

NZPM GROUP LIMITED

CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2018

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NZPM GROUP LIMITED

Condensed consolidated interim statement of profit or loss and other comprehensive income

	Note	Six months ended		Year ended
		30/09/2018	30/09/2017	31/03/2018
		\$'000	\$'000	\$'000
Revenue		120,040	109,234	212,766
Cost of goods sold		(85,304)	(77,466)	(148,789)
Gross profit		34,736	31,768	63,977
Other income		48	2	0
Other gains/(losses)		90	(13)	(56)
Share of net profit of associates		138	21	100
Loss recognised on sale of interest in former associate		0	0	(905)
Other operating expenses		(29,478)	(27,434)	(54,282)
Profit before net financing costs, rebate dividends and dividends paid, and taxation		5,534	4,344	8,834
Finance income		21	21	35
Finance costs		(192)	(267)	(485)
Finance costs - net		(171)	(246)	(450)
Rebate dividends and dividends paid	3	(4,390)	(3,344)	(3,776)
Profit before income tax		973	754	4,608
Income tax expense		(1,638)	(1,088)	(2,562)
(Loss)/profit for the period		(665)	(334)	2,046
Total comprehensive (loss)/income for the year, net of tax		(665)	(334)	2,046

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

NZPM GROUP LIMITED
Condensed consolidated interim statement of financial position

As at	Note	Unaudited		Audited
		30/09/2018 \$'000	30/09/2017 \$'000	31/03/2018 \$'000
ASSETS				
Current assets:				
Cash and cash equivalents (excluding bank overdrafts)		1,918	357	0
Trade and other receivables		26,515	24,548	28,668
Right to returned goods asset		1,171	0	0
Derivative financial instruments		28	46	0
Inventories		33,181	31,186	32,237
Total current assets		62,813	56,137	60,905
Non-current assets:				
Trade and other receivables		100	0	100
Property, plant and equipment		9,167	4,826	6,424
Intangible assets		8,510	8,622	8,536
Investments in associates		1,222	2,610	1,222
Deferred tax assets		1,752	1,746	1,669
Total non-current assets:		20,751	17,804	17,951
Total assets		83,564	73,941	78,856
LIABILITIES				
Current liabilities:				
Trade and other payables		23,225	21,544	22,714
Refund liability		1,497	0	0
Borrowings		0	601	389
Derivative financial instruments		0	0	41
Provisions		2,653	2,474	2,764
Current tax liabilities		1,501	466	1,570
Total current liabilities		28,876	25,085	27,478
Non-current liabilities:				
Borrowings		8,900	5,658	5,500
Derivative financial instruments		483	710	627
Provisions		813	617	643
Co-operative share capital	4	27,468	26,562	26,919
Total non-current liabilities		37,664	33,547	33,689
Total liabilities		66,540	58,632	61,167
Net assets		17,024	15,309	17,689
EQUITY				
Retained earnings		17,024	15,309	17,689
Total equity		17,024	15,309	17,689

On behalf of the Board,



John DeBernardo
 DIRECTOR (Chair of the Board)
 Authorised for issue on 22 November 2018



Alister Lawrence
 DIRECTOR

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

NZPM GROUP LIMITED**Condensed consolidated interim statement of changes in equity**

	Note	Retained earnings \$'000	Total equity \$'000
Unaudited for the six months ended 30 September 2018			
Balance at 1 April 2018		17,689	17,689
Loss for the period		(665)	(665)
Total comprehensive loss for the period		(665)	(665)
Balance at 30 September 2018		17,024	17,024
Unaudited for the six months ended 30 September 2017			
Balance at 1 April 2017		15,643	15,643
Loss for the period		(334)	(334)
Total comprehensive loss for the period		(334)	(334)
Balance at 30 September 2017		15,309	15,309
Audited for the year ended 31 March 2018			
Balance at 1 April 2017		15,643	15,643
Profit for the year		2,046	2,046
Total comprehensive income for the year		2,046	2,046
Balance at 31 March 2018		17,689	17,689

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

NZPM GROUP LIMITED

Condensed consolidated interim statement of cash flows

		Six months ended		Year ended
		Unaudited		Audited
	Note	30/09/2018	30/09/2017	31/03/2018
		\$'000	\$'000	\$'000
Cash flows from operating activities:				
Receipts from customers		118,294	113,039	212,551
Interest received		21	21	35
Dividends received from associates		138	38	100
Other dividends received		3	3	3
Payments to suppliers and employees		(109,701)	(107,293)	(203,954)
Income taxes paid		(1,790)	(1,365)	(1,663)
Interest paid		(250)	(293)	(594)
Rebate dividends and dividends paid		(3,822)	(2,823)	(2,991)
Net cash inflow from operating activities	5	2,893	1,327	3,487
Cash flows from investing activities:				
Proceeds from sale of property, plant and equipment		1	23	53
Proceeds from fit-out		0	0	75
Payments for intangibles		(256)	(20)	(192)
Payments for property, plant and equipment		(3,626)	(1,400)	(3,873)
Proceeds from sale of associates		0	0	300
Net cash (outflow) from investing activities		(3,881)	(1,397)	(3,637)
Cash flows from financing activities:				
Proceeds from issue of shares		843	1,469	2,365
Proceeds from borrowings		3,400	0	0
Payments for shares bought back		(862)	(1,084)	(1,887)
Repayment of finance lease		(281)	(544)	(922)
Repayment of borrowings		0	(900)	(1,000)
Repayment of interest rate swap		(86)	0	0
Net cash inflow/(outflow) from financing activities		3,014	(1,059)	(1,444)
Net increase/(decrease) in cash and cash equivalents		2,026	(1,129)	(1,594)
Cash and cash equivalents at the beginning of the year		(108)	1,486	1,486
Cash and cash equivalents at end of the period		1,918	357	(108)

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

NZPM GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30 September 2018

1 BASIS OF PREPARATION

1.1 Reporting entity

The condensed consolidated interim financial statements presented are those of NZPM Group (the 'Group') comprising NZPM Group Limited (NZPM or 'the company') and its subsidiaries and the Group's interests in associates for the six months ended 30 September 2018. The Group is primarily involved in the provision of plumbing supplies.

The company is a co-operative incorporated and domiciled in New Zealand. The address of the registered office is Metrix Building, 155 The Strand, Parnell, Auckland 1010. NZPM is registered under the Companies Act 1993 and the Co-operative Companies Act 1996 and is a FMC reporting entity under the Financial Markets Conduct Act 2013.

The condensed consolidated interim financial statements do not include all the notes and disclosures set out in the annual report. As a result, this report should be read in conjunction with the annual financial statements for the year ended 31 March 2018.

The condensed consolidated interim financial statements have been authorised for issue by the Board of Directors on 22 November 2018 and have not been audited.

1.2 Accounting policies

These condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*. The Group is a for-profit entity for the purposes of financial reporting.

Other than as disclosed in notes 1.3 and 2, all significant accounting policies adopted in the preparation of these condensed consolidated interim financial statements have been applied on a basis consistent with those used in the audited financial statements of the Group for the year ended 31 March 2018.

1.3 Application of new and reviewed International Financial Reporting Standards

In the current year, the Group has applied NZ IFRS 9 *Financial Instruments*. NZ IFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities. NZ IFRS 9 has not had a material impact on the Group's consolidated interim financial statements.

In the current year, the Group has applied NZ IFRS 15 *Revenue from Contracts with Customers*. NZ IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in NZ IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the Group's consolidated interim financial statements are described below.

The Group's accounting policies for its revenue stream are disclosed below. Apart from providing more extensive disclosures on the Group's revenue transactions, the directors believe that the application of NZ IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. The amount of adjustment for each financial statement line item affected by the application of NZ IFRS 15 for the current year is illustrated below.

The Group has applied NZ IFRS 15 using the cumulative effect method. Therefore, the comparative information has not been restated and continues to be reported under NZ IAS 18. In applying the new standard, there has been no adjustment to opening retained earnings as there has been no impact on prior periods. The details of the significant changes and quantitative impact of the changes are set out below.

NZPM GROUP LIMITED
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1.3 Application of new and reviewed International Financial Reporting Standards continued

The following tables summarise the impacts of adopting NZ IFRS 15 on the Group's financial statements for the period ended 30 September 2018.

<u>Consolidated statement of profit and loss and other comprehensive income</u> For the 6 months ended 30 September 2018	Balances without adoption of IFRS 15 \$'000	Adjustments \$'000	As reported \$'000
Revenue	120,845	(805)	120,040
Cost of sales	(86,077)	773	(85,304)
Gross profit	34,768	(32)	34,736
Loss for the period, net of tax	(642)	(23)	(665)
Total comprehensive loss for the year, net of tax	(642)	(23)	(665)
 <u>Consolidated statement of financial position</u> As at 30 September 2018			
<i>Assets:</i>			
Trade and other receivables	26,189	326	26,515
Right to returned goods asset	0	1,171	1,171
Deferred tax assets	1,743	9	1,752
<i>Liabilities:</i>			
Trade and other payables	23,193	32	23,225
Refund liability	0	1,497	1,497
<i>Equity:</i>			
Retained earnings	17,047	(23)	17,024

2 SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition - Sales of plumbing products

The Group recognises revenue from a single source, sales of plumbing and related products.

For the current year, revenue is measured based on the consideration specified in a contract with a customer after deducting customer discounts and rebates. Where the rebate is prospectively scaled based on a customer's level of purchasing, the Group estimates the option cost of the expected additional future rebate as a reduction in revenue.

The Group sells to both trade customers and directly to retail customers through its own retail outlets. Sales-related warranties associated with plumbing and related products cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its previous accounting treatment.

For sales to trade customers, revenue is recognised when control of the goods has transferred, being at the point when the customer collects the goods or the goods are dispatched. Following the transfer of control, the customer has full discretion over the manner of use and price to sell the goods, has the primary responsibility when onselling the goods and bears the risk of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

NZPM GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30 September 2018

2 SIGNIFICANT ACCOUNTING POLICIES continued

For sales of goods to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail outlet or the goods are dispatched to the customer. Payment of the transaction price is due immediately at the point the customer purchases the goods.

Under the Group's standard contract terms, customers have a right of return. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. As the same time, the Group has a right to recover the product when customers exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to cost of sales. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

The Group operates a 'Max-Points' loyalty programme through which trade customers accumulate points on purchases of plumbing and related products that entitle them to redemptions from a third party supplier. These points provide a benefit to customers that they would not receive without purchasing the plumbing and related products. The promise to provide the benefit to the customer is therefore a separate performance obligation.

The transaction price is allocated between the product and the points on a relative stand-alone selling price basis. A contract liability is recognised for revenue relating to the loyalty points at the time of the initial sales transaction.

3 REBATE DIVIDENDS AND DIVIDENDS PAID

	Six months ended		Year ended
	Unaudited		Audited
	30/09/2018	30/09/2017	31/03/2018
	\$'000	\$'000	\$'000
Rebate dividends paid	3,963	2,924	2,924
Dividends paid	427	420	852
Rebate dividends and dividends paid	4,390	3,344	3,776

On 29 June 2018 NZPM, declared a gross rebate dividend for the year ended 31 March 2018 to all ordinary shareholders that was the greater of \$300 or 4.75% of their Grade A cash. The rebate dividend was payable in cash on 26 September 2018 to all ordinary shareholders on the share register as at 31 March 2018 who were not in default of their monthly obligations. The rebate dividend was fully imputed for tax purposes.

Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the period as follows:

Closing balance	4,390	3,344	3,776
less non-cash rebate dividends and dividend payments	(568)	(521)	(785)
Balance as per statement of cash flows	<u>3,822</u>	<u>2,823</u>	<u>2,991</u>

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for the six months ended 30 September 2018

4 CO-OPERATIVE SHARE CAPITAL

	Six months ended Unaudited		Year ended Audited
	30/09/2018 \$'000	30/09/2017 \$'000	31/03/2018 \$'000
The movements in shares by class for the Group are as follows:			
On issue at the beginning of the year	26,919	25,656	25,656
Net issues/(redemptions/transfers):			
Ordinary shares	108	10	(14)
Development shares	0	(17)	(17)
Redeemable preference shares (RPS)	(16)	(7)	(56)
New redeemable preference shares (New RPS)	378	835	1,353
Subscriptions in advance	79	85	(3)
On issue at the end of the period	<u>27,468</u>	<u>26,562</u>	<u>26,919</u>

	Six months ended Unaudited		Year ended Audited
	30/09/2018 \$'000	30/09/2017 \$'000	31/03/2018 \$'000
<i>Ordinary shares</i>			
Issued capital			
8,673,943 (Sept 2017: 8,560,516 Mar 2018: 8,495,594) ordinary shares of \$1 each less uncalled and unpaid capital	8,674 <u>(1,245)</u>	8,561 <u>(1,216)</u>	8,496 <u>(1,175)</u>
	7,429	7,345	7,321
<i>Redeemable preference shares (RPS)</i>			
47,236 (Sept 2017: 112,398 Mar 2018: 62,789) redeemable preference shares of \$1 each fully paid	47	112	63
<i>New redeemable preference shares (New RPS)</i>			
19,911,358 (Sept 2017: 19,014,965 Mar 2018: 19,533,382) redeemable preference shares of \$1 each fully paid	19,911	19,015	19,533
<i>Share subscriptions in advance</i>	81	90	2
Total paid-up co-operative capital	<u>27,468</u>	<u>26,562</u>	<u>26,919</u>
<i>Classified as:</i>			
Non-current	<u>27,468</u>	<u>26,562</u>	<u>26,919</u>

Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the period as follows:

Closing balance	27,468	26,562	26,919
less non-cash rebate dividends and dividend payments	(568)	(521)	(785)
Less opening balance	<u>(26,919)</u>	<u>(25,656)</u>	<u>(25,656)</u>
Net balance as per statement of cash flows	<u>(19)</u>	<u>385</u>	<u>478</u>

NZPM GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4 CO-OPERATIVE SHARE CAPITAL continued

The Group has different classes of shares with different rights attached to all:

Ordinary shares

Ordinary shares may be surrendered at the option of the shareholder, directors or Group according to the Constitution at the nominal value of \$1 per fully paid share. Consideration for the surrender is subject to the directors' right to postpone payment for up to five years. Ordinary shares carry certain rights as to voting and rebate dividends.

Development shares

In January 2016, NZPM amended the development shares requirement to nil. These shares are no longer issued.

Redeemable preference shares

NZPM has issued various classes of redeemable preference shares. Redeemable preference shares issued at different times and with different terms each constitute a separate class of redeemable preference shares. Redeemable preference shares are redeemable at the option of the shareholder at the nominal value of \$1 per share. Redeemable preference shares carry certain rights to receive dividends. Redeemable preference shares carry no voting rights (except as required by section 117 of the Companies Act 1993) or rights to rebate dividends. The directors are able to postpone repayment. As at 30 September 2018, the dividend rate was 6.00% (March 2018: 6.00%, September 2017: 6.00%).

General

All shares carry equal rights on any winding up of NZPM to be repaid the paid up capital, in proportion to the capital paid up on each share. Each ordinary share also carries the further right to share equally in the distribution of any further residual assets of NZPM following repayment of the paid-up capital. The Constitution and the Companies Act 1993 gives the directors the discretion to pay different rates of dividend, (if any), to different classes of shares. All share capital is classified as a liability as it is redeemable on a specific date or at the option of the shareholders.

5 CASH FLOW INFORMATION

Cash generated from operations

	Six months ended		Year ended
	Unaudited		Audited
	30/09/2018	30/09/2017	31/03/2018
	\$'000	\$'000	\$'000
(Loss)/profit after taxation for the period	(665)	(334)	2,046
<i>Adjustments for:</i>			
Depreciation and amortisation	1,185	945	2,002
Movement in deferred tax	(83)	70	147
Non-cash share of net loss of associates	0	17	0
Net (gains) on financial liabilities at fair value	(127)	(11)	(7)
Non-cash rebate dividends and dividend payments	568	521	785
(Gain) on disposal of property, plant and equipment and intangible assets	(21)	(17)	(46)
Delayed payment for sale of associate (classified as investing cash flows)	200	0	200
Loss on sale of investment in associate	0	0	905
	<u>1,722</u>	<u>1,525</u>	<u>3,986</u>
<i>Movement in working capital :</i>			
Decrease/(increase) in trade and other receivables	782	3,805	(415)
(Increase) in inventories	(944)	(882)	(1,933)
(Decrease)/increase in tax payable	(69)	(352)	752
Increase/(decrease) in trade and other payables	2,008	(2,343)	(1,173)
Increase/(decrease) in provisions	59	(92)	224
	<u>1,836</u>	<u>136</u>	<u>(2,545)</u>
Net cash inflow from operating activities	<u>2,893</u>	<u>1,327</u>	<u>3,487</u>

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5 CASH FLOW INFORMATION continued	Six months ended Unaudited		Year ended Audited
	30/09/2018 \$'000	30/09/2017 \$'000	31/03/2018 \$'000
Cash and cash equivalents			
Current assets			
Cash at bank and in hand	1,918	357	0
<i>Reconciliation to cash flow statement</i>			
The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the period as follows:			
Balance as above	1,918	357	0
Bank overdrafts	0	0	(108)
Balance as per statement of cash flows	<u>1,918</u>	<u>357</u>	<u>(108)</u>

6 CONTINGENCIES

The Group is subject to a small number of claims which are not considered significant. The directors believe, based on legal advice, that any actions can be successfully defended and have therefore not recognised any provision

7 SUBSEQUENT EVENTS

On 15 November 2018, NZPM Group agreed to purchase a property in Kingsland, Auckland for a purchase price of \$3,610,000. Settlement is expected to occur in late January 2019.