$000
<b>Executive Director</b>		
Mr RA Duke <sup>1</sup>	5,568	7,159
Mr AJ Wall <sup>2</sup>	43	55
<b>Non Executive Directors</b>		
Mr SH Johnstone	–	–
Ms RPO Meo	–	–
Mr RJ Skippen	–	–
	<b>5,611</b>	<b>7,214</b>

1. The RA Duke Trust, of which Mr RA Duke and Mr AJ Wall are trustees, received dividends of \$5,568,325 during the 26 week period (2008: \$7,159,275).
2. The Tunusa Trust, of which Mr AJ Wall is a trustee, received dividends of \$43,050 during the 26 week period (2008: \$55,350).

## 6. Capital expenditure commitments

	As at 26 July 2009 \$000	As at 27 July 2008 \$000	As at 25 January 2009 \$000
Commitments in relation to refurbishment, fit-out system and property projects at the end of the period not provided for in the financial statements	4,761	1,107	185

## 7. Operating lease commitments

	As at 26 July 2009 \$000	As at 27 July 2008 \$000	As at 25 January 2009 \$000
Gross commitments under non-cancellable operating leases for the Group	102,550	117,968	112,491

## 8. Events after balance date

On 9 September 2009 the directors resolved to provide for an interim dividend to be paid in respect of the year ended 31 January 2010. The dividend will be paid at a rate of 2.00 cents per share on issue as at 25 September 2009, with full imputation credits attached.

# Directory

## Directors

Rosanne PO'L Meo (Chairman)  
Rodney A Duke  
Stuart H Johnstone  
R John Skippen  
Alaister J Wall

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Bank of New Zealand

## Auditors

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## Share Registrars

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