



**THE WAREHOUSE GROUP LIMITED**  
**NOTICE OF ANNUAL SHAREHOLDERS' MEETING**  
**LETTER FROM THE CHAIRMAN**

22nd October 2004

Dear Fellow Shareholder

I am pleased to invite you to the 2004 Annual Shareholders' Meeting of The Warehouse Group Limited ("the Company") to be held on Friday 26th November 2004. The meeting will take place in the Great Northern Room, Ellerslie Convention Centre, Ellerslie Racecourse, Ellerslie, Auckland at 10.00am.

At the meeting I will comment in brief on the performance of The Warehouse during the year to 1 August 2004 and there will be an introduction and presentation from Ian Morrice, the new Managing Director of The Warehouse Group Limited.

Shareholders will be asked to vote on the re-election of three independent non-executive directors Joan Withers, Graham Evans and Rob Challinor. In addition, two executive directors appointed during the period, Ian Morrice and Ian Tsicalas will stand for re-election. The Board unanimously supports the re-election of these directors.

Shareholder consent is being sought for a new long term incentive plan ("LTIP") for Executive Employees. The Warehouse Board recognises that the performance of The Warehouse is dependent on the quality of its people. To achieve the goals of the Company in an increasingly complex business environment and to maximise shareholder wealth it is essential that The Warehouse has remuneration policies that are market competitive and that attract, retain and appropriately reward its skilled Team Members.

*The new remuneration Scheme for eligible Team Members is designed to:*

- Provide a more appropriate balance between the fixed and variable components of the remuneration;
- Provide greater emphasis on linking actual remuneration to Company and individual performance targets;
- Provide greater incentives for skilled Team Members to remain in the employment of the Company; and
- Enhance the concept of share ownership and better align the interests of shareholders to the interests of the eligible Team Members.

*The Scheme will provide eligible Team Members on an annual basis with:*

- Award shares. This is a medium-term incentive plan that rewards eligible Team Members with shares in The Warehouse conditional upon the achievement of target profit measures and the achievement of individual performance targets.
- Performance shares. This performance plan is designed to reward eligible Team Members based on out-performance of the Company share price.

A independent appraisal report on the plan by KPMG is attached at page 17. The KPMG report concludes that "the terms and conditions of the financial assistance by The Warehouse to the Trustee and the terms and conditions of the Scheme are fair to shareholders of The Warehouse".

The Board unanimously supports the proposed LTIP.

Finally shareholders will also be asked to approve amendments to the constitution of the company that delete provisions reflecting NZX Listing Rules and incorporate the NZX Listing Rules by reference. Full details of specific amendments are contained in the Notice of Meeting. The Board unanimously supports the proposed amendments to the constitution.

Shareholders present at the meeting will have the opportunity at the meeting to ask questions in relation to these and other matters.

If you are unable to attend the meeting, I encourage you to complete and return the Proxy Form so that it reaches Computershare Investor Services by 10.00am (NZ time) on 24th November 2004.

Those shareholders who are attending the meeting should bring the enclosed Proxy Form with them to assist with their registration at the meeting.

At the conclusion of the meeting, you are invited to join the Board and senior management for light refreshments.

Yours sincerely

Keith Smith  
Chairman





## THE WAREHOUSE GROUP LIMITED

### NOTICE OF ANNUAL MEETING

Notice is given that the 2004 Annual Meeting of the Shareholders of The Warehouse Group Limited (“Company”) will be held at the Great Northern Room, Ellerslie Convention Centre, Ellerslie Racecourse, Greenlane Road, Auckland on Friday, 26 November 2004 commencing at 10.00 am.

#### ORDINARY BUSINESS

##### 1. ANNUAL REPORT

To receive and consider the Annual Report, the financial statements and the Auditors’ Report for the year ended 1 August 2004.

##### 2. ROTATION OF DIRECTORS

To elect five Directors. In accordance with the constitution Graham Francis Evans, Joan Withers, and Robert Lanham Challinor retire by rotation and, being eligible, offer themselves for re-election.

Ian Tsicalas was appointed to the Board on 1 December 2003 in accordance with clause 34.3 of the constitution. It is proposed that Mr Tsicalas be re-appointed to the Board as an executive Director.

Ian Rognvald Morrice was appointed to the Board on 9 September 2004 in accordance with clause 34.3 of the constitution. It is proposed that Mr Morrice be re-appointed to the Board as Managing Director.

Brief biographical details of the Directors seeking re-election are included on pages 21 and 22 of this notice.

##### 3. AUDITORS

To consider and, if thought fit, pass the following ordinary resolution in accordance with sections 196(1) and 197 of the Companies Act 1993:

*To appoint PricewaterhouseCoopers as auditor pursuant to section 200(1) of the Companies Act 1993 and to authorise the Directors to fix the remuneration of the auditor for the ensuing year.*

An explanatory note in relation to this resolution accompanies this Notice of Meeting (Note 1).

#### SPECIAL BUSINESS

##### 4. ESTABLISHMENT OF THE WAREHOUSE GROUP LIMITED EXECUTIVE SHARE SCHEME (“SCHEME”)

- (a) **Ordinary resolution relating to approval for the Company to give financial assistance for the purpose of The Warehouse Group Limited Executive Share Scheme:**

To consider and, if thought fit, pass the following ordinary resolution in accordance with clause 7.3 of the Company’s constitution and NZX Listing Rule 7.6.6:

*That the provision of financial assistance by the Company to The Warehouse Management Trustee Company No. 2 Limited as Trustee of the Scheme, by way of a loan up to a maximum value of \$5,100,000 in 2005 (as set out in the Explanatory Notes accompanying the Notice of Meeting), be approved.*

An explanatory note in relation to this resolution accompanies this Notice of Meeting (Note 2, Part 2).



**(b) Ordinary Resolutions relating to approval of Scheme and the acquisition of securities by certain Directors:**

To consider and, if thought fit, pass the following ordinary resolutions in accordance with ASX Listing Rule 10.14:

- (i) *that the terms of the Scheme (as summarised in the Explanatory Notes accompanying the Notice of Meeting) be approved;*
- (ii) *that the acquisition of securities (as summarised in the Explanatory Notes accompanying the Notice of Meeting) under the Scheme by Peter Glen Inger, a Director of the Company, be approved;*
- (iii) *that the acquisition of securities (as summarised in the Explanatory Notes accompanying the Notice of Meeting) under the Scheme by Ian Rognvald Morrice, a Director of the Company, be approved; and*
- (iv) *that the acquisition of securities (as summarised in the Explanatory Notes accompanying the Notice of Meeting) under the Scheme by Ian Tsicalas, a Director of the Company, be approved.*

An explanatory note in relation to these resolutions accompanies this Notice of Meeting (Note 2, Part 2).

**(c) Ordinary Resolutions for approval of the issue of equity securities:**

- (i) To consider and, if thought fit, pass the following resolution as an ordinary resolution in accordance with clause 4.2(a) of the Company's constitution and NZX Listing Rule 7.3.1(a):

*That the issue by the Company to selected executives and executive Directors of rights to acquire up to a maximum of 2,000,000 Shares under the Scheme in 2005 (as set out in the Explanatory Notes accompanying the Notice of Meeting) be approved.*

An explanatory note in relation to this resolution accompanies this Notice of Meeting (Note 2, Part 2).

- (ii) To consider and, if thought fit, pass the following resolution in accordance with ASX Listing Rule 7.2 (exception 9):

*That the issue of securities under the Scheme by the Company (as summarised in the Explanatory Notes accompanying the Notice of Meeting) be approved as an exception to ASX Listing Rule 7.1.*

An explanatory note in relation to this resolution accompanies this Notice of Meeting (Note 2, Part 2).

## **5. CONSTITUTIONAL CHANGE**

To consider and, if thought fit, to pass the following special resolution in accordance with section 32 of the Companies Act 1993:

*That the existing constitution of the Company be revoked, and the Company adopt a replacement constitution in the form tabled at the meeting and signed by the Chairman for the purpose of identification.*

An explanatory note in relation to this resolution accompanies this Notice of Meeting (Note 3).

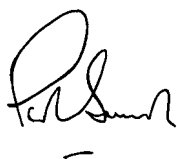
## **OTHER BUSINESS**

### **6. TO CONSIDER SUCH OTHER BUSINESS AS MAY BE PROPERLY SUBMITTED TO THE MEETING**

## **INVITATION**

Shareholders are invited to join the Directors for light refreshments after the conclusion of the meeting.

BY ORDER OF THE BOARD



K R Smith

Chairman

22 October 2004

## A. Voting by Proxy

1. A shareholder who is entitled to attend and vote at the meeting may appoint a proxy to attend and vote instead of that shareholder.
2. If you wish to appoint a proxy you should complete the enclosed proxy form. A proxy need not be a holder of shares in the Company. If you wish you may appoint the Chairman of the meeting as your proxy.
3. A proxy will not be entitled to vote at the meeting unless a properly completed proxy form is received at the office of the Company's share registrar, Computershare Registry Services Limited, by post to Private Bag 92119, Auckland 1020, or by facsimile to (09) 488 8787, not less than 48 hours before the time set for the meeting.
4. Further notes in relation to voting by proxy are attached to the proxy form.

## B. Persons Precluded From Voting

1. No shareholder may vote in respect of a share if any amount is due and payable on that share by the shareholder to the Company.
2. The Company will disregard any votes on the Resolutions 4(b) and 4(c)(ii) by a director of the Company, except one who is ineligible to participate in any employee incentive scheme in relation to the Company (including the Scheme), and an associate of those persons.
3. As a result, the Company will disregard any votes on Resolutions 4(b) and 4(c)(ii) by the following Directors: Peter Glen Inger, Ian Rognvald Morrice and Ian Tsicalas together with any associates of these Directors.
4. The Company will disregard any votes on Resolution 4(c)(i) by any director of the Company who is not excluded by the terms of the resolution from participation in the issue, and any associated person of those persons.
5. However, the Company need not disregard a vote if:
  - (a) it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
  - (b) it is cast by a person chairing the meeting as proxy for a person who is entitled to vote in accordance with a direction on the proxy form to vote as the proxy decides.

## EXPLANATORY NOTES

### NOTE 1: APPOINTMENT OF PRICEWATERHOUSECOOPERS AS AUDITOR

In early 2004 Ernst & Young, the current external auditor to The Warehouse Group Limited, advised the Company that, as a result of a policy change by it, Ernst & Young is no longer able to provide both external and internal audit services to the Company.

The Directors of The Warehouse Group Limited determined it was in the best interests of the Company to retain the internal audit services of Ernst & Young and to appoint a replacement external auditor.

Accordingly Ernst & Young has advised the Company of its intention to resign as external auditor of The Warehouse Group Limited with effect from the end of the annual meeting to be held on 26 November 2004 and to not seek reappointment.

The Company proposes to appoint PricewaterhouseCoopers as the Company's external auditor and to authorise the Directors to fix the remuneration of the auditor for the ensuing year.

### NOTE 2: ESTABLISHMENT OF THE WAREHOUSE GROUP LIMITED EXECUTIVE SHARE SCHEME

The Company wishes to establish The Warehouse Group Limited Executive Share Scheme ("**Scheme**") whereby selected executive employees (including executive Directors) ("**Executive Employees**") of the Company or of any subsidiary of the Company (a "**Member of the Group**") will have a right to be transferred ordinary shares in the Company ("**Shares**") upon the satisfaction of certain conditions. It is intended that the Scheme will operate in both New Zealand and Australia.

The Executive Employees who are nominated to participate in the proposed Scheme may be offered a conditional right to be allocated and transferred Shares which are termed "Performance Shares" and/or Shares which are termed "Award Shares":

#### (a) *Performance Shares:*

- The purpose of the Performance Share aspect of the Scheme is to provide a medium-term to long-term incentive for participating Executive Employees based on the performance of the Company's Share price over a specified period (usually three years).
- In respect of offers under the Scheme in 2005 (which will occur around the beginning of the 2005/06 financial year), it is proposed that participating Executive Employees will be offered a conditional right to be allocated and transferred Performance Shares, provided that the Company's Share price attains a certain level three years after such Executive Employees enter the Scheme.
- The right to be allocated and transferred Performance Shares at the end of three years will also be conditional upon the relevant Executive Employee remaining continuously employed by a Member of the Group during those three years.

This is further explained in Part 1 of this Note 2 under the heading "Performance Shares";

#### (b) *Award Shares:*

- The purpose of the Award Share aspect of the Scheme is to provide a medium-term incentive for participating Executive Employees.
- Participation in the Award Share aspect of the Scheme will be offered subsequent to the achievement of certain criteria approved by the Directors.
- Such criteria will be based on net profit after tax performance of the Group, combined with the operating profit of the particular business unit in which the relevant participating Executive Employee is employed (if applicable), and the individual performance of such Executive Employee in respect of the financial year prior to the date of offer.
- In respect of offers under the Scheme in 2005 (which will occur at the same time as the offer of conditional rights in Performance Shares), provided the Board determined criteria for the 2004/05 financial year have been met, it is proposed that participating Executive Employees will be offered a conditional right to be allocated and transferred a certain number of Award Shares on each anniversary of entry into the Scheme over a period of three years.
- The right to be allocated and transferred the relevant number of Award Shares on each anniversary of entry into the Scheme will be conditional upon the relevant Executive Employee remaining continuously employed by a Member of the Group during the period from the date of entry into the Scheme until the relevant anniversary.

This is further explained in Part 1 of this Note 2 under the heading "Award Shares".

This Note 2 is divided into the following sections:

- Part 1 - Background to the Deed in Respect of The Warehouse Group Limited Executive Share Scheme (“Deed”): This Part summarises the purpose of the Scheme and the main terms of the Deed;
- Part 2 - Notes to resolution 4: This Part explains the resolutions that relate to the Scheme as set out above;
- Part 3 - Terms of the financial assistance: This Part, amongst other things, sets out the proposed limitation on the amount of the financial assistance to be provided to the trustee of the Scheme in 2005 to assist the trustee of the Scheme to purchase the Shares. It also summarises the terms under which the trustee of the Scheme may be given such financial assistance;
- Part 4 - Acquisitions by Directors under the Scheme: This Part explains which executive Directors may be offered conditional rights to acquire Shares under the Scheme in 2005 and in what amount;
- Part 5 - Issue of equity securities: This Part, amongst other things, sets out details relating to the equity securities (being the contingent rights to be transferred a Share in the Company) which are proposed to be issued under the Scheme in 2005.

## **PART 1 - BACKGROUND TO THE DEED IN RESPECT OF THE WAREHOUSE GROUP LIMITED EXECUTIVE SHARE SCHEME**

The Scheme will be governed by the Deed. A trustee will be appointed to act as a trustee of the Scheme in accordance with the Deed (“Trustee”). The Directors have appointed The Warehouse Management Trustee Company No. 2 Limited as Trustee. The shareholders of The Warehouse Management Trustee Company No. 2 Limited are Keith Raymond Smith, Peter Glen Inger and Lucas Nicholaas Elias Bunt. The Directors of that company are Keith Raymond Smith, Peter Glen Inger and Lucas Nicholaas Elias Bunt. The Directors’ Remuneration, Talent and Nomination Committee (“Committee”) will administer the Scheme.

This Part 1 of Note 2 of these Explanatory Notes summarises the terms and main features of the Scheme as set out more particularly in the Deed. A copy of the Deed may be obtained by any shareholder by contacting the Secretary to the Board, c/- The Warehouse Group Limited at P O Box 33470, Takapuna.

### **Participation in the Scheme**

The Committee will, from time to time, nominate Executive Employees who will be eligible to participate in offers under the Scheme. An Executive Employee is defined in the Deed as any person (including a Director of the Company holding salaried employment or office) employed in an executive or senior management position on a permanent basis by the Company or by any Member of the Group. The Committee has sole discretion to determine who may participate in the Scheme.

It is intended that, following establishment of the Scheme, participation in the Scheme will generally be offered to Executive Employees on a yearly basis. This will mean that persons who are already participants of the Scheme (“Participants”) under an offer in any year may be offered participation in the Scheme in subsequent years, increasing their entitlement under the Scheme. Subject to the Company’s insider trading policy and any other applicable laws, on occasion, persons who have not been able to participate in any offer in a particular year may be nominated to participate in the Scheme at a subsequent date during the year.

It is intended that the Committee will nominate Executive Employees to participate in the Scheme following the release of the Company’s full year results in 2005 (subject to the Company’s insider trading policy).

An Executive Employee shall agree to become a Participant in the Scheme by entering into a participation deed (“Participation Deed”). The Participation Deed entered into by an Executive Employee will set out the terms of participation, as determined by the Committee. This will include the basis on which an Executive Employee shall become a Participant including whether the Executive Employee may be entitled to Performance Shares and/or Award Shares under the Scheme. In this regard, the Participant will obtain a conditional right (issued by the Company) to acquire Performance Shares and/or Award Shares (by transfer) in the future.

The Committee will determine the maximum number of Share incentives (in the form of rights to acquire Shares) and the maximum dollar value of Share incentives that will be offered to Participants under the Scheme on the date on which they are offered participation in the Scheme. The aggregate maximum number of Shares that Participants may be offered the right to acquire in any year is 2,000,000 Shares. Pursuant to the Deed, this maximum number of Shares may be adjusted by the Committee, as a result of any consolidation or subdivision of Shares, Share buyback, or other reconstruction of, or adjustment to the Shares or the Share structure of the Company.

### **Performance Shares**

The Committee will determine the maximum number of Performance Shares (if any) that an Executive Employee will have a conditional right to be allocated and transferred under the Scheme pursuant to a particular offer and this will be set out in the Participation Deed.

At the end of a specified period (usually three years) set out in the Participation Deed (the “**Performance Period**”), Participants will be assessed, by way of a performance test, against certain criteria (“**Performance Criteria**”) determined by the Committee and set out in the Participation Deed. Unless the Committee resolves otherwise, the Performance Criteria applying to Participants will be whether the market price of the Company’s Shares at the end of the Performance Period exceeds the adjusted price (“**Adjusted Price**”) of the Company’s Shares at the end of the Performance Period. However in determining whether Performance Criteria have been met, the Committee shall take into account the effect of any consolidation or subdivision of the Company’s Shares, Share buyback, or other reconstruction of, or adjustment to, the Shares or Share structure of the Company and the effect of such an event on the Performance Criteria.

The Adjusted Price is defined in the Deed as:

$$[\text{Year 2 Price} \times (1 + \text{Cost of Equity})] - \text{Assumed Annual Cash Dividend}$$

where:

- (a) “**Year 1 Price**” means the adjusted price of the Company’s Shares at the end of the first year of the Performance Period after taking independent advice and calculated in accordance with the following formula:

$$[\text{Market Price} \times (1 + \text{Cost of Equity})] - \text{Assumed Annual Cash Dividend}$$

- (b) “**Year 2 Price**” means the adjusted price of the Company’s Shares at the end of the second year of the Performance Period after taking independent advice and calculated in accordance with the following formula:

$$[\text{Year 1 Price} \times (1 + \text{Cost of Equity})] - \text{Assumed Annual Cash Dividend}$$

- (c) “**Market Price**” means the volume weighted average selling price per share of all of the Shares in the Company traded on the NZX during the 10 Business Days prior to the relevant date on which the market price of the Company’s Shares is required to be measured, adjusted as the Committee may determine in its sole discretion, to take account of the Shares going ex-dividend in that period;
- (d) “**Cost of Equity**” means a factor, selected by the Committee in its discretion after taking independent advice, calculated in accordance with the following formula:

$$R_e = R_f (1 - T_i) + \beta_e (P T M R P)$$

Where:

$R_f$  = Risk free rate of return. Based on the yield on New Zealand government stock.

$T_i$  = New Zealand investors’ effective tax rate on interest and dividend income relative to capital gains.

$\beta_e$  = Equity beta, a measure of the volatility of returns from the Company compared to returns from the investment market.

$P T M R P$  = Post tax market risk premium, or expected return, measured after New Zealand investor taxes, on the market portfolio of equity investments. Derived from independent research on New Zealand equity market returns; and

- (e) “**Assumed Annual Cash Dividend**” means the assumed dividend which, unless the Committee in its absolute discretion decides otherwise, will be calculated in accordance with the Company’s dividend policy.

The performance test will determine the number of Performance Shares (if any) to which a Participant has the right to be transferred, provided that such Participant has been continuously employed during the Performance Period and conditional upon the Performance Criteria being met. The Committee may determine that a Participant also has the right to be transferred:

- (a) any bonus shares, or any other distribution of Shares or securities (other than a rights issue), that have been issued during the Performance Period in respect of the Performance Shares being transferred to such Participant; and
- (b) the proceeds of the sale of any rights or other securities, or from any Share buyback, that the Trustee has derived during the Performance Period in respect of the Performance Shares that are being transferred to such Participant.

It is intended that the Performance Period will usually be three years from the date of entry into the Participation Deed (however, the Committee may determine otherwise).

Refer to the “Worked Example of Performance Shares” at the end of this Part 1 for an illustration of the calculation of Performance Shares.

## Award Shares

The Participation Deed will also state the maximum number of Award Shares (if any) that the Participant will have a conditional right to be allocated and transferred under the Scheme. A right to Award Shares will only be offered in respect of a Participant if they have met pre-determined performance criteria in respect of the financial year prior to the date of offer (refer to the discussion of Award Criteria below). A proportion of the maximum number of Award Shares will be allocated to the Participant at the end of each pre-determined period ("**Restrictive Period**") only if the Participant has been continuously employed during the relevant Restrictive Period. This Restrictive Period will be the period beginning on the date of the commencement of the Participation Deed and ending on the first, second or third anniversary of this date (unless the Committee resolves otherwise).

The maximum number of Award Shares that a Participant will have a conditional right to be allocated and transferred will be determined by certain criteria ("**Award Criteria**"). The Award Criteria applying to individual Participants will be based on the net profit after tax performance of the Company, combined with the operating profit of the Brand in which the Participant is employed (if applicable), and the individual performance of the Participant in respect of the financial year prior to the date of offer. The financial measures will be based upon Board approved budgets and hurdles for that financial year. Over the next 12 months the Board will be considering whether any other financial measures are a more appropriate basis on which to determine how many Award Shares (if any) are purchased. A "**Brand**" is a business unit established by the Company and includes The Warehouse Limited, Warehouse Stationery Limited and The Warehouse Group (Australia) Pty Limited.

As noted above, the number of Award Shares to be offered to individual Participants will be determined at the end of a specified period ("**Award Period**"). It is intended that the Award Period will be the financial year of the Company immediately preceding the financial year of the Company in which the Participant is offered participation in the Scheme and will end on the last day of the preceding financial year of the Company (however, the Committee may determine otherwise). The Committee may determine that a Participant also has the right to be transferred:

- (a) any bonus shares, or any other distribution of Shares or securities (other than a rights issue), that have been issued during the Restrictive Period in respect of the Award Shares being transferred to such Participant; and
- (b) the proceeds of the sale of any rights or other securities, or from any Share buyback, that the Trustee has derived during the Restrictive Period in respect of the Award Shares that are being transferred to such Participant.

Refer to the "Worked Example of Award Shares" at the end of this Part 1 for an illustration of the calculation of Award Shares.

## Purchase of Shares by the Trustee

The Trustee, as directed by the Committee, will purchase the aggregate of the maximum number of Performance Shares that Participants could receive under the Scheme. The number of Award Shares to be purchased by the Trustee for each Participant will be calculated based on the Award Criteria after the end of the Award Period and will be purchased by the Trustee upon direction from the Committee.

All Shares will be purchased on a stock exchange and no new Shares will be issued for the purposes of the Scheme. Shares will be held legally and beneficially by the Trustee until such time as the Shares are transferred by the Trustee.

Prior to the transfer of all or part of the Performance Shares and the Award Shares, the Participant will have no right or interest in any Share.

## Financial Assistance

The Company, or any Member of the Group, may provide financial assistance to the Trustee to assist the Trustee to fund the purchase of Shares for the Scheme. The terms and conditions upon which any financial assistance will be provided will be set out in a loan agreement ("**Loan Agreement**") entered into by the Company and the Trustee. The financial assistance will be interest free and repayable on demand. The liability of the Trustee in respect of that financial assistance will be limited to the Shares purchased by the Trustee, less any expenses incurred by the Trustee in administration of the Scheme and in exercising its duties as Trustee.

The Trustee is entitled to borrow or lend money for the purpose of the Scheme and exercise or otherwise obtain benefit from ownership of the Shares.

The Company will indemnify the Trustee against all liability sustained by any claim against the Trustee arising by virtue of it being the Trustee under the Deed.

Any profits arising under the Scheme to which no Participant is beneficially entitled, and after providing for the costs, expenses and outgoings of the Trustee, shall be paid to the Company at such time as the Board may determine.

### **Notification and Acceptance by a Participant**

Following the end of the Performance Period or Restrictive Period (as the case may be), the Trustee will notify each Participant, by way of a letter of notification, advising the Participant that he or she is entitled to exercise his or her rights to direct and to accept the transfer of:

- (a) the proportion of the Performance Shares that he or she has a right to be transferred based on the performance test, plus the number of associated bonus shares or any other distribution of Shares or securities (other than a rights issue), and any cash amounts that the Trustee has received in respect of the Performance Shares being transferred to the Participant and which the Committee has determined that the Participant is entitled to, provided that he or she has been continuously employed during the Performance Period; and/or
- (b) the number of Award Shares that he or she has a right to be transferred, plus the number of associated bonus shares or any other distribution of Shares or securities (other than a rights issue), and any cash amounts that the Trustee has received in respect of the Award Shares being transferred to the Participant and which the Committee has determined that the Participant is entitled to, provided that he or she has been continuously employed during the relevant Restrictive Period.

To be entitled to receive Shares under the Scheme, the Participant must have been continuously employed by the Company or a Member of the Group from the date on which the Participation Deed commences until the end of the Performance Period or the relevant Restrictive Period (as the case may be). However, a Participant who ceases employment due to injury, disability, redundancy, death or in any other circumstances that the Committee determines, may, at the Committee's discretion, be entitled to receive Shares or a cash distribution under the Scheme. In addition, if a subsidiary of the Company in which a Participant is employed ceases to be a Member of the Group (which could be as a result of the business of such subsidiary being sold, contracted out or transferred to a third party that is not a Member of the Group), a Participant may, at the Committee's discretion, be entitled to receive Shares or a cash distribution under the Scheme.

Participation in the Scheme does not confer any rights to continued employment to the Participant.

### **Termination of the Scheme**

The Scheme may be wound up or terminated at any time so determined by the Committee, or amongst other things, upon the liquidation of the Company, reconstruction of the Shares, amalgamation, or takeover of the Company, or 80 years after the date of the Deed.

### **Early Vesting Date**

If, prior to the Expected Vesting Date, the Scheme is terminated for any of the reasons described above, or if notice has been given that the Shares will cease to be listed on any stock exchange, or reconstruction of, or adjustment to the Shares or the Share structure of the Company, or the amalgamation of the Company, the Committee shall determine the proportion (if any) of Shares representing the Performance Shares, Award Shares and any Additional Shares a Participant has a right to be transferred and the amount of any cash distribution a Participant is entitled to be paid. The Committee shall then direct the Trustee to make the transfer of such Shares and pay any cash distribution, or to sell such Shares and pay the Participant an amount representing the value of such entitlements, or to invite the Participant to participate in another offer of securities in substitution for such Shares, or to take such other action as the Committee considers appropriate in the circumstances. No amount shall be payable by a Participant to the Trustee in such circumstances.

### **Variation of the Scheme**

The Committee may, at any time, add to, amend or waive the terms of any Participation Deed or the application of any terms of the Deed, provided that no such amendment shall prejudice the rights of a Participant under the Deed, or substantially increase the value of the rights of a Participant under the Deed or any Participation Deed.

The Trustee may, upon the direction of or with the consent of the Committee, make any amendment to the Deed provided that the amendment does not adversely affect any rights of a Participant obtained under the Scheme or substantially increase the value of the rights of a Participant under the Deed or any Participation Deed, or that would cause the Scheme to breach any applicable law. The Trustee and the Committee do not have an unfettered discretion to amend the terms of the Deed. Shareholders are protected from any amendments that would substantially increase the value of the rights of Participants under the Deed. Accordingly, the position of Participants cannot be improved in relation to shareholders generally.

### **Worked Example of Performance Shares**

This example has been prepared in order to demonstrate how the purchase and allocation of Performance Shares would operate.

The assumptions on which this example is based are:

- Market Price at start of the Performance Period: \$4.50
- Cost of Equity: 11.0%

- Adjusted Price: \$5.67
- Market Price at end of the Performance Period (usually 3 years): \$7.00

(Note that all of the assumptions are for the purpose of illustration only and that the example has been calculated on the basis of a three year period before the Shares may be transferred to the Participant)

The Adjusted Price, Cost of Equity and Market Price will be calculated in accordance with the formulas set out in the Deed.

In this example, as the Market Price at the end of the three year Performance Period (\$7.00) is greater than the Adjusted Price of \$5.67, an Executive Employee may receive their Performance Shares at no cost. If the Market Price is not greater than the Adjusted Price at the end of the three year period, no Performance Shares will be allocated and transferred to Participants.

#### Worked Example of Award Shares

This example has been prepared in order to demonstrate how the purchase and allocation of Award Shares would operate.

The assumptions on which this example is based are:

- Employee Executive Ms Red is a Group employee with a salary of \$100,000.
- Award Shares Allocation for On Target Performance determined after end of financial year = 25% of salary.
- NPAT target for the relevant year is \$80m.
- Share price \$5.00 at the end of the Award Period.
- The cap and hurdles that are applied reflect those currently approved by the Board.

(Note that all of the assumptions are for the purpose of illustration only)

The table below illustrates the value and number of Award Shares that will be offered to Ms Red after the end of the Company's financial year, provided that she has met her own personal performance criteria for the Award Period. These shares will be vested in three equal tranches over the following three years provided Ms Red remains an employee of The Warehouse.

NPAT Achieved	NPAT as a % of Target	% Value of shares to be offered	Value	Number of shares to be offered after the end of the Company's financial year <sup>1</sup> .
\$75m	93.75	= $100 - (2 \times (100 - 93.75))$ = 87.5	= $25,000 \times 87.5\%$ = 21,875	= $21,875 / 5.00$ = 4,375
\$80m	100.00	= 100.0	= 25,000	= 5,000
\$85m	106.25	= $100 - (2 \times (100 - 106.25))$ = 112.5	= $25,000 \times 112.5\%$ = 28,125	= $28,125 / 5.00$ = 5,625
>\$96m	>120%	= 140 (this is the maximum that can be offered under this Scheme) <sup>2</sup>	= $25,000 \times 140\%$ = 35,000	= $35,000 / 5.00$ = 7,000

<sup>1</sup> In this example, these shares will be vested in three equal tranches over the following three years provided Ms Red remains an employee of The Warehouse.

<sup>2</sup> The cap and hurdles that are applied reflect those currently approved by the Board.

## PART 2 - NOTES TO RESOLUTION 4

### Resolution 4(a)

Clause 7.1 of the Company's constitution and NZX Listing Rule 7.6.4 state that the Company may not give financial assistance for the purpose of, or in connection with, the acquisition of shares issued by the Company unless the giving of that financial assistance has been approved in accordance with clauses 7.2 or 7.3 of the Company's constitution and NZX Listing Rules 7.6.5 and 7.6.6, respectively.

Clause 7.3 of the Company's constitution and NZX Listing Rule 7.6.6 require approval by separate resolutions (passed by a simple majority of votes) of members of each separate class of shares of the precise terms and conditions of the giving of financial assistance. As there is only one class of shares that has been issued by the Company, the Company has asked shareholders to consider and, if thought fit, approve a single resolution to approve the terms and conditions of the proposal to give financial assistance, as set out in Part 3 of these Explanatory Notes.

The Company intends to enter into a series of transactions relating to the establishment of the Scheme pursuant to which, amongst other things, the Company will provide financial assistance to the Trustee to purchase ordinary Shares in the Company in connection with the Scheme. The Company wishes to provide financial assistance to the Trustee by way of a loan up to a maximum value of \$5,100,000 in 2005 to assist the Trustee to fund the purchase of Performance Shares or Award Shares in connection with the Scheme in 2005.

Clause 7.3 of the Company's constitution and NZX Listing Rule 7.6.6 provide that financial assistance approved by resolutions in accordance with those provisions must be given within six months after the passing of the relevant resolution. The Company has sought, and been granted, a waiver from the requirement that the financial assistance must be given within six months after the passing of Resolution 4(a) on the basis that the financial assistance must be given within twelve months after the passing of Resolution 4(a).

In considering Resolution 4(a) shareholders should note that financial assistance in connection with the purchase of Shares may only be given by the Company in accordance with the Companies Act 1993. The Companies Act 1993 requires, amongst other things, that the Directors must pass resolutions in relation to the provision of financial assistance in connection with the purchase of Shares. On 24 September 2004, the Directors passed resolutions approving the provision of financial assistance to the Trustee, subject to the approval of shareholders. Accompanying the Notice of Meeting is a disclosure document ("**Disclosure Document**") which is provided pursuant to section 79 of the Companies Act 1993. The Disclosure Document sets out further details regarding the financial assistance to be provided by the Company to the Trustee. The Companies Act 1993 provides that the financial assistance must be provided not more than twelve months after the date on which the Disclosure Document is sent to each shareholder.

Accordingly, if Resolution 4(a) is approved by shareholders, financial assistance must be provided to the Trustee to purchase Performance Shares or Award Shares in connection with the Scheme in 2005 not more than twelve months after the date on which the Disclosure Document is sent to each shareholder (which would also be within twelve months of the date of the 2004 annual meeting).

Attached to this Notice of Meeting is also a summary of an appraisal report ("Appraisal Report") prepared by KPMG in relation to the Scheme. That summary of the Appraisal Report sets out the opinion of KPMG in relation to the Scheme. A copy of the full Appraisal Report can be viewed on the Company's website at [www.thewarehouse.co.nz](http://www.thewarehouse.co.nz)

Further details regarding the financial assistance to be provided by the Company to the Trustee are set out in Part 3 of these Explanatory Notes.

#### **Resolution 4(b)(i) to (iv)**

ASX Listing Rule 10.14 provides that a listed company must not permit a director of that company or an associate of the director to acquire securities in that company under an employee incentive scheme without obtaining approval of the acquisition from holders of ordinary securities. Accordingly, the shareholders of the Company are being asked to consider and, if thought fit, approve the terms of the Scheme and the acquisition by certain Directors of securities under the Scheme, as summarised in Part 4 of these Explanatory Notes.

Certain particulars relating to this resolution that the ASX Listing Rules require to be included in the notice of meeting are set out in Part 4 of these Explanatory Notes.

#### **Resolution 4(c)(i)**

Clause 4.2(a) of the constitution of the Company and NZX Listing Rule 7.3.1 provide that an issue of equity securities may not be made unless the proposal to issue the equity securities has been approved by separate resolutions (passed by a simple majority of votes) of members of each separate class of shares. Pursuant to the NZX Listing Rules a security includes a right to acquire a security or benefit of any kind whether conditional or not. Accordingly, the offer to Executive Employees of rights to acquire Shares in the Company will constitute the issue of an equity security.

As there is only one class of shares that has been issued by the Company, the Company has asked shareholders to consider and, if thought fit, approve a single resolution to approve the terms and conditions of the proposal to issue securities, as set out in these Explanatory Notes.

Pursuant to NZX Listing Rule 7.3.2(b), the Company will be required to issue the securities within twelve months of the passing of the resolution of shareholders (being an issue to persons other than solely employees). However, clause 4.2(a) of the Company's constitution provides that the issue to persons other than solely employees must be completed within six months after the passing of the relevant resolution. The Company has sought, and been given, a ruling authorising the issue to be completed within twelve months after the passing of Resolution 4(c)(i).

Accordingly, if Resolution 4(c)(i) is approved by shareholders, the issue of contingent rights under the Scheme in 2005 must be completed within twelve months of the date of the 2004 annual meeting of shareholders.

Further details relating to the issue of securities are set out in Part 5 of these Explanatory Notes.

#### Resolution 4(c)(ii)

ASX Listing Rule 7.1 restricts the ability of the Company to issue certain equity securities during any twelve month period to 15% of the outstanding ordinary Shares in the Company at the beginning of such period (subject to certain adjustments). Under the Scheme, the Company will issue Participants with contingent rights to acquire (by way of transfer) ordinary shares in the Company. ASX Listing Rule 7.1 is an anti-dilution provision and it is not intended to apply to the issue of non-dilutive rights such as those that will be issued under the Scheme. However, equity securities for the purposes of ASX Listing Rule 7.1 include rights to shares and options over issued or unissued shares. Therefore, when issuing rights under the Scheme, the Company will technically be issuing equity securities, which will count towards the 15% limit in ASX Listing Rule 7.1 (unless an exception is available).

Pursuant to ASX Listing Rule 7.2 (exception 9), ASX Listing Rule 7.1 does not apply to an issue under an employee incentive scheme if, within 3 years before the date of issue, holders of ordinary securities have approved the issue of securities under the scheme as an exception to ASX Listing Rule 7.1. Accordingly, the shareholders of the Company are being asked to consider and, if thought fit, approve the issue of securities under the Scheme as an exception to ASX Listing Rule 7.1.

As the Scheme has only recently been proposed by the Directors of the Company, no securities have yet been issued under the Scheme.

### PART 3 - TERMS OF THE FINANCIAL ASSISTANCE

#### Limitation on financial assistance to be provided to the Trustee

The Company proposes to provide financial assistance to the Trustee by way of a loan up to a maximum value of \$5,100,000 in 2005 to assist the Trustee to purchase Performance Shares and Award Shares relating to offers under the Scheme in 2005.

It is expected that the loan will be made available to the Trustee at the time of the issue of securities to Executive Employees, as set out in Part 5 of these Explanatory Notes. Accordingly, it is expected that the loan will be made available at a time subsequent to the announcement of the Company's 2004/05 full year results. The provision of the financial assistance to the Trustee will occur within twelve months of the date on which the Disclosure Document was sent to shareholders.

#### Terms of financial assistance to the Trustee

These Explanatory Notes summarise the main terms of the financial assistance to be provided to the Trustee by the Company as set out more particularly in the Loan Agreement to be entered into by the Company and the Trustee. A copy of the Loan Agreement may be obtained by any shareholder by contacting the Secretary to the Board, c/- The Warehouse Group Limited at P O Box 33470, Takapuna. The substantive terms of the loan, as set out in the Loan Agreement will be as follows:

- (a) it will be interest free and repayable on demand by the Company;
- (b) on transfer of Award Shares or Performance Shares to an employee, the Company will reimburse the Trustee for the original purchase price of the transferred Shares. The Trustee must use the reimbursement proceeds to repay the loan from the Company; and
- (c) the recourse of the Company under the loan will be limited to the Award Shares and Performance Shares held by the Trustee, as well as the proceeds of any accumulated dividends and other income derived by the Trustee on the Shares that it holds or has previously held.

### PART 4 - ACQUISITIONS BY DIRECTORS UNDER THE SCHEME

#### Securities Acquired by Directors

In the next twelve months, under the Scheme a maximum of three Directors will be issued with a contingent right to acquire, by transfer, Performance Shares and up to that number of Directors may also be issued with a contingent right to acquire, by transfer, Award Shares. The contingent rights issued to Directors will be over a total of 900,000 issued Shares in aggregate, which may be broken down as follows:

Director	Maximum number of Shares the subject of contingent right(s) that may be issued to the Director in 2005
Peter Glen Inger	200,000
Ian Rognvald Morrice	500,000
Ian Tsicalas	200,000

The above named Directors are the only Directors who are currently eligible to participate in the Scheme.

### **Price of Securities Acquired under the Scheme**

No cash consideration will be payable by any Participant (including Directors) to acquire a contingent right to receive Performance Shares and/or Award Shares. Further, no Participant (including Directors) will be required to pay any cash in consideration for the acquisition of Shares at the end of the Performance Period or the Restrictive Period (as the case may be).

### **Persons who have Already Received Securities Under the Scheme**

As the Scheme has only recently been proposed by the Directors of the Company, no rights to Shares, or other securities have yet been acquired by any Directors or other persons under the Scheme.

### **Terms of Any Loan in Relation to the Acquisition**

The Company will not provide any loan to Directors in relation to the acquisition of Shares by the Directors under the Scheme. However, the Company will provide financial assistance to the Trustee to purchase Shares for the purposes of the scheme by making a loan available to the Trustee, details of which are set out in Part 3 of this Note 2 of these Explanatory Notes.

### **Date of issue**

The Company will issue the contingent rights to acquire Performance Shares and/or Award Shares under the Scheme referred to above within twelve months of the date of the 2004 annual shareholders' meeting of the Company.

## **PART 5 - ISSUE OF EQUITY SECURITIES**

### **Number of securities to be issued**

The maximum number of securities (each security being, under New Zealand law, the contingent right to be transferred a Share in the Company) that will be issued under the Scheme is 2,000,000 per year. The actual number of securities that will be issued will be determined by the Committee pursuant to clause 5 of the Deed. The Deed requires that the Trustee will make an on-market purchase of the Shares to be issued under the Scheme. As the Trustee will acquire the Shares on-market there will be no dilution to shareholders. The Committee will determine the maximum number of Performance Shares that Executive Employees could receive under the Scheme pursuant to a particular offer. This will be set out in the Participation Deed. The Participation Deed will also state whether the Participant may receive Award Shares under the Scheme. The number of Award Shares that a Participant will have the right to be allocated and transferred will be based on the Award Criteria, as determined by the Committee. Further details are set out in Part 1 of this Note 2 of these Explanatory Notes.

### **Purpose of the issue**

The purpose of the issue of the securities is to recognise the ongoing ability and expected efforts and contribution of those Executive Employees in the future performance and success of the Company and to retain and motivate such Executive Employees.

### **Issue price of securities**

The issue price of the securities will be nil. The amount paid by the Trustee for the underlying Shares will be the market price of the Shares on the day they are purchased on-market.

### **Parties to whom securities are to be issued**

The securities will be issued to Executive Employees who have been nominated by the Committee. Further details of the Executive Employees who may be nominated are set out in Part 1 of this Note 2 of these Explanatory Notes. The following Directors will be issued with securities pursuant to the Scheme:

- (a) Peter Glen Inger;
- (b) Ian Rognvald Morrice; and
- (c) Ian Tsicalas.

### **Consideration payable for the securities**

No consideration is payable for the issue of the securities. No consideration will be payable by Executive Employees for a subsequent transfer of Shares.

### **Time within which issue must be made**

The securities will be issued to Executive Employees following the announcement of the Company's full year results in each year of the Scheme in which they are offered (subject to the Company's insider trading policy). Accordingly the issue of securities will occur within twelve months of the date of the annual shareholders' meeting of the Company.

## Ranking of securities

Participants under the Scheme may receive a transfer of ordinary shares of the Company, and accordingly, the Shares acquired in respect of the securities will rank equally with all other ordinary shares of the Company.

### NOTE 3: SPECIAL RESOLUTION TO ADOPT A NEW CONSTITUTION

On 1 May 2004, significant changes to the listing rules of New Zealand Exchange Limited (“NZX”) came into force. These changes substantially change what is required to be included in the constitutions of listed companies. Before the changes, a number of listing rules were required to be set out in full in the constitutions of listed companies. NZX will now permit constitutions to incorporate those listing rules by reference, that is by referring to them and stating that they are to be treated as if set out in full in the constitution.

Your Board has, after consideration, decided to recommend to shareholders that this course be adopted. The special resolution proposed is that the existing constitution of the Company be replaced by a new form, which incorporates the relevant listing rules by reference. The advantages of this are:

- (a) The constitution will be shorter and simpler. The existing constitution is 43 pages. The new constitution will be 27 pages.
- (b) It will not be necessary in future to amend the constitution as and when the listing rules are amended. The constitution will automatically reflect any amendments to those listing rules, so shareholders will not be required to vote on any amendments to the constitution which result from an amendment to any of those listing rules. There has been a material cost and inconvenience involved in regularly putting amendments to the constitution to shareholders at shareholders’ meetings.

The adoption of the new form of constitution will however have the effect that all of the relevant material will not be contained in the constitution itself. A reader of the constitution will need to have regard to the listing rules as well. However, that is already the case, in that someone wishing to fully understand the rights and obligations of shareholders, Directors, and the Company must have regard to the constitution, the listing rules, and the Companies Act 1993.

A copy of the proposed new form of constitution is available free of charge by contacting the Secretary to the Board at P O Box 33470, Takapuna, +64 (9) 486 9849 or email [investor@twl.co.nz](mailto:investor@twl.co.nz). A copy of the new form constitution will also be available on the Company’s website [www.thewarehouse.co.nz](http://www.thewarehouse.co.nz). You may also inspect the new form free of charge at the Company’s registered office which is located at BDO Spicers, Level 8, Westpac Tower, 120 Albert Street, Auckland and at the meeting on 26 November 2004.

The new form of constitution has been approved by NZX and ASX.

A summary of the significant differences between the existing constitution and the new constitution is set out below.

Clause 2 of the constitution now provides that the “NZX Incorporation Rules” are deemed incorporated in the constitution as if they were set out in full. The “NZX Incorporation Rules” are defined as those listing rules which are specified in Appendix 6 of the listing rules, or its replacement. The rules specified in Appendix 6 are broadly those which correspond to the provisions listed below which have been deleted from the constitution. The effect of the amendment is that if the NZX Incorporation Rules are changed from time to time, those rules as so changed will be deemed to be incorporated in the constitution. Changes to the NZX Listing Rules are proposed by the NZX and reviewed by the Securities Commission as part of a statutory process whereby the Minister of Commerce assesses whether or not to disallow the changes.

Clause 2 also now provides that if a provision of the constitution is inconsistent with the listing rules, that provision is deemed amended or deleted to the extent necessary to make that provision consistent with the listing rules. It also provides that if at any time the NZX Incorporation Rules require or permit any act or omission which would otherwise be in contravention of the constitution, that act or omission is deemed to be allowed by the constitution.

A number of provisions have been deleted from the constitution. Those are provisions which correspond to the “NZX Incorporation Rules” referred to above. Because those provisions are now incorporated in the constitution by reference, there is no need to set them out in the constitution. The table below lists each clause which has been deleted, the listing rule to which it corresponds, and a brief description of its subject matter.

Clause Deleted	Corresponding Listing Rule	Subject Matter
Clauses 4.2 and 4.3	Rules 7.3 and 7.4	Restrictions on issues of new shares and other equity securities.
Clause 4.5	Rule 7.5	Restrictions on issues and buybacks of securities affecting control.
Clauses 5.2 and 5.3	Rule 8.3	Restrictions on the modification of rights of holders of equity securities.
Clauses 6.2 to 6.6	Rules 7.6.1, 7.6.2, 7.6.3 and 7.6.6	Restrictions on redemption and acquisition of equity securities.
Clause 7	Rules 7.6.4, 7.6.5 and 7.6.6	Restrictions on financial assistance in the acquisition of the company's equity securities.
Clauses 27.2 and 27.3	Rule 9.3	Restrictions on voting by shareholders.
Clause 32	Rule 9.1	Restrictions on disposal or acquisition of assets.
Clause 33	Rule 9.2	Restrictions on transactions with related parties.
Clauses 34.5, 34.6 and 34.8	Rule 3.3	Rotation and nomination of directors.
Clauses 37.2 and 37.3	Rule 3.5	Increase of director remuneration.
Clauses 40.3 and 40.4	Rules 3.4.3 and 3.4.4	Restriction on voting by interested directors.

Clauses 14 to 18 of the existing constitution have also been deleted. These clauses concerned the acquisition and disposition of significant shareholdings in the Company and have now been superseded by the introduction of the Takeovers Code.

It should be noted that the listing rules themselves have also been amended in October 2003 and again in May 2004. The listing rules which are now incorporated in the constitution by reference do not correspond exactly with the listing rules on which the existing clauses in the constitution were based, because those listing rules have been amended since the constitution was last amended. The current listing rules can be viewed on the NZX website at [www.nzx.com](http://www.nzx.com). Several of the more important changes to the listing rules that will be incorporated in the proposed new constitution are set out below.

#### *Change to related party transaction thresholds*

The related party transaction thresholds have changed so that they are now calculated on the basis of the Company's average market capitalisation (the previous test was based on the lesser of shareholders' funds or average market capitalisation)(listing rule 9.2).

Related party transactions are now permitted without shareholder approval for transactions which are employment agreements (with a natural person who is not a Director) or where the total value of the transaction is less than \$250,000 (listing rules 9.2.1(c) and (d)).

#### *Change to major transaction thresholds*

The threshold for shareholder approval to a material transaction has been amended to apply to transactions of a gross value exceeding 50% of an issuer's average market capitalisation (the previous test was 50% of the lesser of an issuer's average market capitalisation or the gross value of its assets)(listing rule 9.1.1).

#### *Increase in limits for issue of equity securities*

The percentage limit of equity securities which may be issued without shareholder approval to persons other than Directors or employees in any 12 month period has increased from 10% to 15% (listing rule 7.3.5).

The percentage limit of equity securities which may be issued to employees without shareholder approval in any 12 month period has increased from 2% to 3% (listing rule 7.3.6(c)).

New equity securities may be issued to existing security holders without shareholder approval if the consideration does not exceed \$5,000 per holder and the number of fully paid equity securities issued does not exceed 30% of the number of fully paid equity securities on issue. This provision does not currently exist in the Company's constitution (listing rule 7.3.4(ba)).

The time limit for completing issues of securities which have been approved by shareholders has been increased from 6 months to 12 months (listing rule 7.3.2(b)). The time limit for completing issues of securities made solely to employees has been increased from 12 months to 36 months (listing rule 7.3.2(a)).

The Company cannot re-price or amend the terms of any securities issued with shareholder approval to or for the benefit of employees or Directors, without either the approval of NZX or a further ordinary resolution of shareholders. This provision does not currently exist in the Company's constitution (listing rule 7.3.7A).

#### *Directors' Remuneration*

The listing rules have been amended to clarify that the requirement for Directors' remuneration to be approved by shareholders extends to remuneration received by a Director from a subsidiary of the Company, where the subsidiary is not itself a listed company (listing rule 3.5.1).

The proposed new form of the constitution retains the restriction on the payment of retirement benefits to Directors that was approved by shareholders at the last Annual General Meeting. This will be as set out at clause 29.4 of the proposed constitution. No retirement benefits may be paid to a Director unless approved by shareholders. As previously, this restriction will not apply to a payment that relates to the termination of a Director's employment or contributions made to a superannuation scheme.

#### *Corporate Governance*

Listed companies must have a minimum of two Independent Directors, or if a company has eight or more Directors, either three or one-third (whichever is the greater) must be independent. The Board must determine who is independent and advise the market.

Listed companies must have an audit committee, with at least three members. It must comprise only Directors and a majority must be independent. One member must have a financial or accounting background and among other things, the committee must ensure that the external auditor or lead audit partner is changed every five years. The Company has already had in place an audit committee for a number of years.

NZX has adopted a Corporate Governance Best Practice Code. Compliance with this Code is not mandatory, but issuers must disclose whether their corporate governance policies "materially differ" from the Code.



The New Zealand Exchange Limited  
Level 9  
ASB Tower  
2 Hunter Street  
PO Box 2959  
WELLINGTON

8 October 2004

Dear Sirs

## **Summary of Appraisal Report in respect of The Warehouse Group Limited giving of financial assistance in relation to the proposed executive share scheme**

*This summary of our full Appraisal Report is provided under NZX listing rule 1.2.3. Readers are recommended to view our full Appraisal Report which contains our detailed overview of the executive share scheme and terms of financial assistance, our detailed findings and full statement of independence, declarations, use of our report and disclaimer.<sup>1</sup> KPMG confirm that this summary of our full Appraisal Report is accurate and not misleading to the shareholders of The Warehouse Group Limited.*

The directors of The Warehouse Group Limited (“The Warehouse” or “the Company”) propose to seek shareholders’ approval, by way of an ordinary resolution to be passed at the Annual Meeting to be held on 26 November 2004 to establish The Warehouse Group Limited Executive Share Scheme (“Scheme”) for selected eligible Executive Employees. We understand the Scheme will replace The Warehouse Staff Options Plan for those eligible Executive Employees who will participate in this Scheme.

Under the Scheme eligible Executive Employees will be offered a right to be allocated and transferred ordinary shares in The Warehouse, upon the satisfaction of certain conditions (which include remaining continuously employed by the Company or its subsidiaries for a specified time), in recognition of the contribution by those eligible Executive Employees to the performance and success of the Company.

To implement the Scheme, The Warehouse Management Trustee Company No. 2 Limited (“Trustee”) will be established to hold shares in The Warehouse, which subject to certain conditions, may be allocated and transferred to eligible Executive Employees. The shareholders and directors of the Trustee will be Keith Smith, Glen Inger and Luke Bunt.

The terms of the Scheme are set out in a Deed in Respect of The Warehouse Group Limited Executive Share Scheme (the “Deed”). The Trustee will act as a trustee of the Scheme in accordance with this Deed. The Deed governs the participation criteria and the offer of Award and Performance shares in The Warehouse to eligible Executive Employees.

The Warehouse Directors’ Remuneration, Talent and Nomination Committee (“Committee”) will administer the Scheme. Membership of the Committee is restricted to non-executive members, and the majority of directors on the Committee must be independent directors. The Committee will nominate those Executive Employees who will be eligible to participate in offers under the Scheme. An eligible Executive Employee shall agree to become a participant in the Scheme by entering into a participation deed (“Participation Deed”). This will set out the terms of participation as determined by the Committee. The Participation Deed will state the number of Award and Performance shares that an eligible Executive Employee will be offered the conditional right to be allocated and transferred in any one year.

The Trustee, as directed by the Committee, will purchase the aggregate of the maximum number of Award and Performance shares that eligible Executive Employees could, subject to certain conditions, be allocated and transferred under the Scheme. To enable the Trustee to purchase such Award and Performance shares in The Warehouse, the Trustee will receive financial assistance from The Warehouse.

### **Stock Exchange Regulations**

Under the New Zealand Exchange Limited (“NZX”) Listing Rule 7.6.4 an issuer shall not give financial assistance for the purpose of, or in connection with, the acquisition of shares issued by the issuer unless the giving of that assistance complies with Listing Rule 7.6.5 or is approved in accordance with Listing Rule 7.6.6. Under Listing Rule 7.6.6, a company must obtain prior approval of the precise terms and conditions of the giving of financial assistance by separate resolutions of the holders of each separate group of each class of quoted equity securities of the issuer whose rights or entitlements are materially affected in a similar way by the proposal.

Under Listing Rule 6.2.1 the text of any resolution under Listing Rule 7.6.6 to be put to a meeting of a company must be set out in a notice of meeting. In accordance with Listing Rule 6.2.2(c), an Appraisal Report (“Report”) must accompany a notice of meeting to consider a resolution to approve the giving of financial assistance, if it is intended or likely that more than 50% of the total financial assistance to be given, will be given to Directors or Associated Persons of Directors of the issuer. The requirement for a Report arises in this instance, as two Directors of the issuer, Keith Smith and Glen Inger, will be Directors of the Trustee, established under the Scheme, which will be given financial assistance by The Warehouse. Under Listing Rule 1.3.3, the Trustee is deemed to



be an “Associated Persons” of such Directors. It is also arguable that, under Listing Rule 1.3.3, the Trustee is deemed to be an “Associated Person” of all other Directors of the issuer as they may be considered to be acting jointly or in concert with the Trustee.

Listing Rule 1.2.1 requires that an independent appropriately qualified person, approved as such by the NZX, prepare such a Report. KPMG Corporate Finance (“KPMG”) has obtained the requisite approval from the NZX.

### **Information relied upon**

In completing our opinion we have received and relied upon the following information supplied by The Warehouse:

- Copy of the Deed relating to the Scheme and all schedules to the Deed including the Loan, Reimbursement and Security Agreement (“Loan Agreement”) in relation to the Deed;
- Copy of the excerpts, resolutions and explanatory notes to accompany the Notice of Annual Meeting in relation to the establishment and background information in respect of the Deed and the Scheme; and
- Discussions and various miscellaneous correspondence with senior employees of The Warehouse and their legal advisors to the Scheme.

### **Structure of our report**

In forming an opinion on whether or not the provision of financial assistance by The Warehouse to the Trustee is fair and reasonable to shareholders of The Warehouse it is also necessary to consider the purpose of the financial assistance, namely the Scheme and its associated rules outlined in the Deed. The operation of the Scheme, and impact on The Warehouse, is integral to determining if the financial assistance given by The Warehouse to the Trustee is fair and reasonable to shareholders. We therefore consider:

- Whether or not in our opinion the terms and conditions attaching to the financial assistance that The Warehouse may provide to the Trustee are fair to the shareholders of The Warehouse (other than persons associated with the relevant Associated Persons and eligible Executive Employees); and
- Whether or not in our opinion the terms and conditions that apply to the potential offer of a conditional right to be allocated and transferred Award and Performance shares in the Company (to eligible Executive Employees nominated by the Committee to participate in the Scheme), which is facilitated by the giving of financial assistance, are fair to the shareholders of The Warehouse (other than persons associated with the relevant Associated Persons and eligible Executive Employees).

### **Purpose of the proposed Scheme**

The Warehouse Board recognizes that the performance of The Warehouse is dependent on the quality of its people. To achieve the goals of the Company in an increasingly complex business environment and to maximise shareholder wealth it is essential that The Warehouse have remuneration policies that are market competitive and that attract, retain and appropriately motivate and reward its skilled Executive Employees.

The Scheme for eligible Executive Employees is designed to:

- Provide greater emphasis on linking actual remuneration to Company and individual performance targets;
- Provide greater incentives for skilled Executive Employees to remain in the employment of the Company; and
- Enhance the concept of share ownership and better align the interests of shareholders to the interests of the eligible Executive Employees.

Our understanding is that the total remuneration package for each eligible Executive Employee is determined in accordance with the Executive Employee’s skills and responsibilities. The total remuneration package is also based on market data and other appropriate benchmark information on remuneration ranges for executives with similar qualifications, skills, job responsibilities and working experience.

The Scheme will potentially provide eligible Executive Employees on an annual basis with:

- *Award shares*. This is a medium-term incentive plan that, subsequent to the achievement of certain criteria as approved by the Board, offers eligible Executive Employees a conditional right to be allocated and transferred shares in The Warehouse.
- *Performance shares*. The Performance share aspect of the Scheme is designed to reward eligible Executive Employees based on out-performance of the Company share price over the medium to long-term.

### **Our approach**

To assess if the provision of financial assistance by The Warehouse to the Trustee, and the related proposed Scheme, is fair to the shareholders of The Warehouse (other than persons associated with the relevant Associated Persons and eligible Executive Employees) we have considered:

- The Executive Employees’ fixed versus variable components of their remuneration;
- The reasonableness of the performance targets under the Award and Performance share aspects of the Scheme;



- The benefits of the Scheme to The Warehouse's shareholders (other than eligible Executive Employees);
- The total likely cost of the Scheme to The Warehouse's shareholders in the first year of the Scheme;
- The cost of financial assistance by The Warehouse to the Trustee; and
- The cap on the number of Award and Performance shares.

## Conclusions

In preparing this Report we consider KPMG has obtained all relevant information it believes desirable for the purposes of preparing the Report, including all material information, which is known or should have been known to any Director of the Company and has been made available to the Directors.

In our opinion the information to be provided by The Warehouse together with the contents of this Report is sufficient for shareholders to understand all the relevant factors and reach an informed decision as to the fairness of the Scheme and the provision of financial assistance. Shareholders in The Warehouse may also obtain a copy of the Deed by contacting the Secretary to the Board of The Warehouse.

The Deed does not specify the remuneration package, Profits Targets<sup>2</sup> and hurdle criteria that may apply to an eligible Executive Employee in respect of any offer of Award and Performance shares under the Scheme. In our view it would be impractical to incorporate these features into the Deed and at the same time retain flexibility for the Board to approve, on an ongoing basis, remuneration packages that are market competitive and that attract, retain motivate and reward eligible Executive Employees. Accordingly, in our view, the responsibility to determine the eligible Executive Employee's compensation and to approve the Profit Targets and hurdle criteria under the Scheme are matters best left to the Board.

We note the Board has formally constituted a Corporate Governance Committee and a Remuneration, Talent and Nomination Committee<sup>3</sup>. The Corporate Governance Committee is a committee of the board of independent directors that are responsible to ensure the Company maintains a high degree of corporate governance through the continuous monitoring of international corporate governance best practice as promulgated by the relevant authoritative bodies. The Remuneration, Talent and Nomination Committee, the majority being independent directors, is responsible for determining and reviewing compensation arrangements for the chief executive officer and the executive management team.

On balance we believe the rules incorporated in the Deed benefit shareholders while providing sufficient flexibility to enable the Scheme to operate in an efficient manner. As noted in this Report the Deed also incorporates a cap on the total number of Award and Performance shares that may be offered to eligible Executive Employees in any year. Furthermore the requirement for shareholder approval for the giving of further financial assistance provides an additional cap on the value of Award and Performance shares that may be offered to eligible Executive Employees.

In reaching our conclusions we, nevertheless, make the key assumptions that:

- The value of Award and Performance share aspects of the scheme, approved by the Board, are part of the eligible Executive Employee's total remuneration package determined in accordance with the Executive Employee's skills and responsibility and based on market data for executives with similar qualifications and working experience; and
- The Warehouse Board will only approve fair and reasonable Profits Targets, minimum hurdle criteria and individual performance targets that are consistent with shareholders' interests and that must be achieved before eligible Executive Employees would be offered any Award shares under the Scheme.

We therefore conclude:

- The terms and conditions under which The Warehouse will provide financial assistance (to a maximum value of \$5.1 million) to the Trustee to enable the Trustee to purchase Award and Performance shares under the Scheme is fair and reasonable to shareholders (other than persons associated with the relevant Associated Persons);
- A significant proportion of the eligible Executive Employee's remuneration that is variable and linked to Company performance enhances the incentives of the Executive Employee to act in the best interests of The Warehouse. This provides significant potential benefits to shareholders;
- The value of the incentives provided to eligible Executive Employees under the Scheme do not appear to be excessive;
- The terms of the Award share aspect of the Scheme provide a significant direct link between the eligible Executive Employee's remuneration and Company performance. This increases the motivation of eligible Executive Employees to take actions that increase shareholder wealth. We estimate the maximum pre-tax cost of the Award share aspect of the Scheme for the 2005 financial year is circa \$2.9 million. Most of the benefits of any out-performance of Profit Targets of The Warehouse will likely accrue to existing shareholders (other than eligible Executive Employees);
- The benefits under the Performance share aspect of the Scheme only reward eligible Executive Employees in the event the growth of The Warehouse share price exceeds the Company's cost of equity capital (adjusted for assumed annual cash dividends). In our opinion this is a reasonable benchmark that must be achieved for eligible Executive Employees to be transferred the Performance shares. We estimate the opportunity cost to The Warehouse of the performance share aspect of the Scheme is



between circa \$0.63 million and \$1.26 million which represents 30% - 60% of the expected base Performance share remuneration of circa \$2.1 million in 2005. Most of the benefits of any out-performance of The Warehouse share price will likely accrue to existing shareholders (other than eligible Executive Employees);

- Overall the Scheme will increase the focus of the eligible Executive Employees' on Company performance and reinforce the concept of share ownership. This has the potential to provide significant benefits to the shareholders of The Warehouse;
- The Scheme provides incentives for skilled Executive Employees to remain with the Company for the benefit of The Warehouse shareholders; and
- The annual cost of the Scheme is effectively capped through the requirement of the Board of The Warehouse to seek ongoing shareholder approval on the level of financial assistance that may be made available to the Trustee each year and the overall cap of 2 million shares that can be offered under the Scheme to eligible Executive Employees each year. For the 2005 year shareholders are being asked to approve a loan up to a maximum value of \$5.1 million by the Company to the Trustee.

In summary, in our opinion, the terms and conditions of the provision of financial assistance by The Warehouse to the Trustee and the terms and conditions of the Scheme are fair to shareholders of The Warehouse (other than the relevant Associated Persons and eligible Executive Employees who may participate in the Scheme).

#### Declarations and Disclaimer

This Report has been prepared for the benefit of the shareholders of the Warehouse Group Limited, not associated with any relevant Associated Persons. KPMG will receive a fixed fee for the preparation of this Report. The fee is not contingent on the outcome of the proposed transaction. The terms of reference to prepare this Report were issued by The Warehouse.

This Report is based upon financial and other information provided by The Warehouse. KPMG has considered and relied upon this information. We have obtained all relevant information we believe necessary for the purposes of preparing this Report. We believe that the information provided was reliable, complete and not misleading and have no reason to believe that any material facts have been withheld.

KPMG has not undertaken a due diligence investigation and has not audited in any way any information provided. It is understood that the financial information provided to us was prepared in accordance with generally accepted accounting principles.

KPMG provided drafts of this Report to The Warehouse solely for the purpose of confirming the factual accuracy of the Report. There was no alteration to the opinion methodology, or conclusion as a result of issuing the draft Report

The statements and opinions expressed in this Report have been made in good faith and on the basis that all relevant information for the purposes of preparing this Report has been provided by The Warehouse and that all such information is true and accurate in all material aspects and not misleading by reason of omission or otherwise. Accordingly, neither KPMG nor its partners, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this Report resulting directly or indirectly from any such circumstances or from any assumptions upon which this Report is based proving unjustified.

Because of its particular nature, our Report may not be suited for any purpose other than as described above and as such should not be relied on for any other purpose.

Yours faithfully

Tony McNaught  
Partner - KPMG Corporate Finance

Troy Newton  
Director - KPMG Corporate Finance

1 Our full Appraisal Report can be viewed on The Warehouse Group Limited website at: [www.thewarehouse.co.nz](http://www.thewarehouse.co.nz)

2 Profit Targets are determined with reference to a combination "Net Profit After Tax" performance of the Company and "Operating Profit" of the business unit in which the eligible Executive Employee is employed (if applicable).

3 Copies of the terms of reference of these committees are available on The Company's website at: [www.thewarehouse.co.nz](http://www.thewarehouse.co.nz)

## DIRECTORS SEEKING RE-ELECTION

### Brief biographical details of the Directors seeking re-election



**Graham Francis Evans**

*Independent non-executive Director. Initial appointment 1 July 1998.*

Chairman of the Corporate Governance Committee, member of the Nomination, Remuneration and Talent Committee, and member of the Audit Committee.

Graham has more than forty years experience in the New Zealand retail sector. He was Managing Director of Woolworths NZ Limited for fourteen years, until 1998. He is currently Chairman of Canterbury International Limited and a Director of the Tatua Co-operative Dairy Company Limited and Pandoro Panetteria Limited.

Former directorships include Frucor Beverages Limited, Franklins Pty. Limited and the New Zealand Retailers Association.

The Board has determined Mr Evans is an independent Director. The Board unanimously recommends that shareholders vote in favour of Mr Evans' re-election.



**Joan Withers**

MBA.

*Independent non-executive Director. Initial appointment 1 July 1998.*

Chairman of the Nomination, Remuneration and Talent Committee, member of the Audit Committee and member of the Corporate Governance Committee.

Former Chief Executive of The Radio Network Limited, with extensive experience in media management, Joan is a director of a number of companies including Auckland International Airport Limited, Tourism Holdings Limited, Meridian Energy Limited and Feltex Carpets Limited. She is also a trustee of the Royal New Zealand Ballet and the Counties Manukau Pacific Trust, and a member of the advisory council of Fairfax New Zealand. Former directorships include Ceramco Corporation.

The Board has determined Ms Withers is an independent Director. The Board unanimously recommends that shareholders vote in favour of Ms Withers' re-election.



**Robert Lanham Challinor**

*B.Com; FCA; FCIS; CMA; F. Inst. D.*

*Independent non-executive Director. Initial appointment 28 November 1996.*

Chairman of the Audit Committee and member of the Corporate Governance Committee.

A former partner in an international accounting firm, and a former corporate finance advisor, Rob is currently a partner and director of investment bankers Northington Partners Limited. He is also Chairman of state owned enterprise Mighty River Power Limited, publicly listed Kingfish Limited and human resource consultancy Sheffield Limited.

Other directorships include publicly listed Ports of Auckland Limited and Australasian advisory board membership of international strategy consultants L.E.K. Consulting. Former directorships include National Australia Bank NZ Limited, Electricity Corporation of New Zealand Limited, Tower Health and Life Limited, and Television New Zealand Limited.

The Board has determined Mr Challinor is an independent Director. The Board unanimously recommends that shareholders vote in favour of Mr Challinor's re-election.



**Ian Tsicalas**

BA; B.Com.

*Chief Executive Officer, The Warehouse Australia. Initial appointment 1 December 2003.*

Ian Tsicalas was appointed Chief Executive of The Warehouse Australia operation in November 2003 and a Director of The Warehouse Group Limited in December 2003.

Ian is best known for the twenty years he spent with Howard Smith Limited - a large Australian public company - most recently as Managing Director having previously been Chief Executive of the company's wholly-owned subsidiary, BBC Hardware. Australian-based Howard Smith is a diversified company whose activities include retail, towage, distribution, heavy engineering and maintenance services.

As an executive Director Mr Tsicalas is not deemed to be an independent Director. The Board unanimously recommends that shareholders vote in favour of Mr Tsicalas' re-election.



**Ian Rognvald Morrice**

MBA

*Managing Director and Group Chief Executive Officer, The Warehouse Group Limited.  
Initial appointment 9 September 2004.*

Ian Morrice was appointed Managing Director and Group Chief Executive Officer of the Group in August 2004 taking over from founder Stephen Tindall who had been acting Managing Director since May 2003.

Ian was previously the Managing Director, commercial, for United Kingdom-based B&Q Plc. With turnover for the 2003/04 year of £3.9 billion, a pre-tax profit of £372 million, and 36,000 employees, B&Q is Europe's largest DIY retailer and the third largest in the world.

Ian had been at B&Q since 2001 where he led the growth of the large-format B&Q Warehouse chain, expansion into Ireland, and the launch of financial services. Before that he was retail Director of the Woolworths chain of 800 British stores. His retailing career has also included a number of senior executive positions at Dixons, Europe's number one electrical retailing group.

As an executive Director Mr Morrice is not deemed to be an independent Director. The Board unanimously recommends that shareholders vote in favour of Mr Morrises' re-election.



**DIRECTIONS FOR THOSE SHAREHOLDERS ATTENDING  
THE ANNUAL SHAREHOLDERS' MEETING**

The meeting will be held at the Great Northern Room, Ellerslie Convention Centre, Ellerslie Racecourse, Greenlane Road, Auckland at 10am Friday 26th November 2004.

