

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

21st October 2005

Dear Fellow Shareholder

I am pleased to invite you to the 2005 Annual Shareholders' Meeting of The Warehouse Group Limited ("the Company") to be held on Friday 25th November 2005. The meeting will take place in the Newmarket Room, Ellerslie Convention Centre, Ellerslie Racecourse, Ellerslie, Auckland at 10.00am.

Chief Executive Officer, Ian Morrice and I will comment in brief on the performance of The Warehouse during the year to 31 July 2005.

Shareholders will be asked to vote on the re-election of Mr Stephen Tindall, Mr John Dahlsen and myself who retire by rotation. The Board unanimously supports the re-election of all of the Directors standing for re-election.

The agenda includes approval for financial assistance in respect of the long-term incentive plan for Executive Employees that shareholders approved last year. A copy of an independent appraisal report on the plan by KPMG is attached at page 15.

The Board unanimously supports the proposed granting of financial assistance for the operation of the Executive Share Scheme.

The Warehouse is inviting shareholders to submit questions prior to the Annual Meeting by emailing your questions to asktheboard@thewarehouse.co.nz. We will attempt to address as many as possible of the more frequently asked questions we received at the Annual Meeting.

Shareholders who cannot attend the meeting will be able to listen to the Annual Meeting live by webcast on www.thewarehouse.co.nz.

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 23rd November 2005.

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 2005 Annual Meeting of the Shareholders of The Warehouse Group Limited ("Company") will be held at the Newmarket Room, Ellerslie Convention Centre, Ellerslie Racecourse, Greenlane Road, Auckland on Friday, 25 November 2005 commencing at 10.00 am.

At the meeting Shareholders will be asked to receive and consider the Annual Report, the financial statements and the Auditors' Report for the year ended 31 July 2005, before proceeding with the following items of business:

ORDINARY BUSINESS

ANNUAL REPORT

To receive and consider the Annual Report, the financial statements and the Auditors' Report for the year ended 31 July 2005.

ROTATION OF DIRECTORS

To consider and, if thought fit, pass the following ordinary resolutions in accordance with clause 26.1 of the Company's constitution (each a separate resolution):

1. *To re-elect Stephen Robert Tindall as a Director.*
2. *To re-elect Keith Raymond Smith as a Director.*
3. *To re-elect John Christian Dahlsen as a Director.*

In accordance with the constitution Stephen Robert Tindall, Keith Raymond Smith and John Christian Dahlsen retire by rotation and, being eligible, offer themselves for re-election.

Brief biographical details of the Directors seeking re-election are included on page 14 of this Notice of Meeting.

AUDITORS

To consider and, if thought fit, pass the following ordinary resolution in accordance with section 197 of the Companies Act 1993:

4. *To authorise the Directors to fix the remuneration of PricewaterhouseCoopers as auditor for the ensuing year.*

PricewaterhouseCoopers is automatically reappointed as auditor under section 200 of the Companies Act 1993. This resolution authorises the Board to fix the fees and expenses of the auditor.

SPECIAL BUSINESS

THE WAREHOUSE GROUP LIMITED EXECUTIVE SHARE SCHEME ("SCHEME")

Ordinary resolution relating to approval for the Company to give financial assistance for the purpose of the Scheme:

To consider and, if thought fit, pass the following ordinary resolution in accordance with NZSX Listing Rule 7.6.6:

5. *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 2006 (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 1, Parts 2 and 3).

Ordinary Resolutions for approval of the issue of equity securities:

To consider and, if thought fit, pass the following resolution as an ordinary resolution in accordance with NZSX Listing Rule 7.3.1(a):

6. *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 2006 (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 1, Parts 2 and 5).

Ordinary Resolutions relating to the acquisition of securities by certain Directors under the Scheme:

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

7. *That the acquisition of securities (as summarised in the Explanatory Notes accompanying the Notice of Meeting) under the Scheme by Ian Rognwald Morrice, a Director of the Company, be approved.; and*
8. *That the acquisition of securities (as summarised in the Explanatory Notes accompanying the Notice of Meeting) under the Scheme by Ian Tscialas, a Director of the Company, be approved.*

An explanatory note in relation to these resolutions accompanies this Notice of Meeting (Note 1, Parts 2 and 4).

SHAREHOLDER PROPOSAL

To consider and, if thought fit, pass the following resolution as an ordinary resolution in accordance with clause 25.1 of the Company's constitution and clause 9 of the first schedule to the Companies Act 1993:

9. *That the Board of Directors develop an objective, and where possible, measurable policy and set of guidelines regarding the total acceptable workload that Directors may have, and that the policy be presented to shareholders in the Notice of Meeting for the next annual meeting of the Company for their consideration at that meeting.*

An explanatory note in relation to this resolution accompanies this Notice of Meeting (Note 2, Part 1).

A statement of the Board in response to this shareholder proposal also accompanies this Notice of Meeting (Note 2, Part 2).

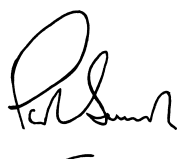
OTHER BUSINESS

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

21 October 2005

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 or any other person 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. Ordinary resolution

1. An ordinary resolution means a resolution that is passed by a simple majority of votes of holders of securities of the Company which carry votes, entitled to vote and voting.
2. Ordinary shares in the Company are the only class of security issued by the Company that carry a right to vote at the annual meeting of shareholders.

C. 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 6, 7 and 8 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. The Company will also disregard any votes on Resolution 6 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.
3. As a result, the Company will disregard any votes on Resolutions 6, 7 and 8 by the following Directors: Ian Rognvald Morrice and Ian Tscicalas together with any associates of these Directors, including The Warehouse Management Trustee Company No. 2 Limited as Trustee of the Scheme.
4. 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: THE WAREHOUSE GROUP LIMITED EXECUTIVE SHARE SCHEME

This Note 1 is divided into the following parts:

- *Part 1 - Establishment and Background of the Scheme:* This Part summarises the purpose and requirements of the Scheme;
- *Part 2 - Notes to resolutions 5 to 8:* 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 2006 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 2006 and in what amount; and
- *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 2006.

PART 1 - ESTABLISHMENT AND BACKGROUND OF THE SCHEME

Establishment of the Scheme

In 2004, the Company established 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") were granted a right to be transferred ordinary shares in the Company ("Shares") upon the satisfaction of certain conditions.

In approving the establishment of the Scheme, shareholders resolved at the Company's 2004 Annual Meeting held on 26 November 2004:

- 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.*
- That the terms of the Scheme (as summarised in the Explanatory Notes accompanying the Notice of Meeting) be approved.*
- 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.*
- 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.*
- That the acquisition of securities (as summarised in the Explanatory Notes accompanying the Notice of Meeting) under the Scheme by Ian Tscicalas, a Director of the Company, be approved.*
- 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.*
- 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.*

The Directors advise that, in accordance with the above resolutions, the Company provided a loan of \$5,100,000 to The Warehouse Management Trustee Company No. 2 Limited in 2005 and that the Company issued rights to acquire up to a maximum of 2,000,000 Shares under the Scheme to selected Executive Employees in 2005.

Background of the Scheme

The Scheme is governed by the Deed in Respect of the Warehouse Group Limited Executive Share Scheme ("Deed"). The Directors have appointed The Warehouse Management Trustee Company No. 2 Limited as Trustee of the Scheme ("Trustee"). The shareholders of the Trustee are Keith Raymond Smith, Ian Rognvald Morrice and Lucas Nicholas Elias Bunt. The Directors of the Trustee are Keith Raymond Smith, Ian Rognvald Morrice and Lucas Nicholas Elias Bunt.

The Directors' Remuneration, Talent and Nomination Committee ("Committee") is responsible for administering the Scheme. The Committee, from time to time, nominates Executive Employees who will be eligible to participate in offers under the Scheme. The Committee has sole discretion to determine who may participate in the Scheme.

The Executive Employees who are nominated to participate in the 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 2006 (which will occur around the beginning of the 2006/07 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.

(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 the 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 2006 (which will occur at the same time as the offer of conditional rights in Performance Shares), provided that the criteria determined by the Board for the 2005/06 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 since the Scheme was first approved by shareholders in 2004.
- 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.

Further information

A summary of the terms and main features of the Scheme as set out more particularly in the Deed is contained in the Company's 2004 Notice of Meeting. 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, Auckland. A copy of the full 2004 Notice of Meeting can be viewed on the Company's website at www.thewarehouse.co.nz and will be available at the 2005 Annual Meeting on 25 November 2005.

2006 allocation under the Scheme

The Directors have resolved to seek further shareholder approval for:

- (a) the provision of further financial assistance by the Company to the Trustee of the Scheme, by way of a loan up to a maximum value of \$5,100,000 in 2006; and
- (b) the issue by the Company to selected Executive Employees of rights to acquire up to a maximum of 2,000,000 Shares under the Scheme in 2006.

The approval of shareholders (as set out in Resolutions 5, 6, 7 and 8) is necessary to permit the Company to provide that financial assistance and to issue such conditional rights.

PART 2 - NOTES TO RESOLUTION 5 TO 8

Resolution 5

NZSX Listing Rule 7.6.4 states 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 complies with NZSX Listing Rule 7.6.5 or has been approved in accordance with NZSX Listing Rule 7.6.6.

NZSX Listing Rule 7.6.6 requires approval by separate resolutions (passed by a simple majority of votes) of members of each separate class of "Quoted Equity Securities" of the precise terms and conditions of the giving of financial assistance. Conditional rights previously issued under the Scheme are not quoted on the NZSX Market, do not convey any voting rights, and on exercise convert into ordinary shares. As there is only one class of shares that has been issued by the Company and quoted on the NZSX Market (namely ordinary shares), 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.

As was the case in 2004, the Company intends to provide financial assistance to the Trustee to purchase ordinary Shares in the Company in connection with the Scheme in 2005. 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 2006 to assist the Trustee to fund the purchase of Performance Shares or Award Shares in connection with the Scheme in 2006.

NZSX Listing Rule 7.6.6 provides 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 been granted a waiver from the requirement that the financial assistance must be given within six months after the passing of Resolution 5 on the basis that the financial assistance must be given within twelve months after the passing of Resolution 5.

In considering Resolution 5 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 4 October 2005 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 5 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 2006 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 2005 annual meeting).

Attached to this Notice of Meeting is also a full copy of an appraisal report ("Appraisal Report") prepared by KPMG in relation to the Scheme. The report sets out the opinion of KPMG in relation to the Scheme. A copy of the Appraisal Report can be viewed or downloaded from the Company's website at 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 6

NZSX Listing Rule 7.3.1 provides 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 "Quoted Equity Securities". Pursuant to the NZSX 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.

Conditional rights previously issued under the Scheme are not quoted on the NZSX Market, do not convey any voting rights, and on exercise convert into ordinary shares. As there is only one class of shares that has been issued by the Company and quoted on the NZSX Market (namely ordinary shares in 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 NZSX 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).

Accordingly, if Resolution 6 is approved by shareholders, the issue of contingent rights under the Scheme in 2006 must be completed within twelve months of the date of the 2005 annual meeting of shareholders.

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

Resolutions 7 and 8

ASX Listing Rule 10.14 provides that a listed company must not permit a Director of that company or an associate of a Director to acquire securities in that company under an employee incentive scheme without obtaining approval of the acquisition from holders of ordinary securities. Accordingly, shareholders of the Company are being asked to consider and, if thought fit, approve the acquisition by certain Directors of securities under the Scheme, as summarised by Parts 4 and 5 of Note 1 of these Explanatory Notes.

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 2006 to assist the Trustee to purchase Performance Shares and Award Shares relating to offers under the Scheme in 2006.

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 2005/06 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, Auckland. 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 a participating Executive 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 two 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 700,000 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 2006
Ian Rognvald Morrice	500,000
Ian Tsicalas	200,000

The above named Directors, who are currently the Company's only executive Directors, are therefore 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 participating Executive Employee (including Directors) to acquire a contingent right to receive Performance Shares and/or Award Shares. Further, no participating Executive Employee (including Directors) will be required to pay any cash in consideration for the acquisition of Shares at the time that achievement of relevant award criteria is assessed and rights may be exercised.

Directors who have Already Received Securities Under the Scheme

Ian Rognvald Morrice has received conditional rights to 239,909 shares in October 2005.

Ian Tsicalas has received conditional rights to 37,740 shares in October 2005.

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 1 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 2005 annual 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 that is entered into by participating Executive Employees (“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 certain award criteria, as determined by the Committee in accordance with the terms of the Scheme.

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 to be issued

The securities will be issued to Executive Employees who have been nominated by the Committee. The following Directors will be issued with securities pursuant to the Scheme in 2006:

- (a) Ian Rognvald Morrice; and
- (b) 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 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 2 - SHAREHOLDER PROPOSAL - DIRECTORS' COMMITMENTS

This Note 2 is divided into the following sections:

- *Part 1 - Explanation of Shareholder Proposal:* This Part contains explanatory material concerning the shareholder proposal on Directors' commitments, as put forward by Graeme Bulling, a shareholder in the Company; and
- *Part 2 - Board Statement in Response:* This Part sets out a statement of the Board in response to the shareholder proposal.

PART 1 - EXPLANATION OF SHAREHOLDER PROPOSAL

Graeme Bulling, a shareholder in the Company, has requested that the following explanatory material accompany the proposed Resolution 9.

"In recent times concern has been expressed about the number of directorships and workload of Directors of public companies.

The Board of The Warehouse Group Limited appears not to have objective or measurable policy guidelines relating to the workload level that its Directors should observe in order to ensure Directors best maintain the capability to perform their duties for shareholders.

As at 6 September, the Chairman of The Warehouse Board was recorded as being a Director of more than 80 companies, including a number of chairmanships.

The Australian Shareholders Association considers that five directorships should be the maximum for any Director, with a chair position counting for three ordinary positions.

The New Zealand Securities Commission "Guidelines on Corporate Governance" provides that

"Directors should be selected and appointed only when the board is satisfied that they will commit the time needed to be fully effective in their role."

Proper compliance with this guideline should require some objective measurement and analysis of all of the work responsibilities a Director has in order to determine what total time is actually needed to do it, and whether in total, a Director's workload is appropriate and manageable.

In the past, some individual Directors and Boards of Directors have said that they are able to "self regulate" i.e. have the Directors assess themselves in relation to this workload matter. I think that a "self regulation" approach without measurable limits does not properly safeguard shareholders' interests, and it seems to be contrary to the principles of natural justice (being the judge in one's own cause). I suggest that both Directors' and shareholders' interests would be much better protected if some objective and measurable guidelines were in place to reduce the possibility of Directors becoming overcommitted.

I think the absence of more measurable guidance in this area can create a perception of a conflict between the personal interests of a Director (wanting to maximise income), and the interests of shareholders, who want Directors who can clearly demonstrate they are able to give adequate time to their company's affairs.

If one looks at the Director's fees paid by a range of NZ public companies, and divides them by an assumed rate of \$200 per hour for those fees, the result suggests a maximum number of manageable directorships close to that proposed by the Australian Shareholders Association above.

I think Directors have a fundamental duty to shareholders to demonstrate they devote adequate time to each directorship on a "time for money" basis, and shareholders have a right to demand that level of commitment and attention. In my view anything short of that cannot be considered good governance, and I think the guidelines of the NZ Securities Commission support that view.

At the moment there appear to be no independent "checks and balances" around Directors' work commitments, and the adoption of this resolution will help correct that deficiency, and improve compliance with the NZ Securities Commission guidelines.

It is in every shareholders interests to have Directors who are able to devote sufficient time to the company's affairs, and I ask you to vote in favour of this proposal.

If you are not able to attend the meeting and you would like to vote in favour of this proposal I am happy to be appointed as your Proxy. You should enter my name, Graeme Bulling, of Auckland, on your Proxy form and tick the box indicating a vote in favour of this proposal.

Reference to Other Material Relating to this Proposal:

1. New Zealand Herald 30 October 2004, Article by Brian Gaynor which includes comment about directors workload
http://www.nzherald.co.nz/topic/story.cfm?c_id=316&objectid=360443
2. New Zealand Securities Commission, "Corporate Governance in New Zealand-Principles and Guidelines."
<http://www.sec-com.govt.nz/publications/documents/governance-principles/index.shtml>.

PART 2 - BOARD STATEMENT IN RESPONSE

The Board does not support this proposal.

The Board believes that:

- A formulaic numerical approach to the issue of Directors' workload is not valid and would be more likely to damage the Company's interests than to enhance them; and
- The appropriate focus for assessment is not the individual's apparent workload, but his or her performance in the role of Director within the context of the organisation they serve.

Board governance and criteria for nominations and appointments

The Company's Board Charter outlines the roles and responsibilities of the Board including a requirement for an annual review of Board performance; collective performance, the performance of the Chairman and that of individual Directors, details of which are outlined in the Company's 2004 and 2005 annual reports.

Procedures for the appointment and reappointment of Directors are governed by the Company's constitution and enacted through Board policy. The Remuneration, Talent and Nomination Committee ("Committee") is delegated with the task of identifying candidates to fill Board vacancies and re-appointment of Directors and make recommendations to the Board. In doing so the Committee takes into account the circumstances and requirements of the Company at the time and seeks to maintain an appropriate mix of skills, experience and personal attributes within the Board.

Assessing the Directors' workload

The Board believes the issue of workload can be considered meaningfully only in the context of a Director's performance, and the strategic and operational characteristics of the organisations for which an individual is a Director.

- The Director's ability to perform should be the primary determinant in assessing their suitability as a new or continuing Director. When assessing Director performance, there is a very low correlation between workload and performance – i.e. a light workload is no guarantee of strong performance, and a heavy workload does not preclude it.
- The strategic and operational characteristics of the organisations for which an individual is a Director should be considered in total when assessing appropriate workloads. The extent of corporate activity, experience and capability of the Chief Executive and management, and geographical spread and complexity of an organisation's businesses play a large function in determining the workload for a Director for a given organisation.

Prescriptive numerical guidelines relating to workloads are therefore not valid.

The Board believes that workload is best monitored and managed by the individual Director, fellow Directors and the Chairman and ultimately by the shareholders in exercising their right to elect the Board.

Response to specific aspects of the proposal

The Securities Commission document referenced by Mr Bulling does not give evidence of general concern about Director workload and does not provide support for a formulaic approach.

The Board believes that the Commission's guideline – "Directors should be selected and appointed only when the Board is satisfied that they will commit the time needed to be fully effective in their role" is clearly fulfilled by the arrangements in place at the Company.

The New Zealand Stock Exchange and the Australian Stock Exchange have both developed best practice corporate governance codes. Neither the NZSX nor the ASX has deemed it necessary to include in their code/guidelines rules that specifically and prescriptively regulate the issue of Director workloads.

The view attributed to the Australian Shareholders Association is **not** shared by the New Zealand Shareholders Association ("NZSA"). **The NZSA does not support the adoption of a prescriptive test.** They are on record as stating: "*We believe that every directorship and each Director is different. We accept that most Directors are trustworthy professionals who are more than capable of assessing their own competence and workload in conjunction with the Chairman of the Board.*"

The arrangements in place at the Company do not amount to self-regulation by individual Directors. They involve participation by the Chairman, the other members of the Board and the executives of the Company. The Board is satisfied that they provide adequate 'checks and balances' in relation to Director workload.

The number of Directorships attributed to the Chairman of the Company in the shareholder proposal is misleading in that it omits to state that:

- The workload commitments involve the chairmanship of three public companies, directorship of three other public companies and the chairmanship of one large private company.
- The remaining five directorships are of smaller private companies or subsidiary company boards, most of which are inactive and thus involve a minimal or no workload.
- The Chairman is a full-time company Director with no other professional commitments.

A numerical approach to workload would be impractical to implement and fails to take a wide range of relevant issues into account.

The Board is opposed to the concept that Directors' contribution be assessed on a 'time for money' basis. It believes this is contrary to the desired focus on performance and, as such, would be likely to erode the value of Directors' contributions to the Company rather than improve them.

Your Board reiterates that, taking the above views into account, it does not support the proposed resolution.

DIRECTORS SEEKING RE-ELECTION

Brief biographical details of the Directors seeking re-election

Stephen Robert Tindall

ONZM; Dip. Mgt; FNZIM; Hon.D; D.Com Honoris Causa.

Non-executive Director. Initial appointment 10 June 1994.

Member of the Disclosure Committee and member of the Remuneration, Talent and Nomination Committee.

Stephen is the Founder and a trustee of The Tindall Foundation and member of the New Zealand Business Council for Sustainable Development and a member of the Government Innovation and Advisory Board.

Stephen founded The Warehouse in 1982. Previously he had spent twelve years with retailer George Court and Sons in a variety of roles including merchandise manager. The Warehouse was a private company until late 1994 when it floated on the New Zealand Stock Exchange. He held the position of Managing Director from then until January 2001, a role he resumed in May 2003 until October 2004.

The Board has determined Mr Tindall is not an Independent Director because he holds more than ten percent of the voting shares in the Company. The Board unanimously recommends that shareholders vote in favour of Mr Tindall's re-election.

Keith Raymond Smith

B.Com; FCA

Independent non-executive Director. Initial appointment 10 June 1994.

Chairman of the Board, Chairman of the Disclosure Committee and member of the Audit Committee and Remuneration, Talent and Nomination Committee.

Keith is a senior partner of the national accounting practice BDO Spicers and specialises in company directorships. He is Chairman of Tourism Holdings Limited and Skellmax Industries Limited, deputy chairman of Genesis Power Limited and a director of Macquarie Goodman (NZ) Limited, PGG Wrightson Limited and other private companies.

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

John Christian Dahlsen

LLB, MBA

Independent non-executive Director. Initial appointment 6 September 2001.

John is a commercial solicitor and company Director based in Melbourne.

John is Chairman of J.C. Dahlsen Pty. Limited, Southern Cross Broadcasting (Australia) Limited and The Smith Family, a charitable organisation in Australia. He is also an advisory board member of L.E.K. Consulting (Australasian Advisory Board).

Previous directorships included Chairman of Woolworths Limited, The Herald & Weekly Times Limited and Melbourne Business School. John is also a former Director of Australia and New Zealand Banking Group Limited.

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



The New Zealand Exchange Limited
Level 2, NZSX Centre
Cable Street
PO Box 2959
WELLINGTON

10 October 2005

Dear Sirs

Appraisal Report in respect of The Warehouse Group Limited giving financial assistance to its Executive Share Scheme for the 2006 year

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 25 November 2005, to provide financial assistance of up to \$5.1 million to The Warehouse Management Trustee Company No. 2 Limited (“Trustee”) for the purchase of shares in the 2006 year. This is to enable continuance of The Warehouse Group Limited Executive Share Scheme (“Scheme”) as approved by shareholders at the last Annual Meeting held on 26 November 2004 for selected Eligible Executive Employees.

Under the Scheme Eligible Executive Employees are 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. The Trustee holds the 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 are currently Keith Smith, Luke Bunt and Ian Morrice. 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 acts 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”) administers the Scheme. The Committee nominates 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”). The Participation Deed states 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 requires financial assistance from The Warehouse.

Stock Exchange Regulations

Under the New Zealand Exchange Limited (“NZSX”) 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. The Warehouse has only one class of equity security, hereafter referred to as “the shareholders”.

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 Ian Morrice, 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.



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

Under Listing Rule 1.2.2, the Report must inter-alia:

- a. Be addressed to the Directors of the Company not associated with any relevant Associated Persons (the term “relevant Associated Persons” is defined in Listing Rule 1.2.2 (a) and, for the purposes of this Report, means the Trustee), or if there are no such Directors, to the NZSX. Our Report is therefore addressed to the NZSX;
- b. Be expressed to be for the benefit of shareholders of The Warehouse not associated with any relevant Associated Persons (Refer Declarations and Disclaimer);
- c. State, providing reasons, whether or not in the opinion of KPMG the consideration and terms and conditions of the proposed transaction are fair to shareholders, other than those associated with the relevant Associated Persons (Refer pages 5, 6 and 7);
- d. State, providing reasons, whether or not in the opinion of KPMG the information to be provided by The Warehouse to shareholders is sufficient for shareholders to understand all the relevant factors and reach an informed decision as to the fairness of the proposed transaction (Refer pages 3, 4 and 7);
- e. State whether KPMG, in preparing the Report, has obtained all 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 (Refer Declarations and Disclaimer);
- f. State any material assumptions on which KPMG’s opinion is based (Refer pages 4, 5 and 6);
- g. State any terms of reference that may have materially restricted the scope of the Report; and
- h. If it contains a disclaimer of liability, not purport to absolve the reporter from liability for an opinion expressed recklessly or in bad faith.

Our statement of independence, declarations, use of our Report and disclaimer are set out at the end of this Report.

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 and the Participation Deed;
- Copy of the excerpts, resolutions and explanatory notes to accompany the Notice of Annual Meeting in relation to the provision of financial assistance by The Warehouse to the Trustee; and
- Discussions and various miscellaneous correspondence with senior employees of The Warehouse and their legal advisors.

Structure of our report

Our report is structured as follows. First, we summarise the terms and conditions of the Scheme that was approved by shareholders in the 2004 Annual Meeting.¹ Second, we describe the approach and our evaluation of the fairness to the shareholders in respect of the Company’s provision of financial assistance to the Trustee for the 2006 year. Lastly, we conclude with our opinion on the fairness to shareholders of the proposed financial assistance by The Warehouse to the Trustee.



Summary of terms and conditions of the Scheme

Background and purpose of the Scheme

The Scheme is designed to link actual remuneration of each Eligible Executive Employee to Company and individual performance targets. Eligible Executive Employees are provided on an annual basis with:

- *Award shares.* Subject to the achievement of certain criteria as approved by the Board, Eligible Executive Employees are offered 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.

Linking rewards to performance: The Award share aspect of the Scheme

The criteria for determining the maximum number of Award Shares that Eligible Executive Employees may be offered a conditional right to be allocated and transferred under the Scheme is determined with reference to the Net Profit After Tax ("NPAT") of the Company, the Operating Profit of the business unit in which the Eligible Executive Employee is employed (if applicable) (collectively described as "Profit Targets") and the individual performance of the Eligible Executive Employee, all for the immediately preceding financial year.

No Award shares will be offered to an Eligible Executive Employee unless the actual Profit Targets exceed minimum specified Profit Targets approved by The Warehouse Board and the Eligible Executive Employee achieves his or her individual performance targets.

Linking rewards to performance: The Performance share aspect of the Scheme

Under the Scheme Eligible Executive Employees are also offered a conditional right to be allocated and transferred shares in The Warehouse to a value equal to the level of their pre-set base performance remuneration. The Performance shares are allocated each year by the Trustee. The Trustee will hold these Performance shares for the potential benefit of the Executive Employees for a period of three years.

At the end of the three year period the shares will transfer from the Trustee to the Eligible Executive Employee subject to the Executive Employee still being employed by The Warehouse and conditional upon the share price in the Company increasing in value by an amount in excess of the annual cost of equity capital less an adjustment for assumed annual cash dividends paid.²

Mechanism for the purchase of Award and Performance shares by Trustee and transfer to the Eligible Executive Employee

Under the Award and Performance share aspects of the Scheme the Trustee will receive an interest free loan from The Warehouse. The loan will enable the Trustee to purchase shares in The Warehouse to meet the potential obligation to allocate and transfer shares to Eligible Executive Employees.

Subject to the Eligible Executive Employee remaining employed by The Warehouse or its subsidiaries and, in respect of the Performance shares, meeting the performance criteria, the Award and/or the Performance shares will be transferred to the Executive Employee in accordance with the terms of the Scheme set out in the Deed. In the event that any Award and Performance shares are transferred to Eligible Executive Employees, The Warehouse will reimburse the Trustee an amount equal to the original cost of the shares transferred to the Eligible Executive Employee. This reimbursement will enable the Trustee to repay the loan to The Warehouse in respect of these shares transferred to the Executive Employee.



Our approach

To assess if the provision of financial assistance for the 2006 year by The Warehouse to the Trustee is fair to the shareholders of The Warehouse (other than persons associated with the relevant Associated Persons and Eligible Executive Employees) we have considered:

- Any changes to the Scheme that would cause us to revise our opinion of the fairness of the Scheme as set out in our independent appraisal report forwarded to shareholders of The Warehouse at the last Annual Meeting dated 26 November 2004 and described in more detail in the long form of our report dated 5 October 2004 available on The Warehouse's website;³
- The total likely cost of the Scheme to The Warehouse's shareholders in relation to the financial assistance requested for the 2006 year; and
- Whether or not in our opinion the terms and conditions attaching to the financial assistance in respect of the 2006 year 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).

Operation of the Scheme in the 2006 year

We understand the operation and implementation of the Scheme in the 2006 year will be essentially identical to the Scheme operation for the prior year. Specifically we have been advised that:

- Apart from a relatively minor change⁴ to the Deed in Respect of The Warehouse Group Limited Executive Share Scheme, there have been no material changes to the Loan Agreement in relation to the Deed or to the Participation Deed that an Eligible Executive Employee shall agree to prior to becoming a participant in the Scheme.
- Membership of the Committee is still restricted to non-executive members. The majority of directors on the Committee must be independent directors.
- The number of Eligible Executive Employees in the 2006 year is expected to be 45 employees (reduced from 57 in respect of the 2005 year). The base value of Award share and Performance share aspects of the Scheme is part of each 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.
- The Board will approve minimum hurdle criteria in respect of both Profits Targets and personal performance targets that must be achieved before Eligible Executive Employees will be offered any Award shares under the Scheme. The minimum Profit Targets and performance criteria approved by the Board will be documented at the beginning of each financial year and will be consistent with the objective of maximizing shareholder wealth.
- Under the Award Scheme a "two for one multiplier" will still apply to under or over-performance relative to the Profit Targets and performance targets. For example, if 105% of the Profit Targets and performance targets were reached the Eligible Executive Employee would receive 110% of the base entitlement in respect of the value of the Award shares. Conversely if 95% of the Profit Targets and performance targets were reached, the Eligible Executive Employees would receive 90% of the base entitlement in respect of the value of the Award shares. The value of the Award shares that can be offered to Eligible Executive Employees is still capped at 140% of the on target performance base Award component of the Executive Employee's remuneration.
- Any transfer and allocation of Performance shares is still linked to the estimated annual cost of equity capital for The Warehouse after taking independent advice.
- Under the Deed the maximum dollar value of financial assistance to be made available by The Warehouse to the Trustee will provide a cap on the number of Award and Performance shares that may be offered to Eligible Executive Employees for any year. The Deed also provides an overall cap of 2 million shares that may be offered to Eligible Executive Employees in any one year.



In respect of the Scheme operation in the 2006 year KPMG conclude (similar to the conclusions contained in our report to The Warehouse shareholders accompanying the notice of the 2004 Annual Meeting):

- The payout under the Award and Performance aspects of the Scheme provide a significant direct link between the Eligible Executive Employee's remuneration and Company performance. While the precise value of the benefits of the Scheme to The Warehouse's shareholders are difficult to quantify there is a perceived better alignment of Eligible Executive Employee and shareholder interests by linking the remuneration outcomes of Eligible Executive Employees with that of an increase in shareholder wealth; and
- 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 view this is a reasonable benchmark that must be achieved for Eligible Executive Employees to be transferred the Performance shares. Most of the benefits of any out-performance of The Warehouse share price will likely accrue to existing shareholders (other than Eligible Executive Employees).

Likely total cost of the Award share aspect of the Scheme over the next year

The following table sets out our understanding of the estimated cost of the Award share aspect of the Scheme at various different percentages of achievement of actual versus target levels of achievement for the 2006 financial year.

Actual achievement in 2006	Estimated cost of Award Scheme ⁵	Award as % of 2005 Net Profit Before Tax and write off of goodwill
@ 95% target	\$1.64 million	1.5%
@ 100% target	\$1.82 million	1.7%
@ 105% target	\$2.00 million	1.8%
@ 120% target or greater ⁶	\$2.54 million	2.3%

The estimated maximum pre-tax cost of the Award aspect of the Scheme in the 2006 year is approximately \$2.54 million, assuming the number of Eligible Executive Employees invited to participate in the Scheme in 2006 is 45 and all Eligible Executive Employees remain with the Company for at least three years following the offer of Award shares.

We **conclude** that the costs of the Award aspect of the Scheme are reasonable in comparison to the likely benefits to The Warehouse's shareholders from any overachievement in Profit Targets for the Company.

Likely total cost of the Performance share aspect of the Scheme in the 2006 year

We understand the base Performance share remuneration for the current 45 Eligible Executive Employees who may be invited to participate in the Scheme in respect of the 2006 year is circa \$1.95 million. This will mean that the Trustee must hold or purchase on market shares in The Warehouse with a value equal to circa \$1.95 million to meet the potential payout to Eligible Executive Employees under this aspect of the Scheme. A pre-tax cost of \$1.95 million is approximately 1.8% of the Net Profit before Tax and write off of goodwill for the 2005 financial year.

The expected cost of the Performance aspect of the Scheme to The Warehouse will, however, be less than the value of the base Performance share remuneration given the Performance shares will not transfer to Eligible Executive Employees in the event the growth in The Warehouse share price does not exceed the Company's cost of equity capital less an adjustment for assumed annual cash dividends paid.

We estimate the cost to The Warehouse of the Performance share aspect of the Scheme calculated as at grant date is between circa \$0.49 million and \$1.07 million or approximately 25%-55% of the expected base Performance share remuneration of approximately \$1.95 million in 2006. This calculation takes into account the possibility that the growth in The Warehouse share price will not meet the hurdle target and the Performance shares will then not be transferred to the Eligible Executive Employee.

We **conclude** that, in comparison to the benefits to The Warehouse shareholders' from any growth in the Company share price, the benefits under the Scheme to Eligible Executive Employees are reasonable.



Cost of the financial assistance by The Warehouse to the Trustee

In our opinion the cost to The Warehouse under the Scheme is not materially different to the cost of a deferred cash remuneration plan. If shareholders do not approve the ongoing financial assistance to the Trustee, then it is unlikely the Scheme as approved by shareholders at the 2004 Annual Meeting could continue in its present form. In addition the current total remuneration package for Eligible Executive Employees may not be considered market competitive. In this case The Warehouse may need to offer alternative incentive remuneration payments to attract, retain motivate and reward its Eligible Executive Employees.

Terms and conditions attaching to the financial assistance

There have been no changes to the terms and conditions attaching to the financial assistance in respect of the 2006 year when compared to those applicable in the 2005 year.

The maximum potential cost to The Warehouse under the Scheme in the 2006 year will, subject to shareholder approval, be the maximum loan value of \$5.1 million. While this cost is greater than the expected maximum cost and requirement for financial assistance under the assumption that 45 Eligible Executive Employees will participate in the Scheme, a loan amount up to \$5.1 million provides some flexibility for the Committee to increase the number of Eligible Executive Employees to join the Scheme. This may be both desirable and necessary to enable the Company to attract new high quality employees.

Under the Deed an overall cap of 2 million shares (approximately equal to 0.65% of the total number of issued shares by the Company) in The Warehouse continues to apply to the total number of Award and Performance shares that may be offered to Eligible Executive Employees in any one year. In respect of the 2006 year, the number of shares that Eligible Executive Employees may be offered a conditional right to be allocated and transferred is likely to be less than the level of this cap.

We **conclude** that the terms and conditions attaching to the financial assistance in respect of the 2006 year and the quantum of the financial assistance proposed, of \$5.1 million, are fair to the shareholders of The Warehouse.

Conclusions

In preparing this Report KPMG considers it has obtained all the 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 provision of financial assistance by The Warehouse to the Trustee in respect of the 2006 year.

In summary we conclude the terms and conditions under which The Warehouse will provide financial assistance to the Trustee of up to \$5.1 million in respect of the 2006 year 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).

The annual cost of the Scheme for the 2006 year is effectively capped at the maximum financial level of assistance sought (\$5.1 million) and also subject to the overall cap of 2 million shares that can be offered under the Scheme to Eligible Executive Employees each year.



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.

The information provided by The Warehouse or obtained from other sources has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to the fairness, of the proposed financial assistance, to the shareholders of The Warehouse (other than the Associated Persons and Eligible Executive Employees that participate in the Scheme). However, KPMG does not warrant that these enquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose.

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 in no way guarantees or otherwise warrants the achievability of future profits, cash flows or dividends. Forecasts are inherently uncertain. They are predictions of future events, which cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results can be significantly more or less favourable.

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.

Our Report was prepared on 10 October 2005 based on the information available at the time. We have no obligation to update our Report or revise the information contained therein due to events and transactions occurring subsequent to the date of the Report.

Disclaimer

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. This disclaimer does not purport to absolve KPMG from liability for an opinion expressed recklessly or in bad faith.



Authors of the Report

Tony McNaught and Troy Newton of KPMG prepared this Appraisal Report having been approved by the NZSX on 26 September 2005 to undertake the Report pursuant to Listing Rule 6.2.2 (c). A copy of the approval letter is available on request.

Use of the Report

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.

Ethics and Independence

Our investigations have confirmed that The Warehouse is not an SEC Issuer audit client of KPMG. KPMG follows the ethics and independence requirements of the Institute of Chartered Accountants of New Zealand and is required to comply with KPMG International's professional policies and guidelines relating to independence.

Yours faithfully

Tony McNaught
Partner - KPMG Corporate Finance

Troy Newton
Director - KPMG Corporate Finance

¹ See The Warehouse's website (www.thewarehouse.co.nz) for further details on the Scheme contained in the 2004 Notice of Annual Meeting.

² In calculating the hurdle or adjusted share price that must be achieved before any Performance shares will transfer to the Executive Employee, the price will also be adjusted for any capital changes such as bonus issues, rights issues or a share consolidation.

³ See (www.thewarehouse.co.nz)

⁴ This relates to the defining the term "subsidiary" in the Deed and clarifying that where all or substantially all of the business of a subsidiary is sold to a third party which is not a member of The Warehouse Group, then those employees cease to be part of the Scheme.

⁵ The estimated cost calculation is simplified as it ignores any impact of a cap on the maximum number of shares that may be offered across both the Award and Performance shares in any one year.

⁶ A two for one multiplier applies to under or over-performance relative to the Profit Targets and the value of any Award shares that can be offered to Eligible Executive Employees is capped at 140% of the on target performance base Award component of the Executive Employee's remuneration.

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 25th November 2005.

