

Financial Contents

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Statement of Financial Performance

For the year ended 31 July 2005

		Group	Group	Parent	Parent
	Note	2005 \$ 000	2004 \$ 000	2005 \$ 000	2004 \$ 000
Sales revenue		2,202,557	2,244,454	-	-
Other revenue	3	20,971	14,061	44,296	44,295
Operating revenue		2,223,528	2,258,515	44,296	44,295
Operating expenses	4	(2,113,035)	(2,162,320)	(8)	(8)
Operating surplus before goodwill impairment and tax		110,493	96,195	44,288	44,287
Goodwill impairment	4	(32,897)	-	-	-
Operating surplus before income tax		77,596	96,195	44,288	44,287
Income tax	7	(38,363)	(34,692)	3	3
Net surplus for the year		39,233	61,503	44,291	44,290
Net surplus attributable to minority interest	26	(254)	(324)	-	-
Net surplus attributable to parent shareholders		38,979	61,179	44,291	44,290
Earnings per share (cents)	8	12.8 cents	20.0 cents		

Statement of Movements in Equity

For the year ended 31 July 2005

		Group	Group	Parent	Parent
	Note	2005 \$ 000	2004 \$ 000	2005 \$ 000	2004 \$ 000
Net surplus for the year, comprising					
Parent shareholders' interest		38,979	61,179	44,291	44,290
Minority interest		254	324	-	-
		39,233	61,503	44,291	44,290
Foreign currency translation movement	23	347	(5,193)	-	-
Total recognised revenues and expenses		39,580	56,310	44,291	44,290
Dividends paid to parent shareholders	25	(44,296)	(44,295)	(44,296)	(44,295)
Dividends paid to minority interest		(325)	(215)	-	-
Movement in treasury stock	22	(560)	(1,058)	-	-
Movement in equity for the year		(5,601)	10,742	(5)	(5)
Equity at beginning of year, comprising					
Parent shareholders' interest		357,189	346,556	219,674	219,679
Minority interest		293	184	-	-
Total equity at beginning of year		357,482	346,740	219,674	219,679
Equity at end of year, comprising					
Parent shareholders' interest		351,659	357,189	219,669	219,674
Minority interest		222	293	-	-
Total equity at end of year		351,881	357,482	219,669	219,674

The accompanying accounting policies and notes form an integral part of the financial statements.

Statement of Financial Position

As at 31 July 2005

		Group	Group	Parent	Parent
	Note	2005 \$ 000	2004 \$ 000	2005 \$ 000	2004 \$ 000
Current assets					
Cash balances	19	45,742	21,127	789	645
Receivables	9	19,643	29,957	169,589	171,188
Inventories	12	386,727	396,474	-	-
Taxation receivable	10	23,125	27,043	7,291	5,841
Total current assets		475,237	474,601	177,669	177,674
Non-current assets					
Receivables	9	420	1,710	-	-
Investments	11	10,378	10,595	42,000	42,000
Property, plant and equipment	16	356,475	330,825	-	-
Taxation receivable	10	-	1,891	-	-
Deferred taxation	13	28,154	19,765	-	-
Goodwill	18	-	40,621	-	-
Total non-current assets		395,427	405,407	42,000	42,000
Total assets		870,664	880,008	219,669	219,674
Current liabilities					
Bank overdraft	20	169	7,415	-	-
Payables and accruals	14	200,617	187,517	-	-
Borrowings	20	39,865	126,950	-	-
Total current liabilities		240,651	321,882	-	-
Non-current liabilities					
Borrowings	20	273,995	198,895	-	-
Borrowings - secured	20	1,149	-	-	-
Provisions	15	2,988	1,749	-	-
Total non-current liabilities		278,132	200,644	-	-
Total liabilities		518,783	522,526	-	-
Equity					
Share capital	21	218,976	218,976	218,976	218,976
Treasury stock	22	(7,050)	(6,490)	-	-
Foreign currency translation reserve	23	(2,862)	(3,209)	-	-
Retained earnings	24	142,595	147,912	693	698
Parent shareholders' interest		351,659	357,189	219,669	219,674
Minority interest	26	222	293	-	-
Total equity		351,881	357,482	219,669	219,674
Total equity and liabilities		870,664	880,008	219,669	219,674

On behalf of the board



Keith Smith



Ian Morrice

Authorised for issue on 8 September 2005

The accompanying accounting policies and notes form an integral part of the financial statements.

Statement of Cash Flows

For the year ended 31 July 2005

		Group	Group	Parent	Parent
	Note	2005 \$ 000	2004 \$ 000	2005 \$ 000	2004 \$ 000
Cash flows from operating activities					
Cash received from customers		2,216,682	2,255,825	-	-
Interest income		554	680	-	-
Dividends received from subsidiary companies		-	-	44,296	44,295
Payments to suppliers and employees		(2,006,792)	(2,095,021)	(8)	(8)
Income tax paid	10	(37,326)	(54,789)	-	-
Interest paid		(19,623)	(18,103)	-	-
Net cash flows from operating activities		153,495	88,592	44,288	44,287
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		15,257	14,120	-	-
Staff share purchase advances repaid		1,062	1,552	-	-
Third parties advances repaid		3,218	7,651	-	-
Distributions received from associate	11	4,132	-	-	-
Advances from subsidiary companies		-	-	1,599	1,242
Purchase of property, plant and equipment		(86,924)	(133,578)	-	-
Refund of staff share purchase advances terminated		(298)	(429)	-	-
Net cash flows from investing activities		(63,553)	(110,684)	1,599	1,242
Cash flows from financing activities					
(Repayments) / proceeds from short term borrowings		(87,085)	110,375	-	-
Proceeds / (repayments) from term borrowings		75,061	(46,122)	-	-
Dividends paid to parent shareholders		(45,743)	(45,369)	(45,743)	(45,369)
Dividends paid to minority shareholders		(325)	(215)	-	-
Net cash flows from financing activities		(58,092)	18,669	(45,743)	(45,369)
Net increase / (decrease) in cash held		31,850	(3,423)	144	160
Effect of exchange rate movements		11	(34)	-	-
Total movement in cash position		31,861	(3,457)	144	160
Cash position at beginning of year, comprising					
Cash, bank in funds and deposits		21,127	20,473	645	485
Bank overdrafts		(7,415)	(3,304)	-	-
Total cash position at beginning of year		13,712	17,169	645	485
Cash position at end of year, comprising					
Cash, bank in funds and deposits	19	45,742	21,127	789	645
Bank overdrafts	20	(169)	(7,415)	-	-
Total cash position at end of year		45,573	13,712	789	645

The accompanying accounting policies and notes form an integral part of the financial statements.

Reconciliation of Net Surplus with Net Cash Flows from Operating Activities

		Group	Group	Parent	Parent
	Note	2005 \$ 000	2004 \$ 000	2005 \$ 000	2004 \$ 000
Reported net surplus after taxation		39,233	61,503	44,291	44,290
Non-cash items					
Depreciation	4	51,217	56,470	-	-
Goodwill amortisation and impairment	4	39,789	7,170	-	-
Movement in deferred tax	13	(8,389)	(5,758)	-	-
Share of surplus retained by associate	11	(3,915)	(3,548)	-	-
Total non-cash items		78,702	54,334	-	-
Items classified as investing or financing activities					
Net (gain) / loss on sale of property, plant and equipment		(2,457)	1,210	-	-
Capitalised interest		(385)	-	-	-
Other investing and financing activities		1,447	1,074	1,447	1,074
Total investing and financing adjustments		(1,395)	2,284	1,447	1,074
Changes in assets and liabilities					
Payables and accruals		18,392	14,482	-	-
Income tax		5,809	(10,314)	(1,450)	(1,077)
Receivables		805	830	-	-
Inventories		9,747	(29,298)	-	-
Effect of exchange rate movements		2,202	(5,229)	-	-
Total changes in assets and liabilities		36,955	(29,529)	(1,450)	(1,077)
Net cash flows from operating activities		153,495	88,592	44,288	44,287

The accompanying accounting policies and notes form an integral part of the financial statements.

Notes to the Financial Statements

1. Statement Of Accounting Policies

Reporting entity

The Warehouse Group Limited is a company registered under the New Zealand Companies Act 1993 and is listed on the New Zealand and Australian stock exchanges. The Warehouse Group Limited is an issuer for the purposes of the New Zealand Financial Reporting Act 1993. The financial statements and group financial statements of The Warehouse Group Limited have been prepared in accordance with the New Zealand Companies Act 1993 and New Zealand Financial Reporting Act 1993.

Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis are followed by the group.

Specific accounting policies

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied:

(a) Basis of consolidation

The consolidated financial statements include the parent company and its subsidiaries, associates and joint venture investments. Subsidiaries have been consolidated using the purchase method. All significant intercompany transactions are eliminated on consolidation.

Subsidiaries are entities that are controlled, either directly or indirectly, by the parent.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated statement of financial performance from the date of acquisition or up to the date of disposal.

(b) Joint ventures

Where the group invests in joint ventures, the group's share of revenues, expenditures, assets and liabilities are included in the appropriate categories within the financial statements.

(c) Associates

Associates have been recorded in the consolidated financial statements on an equity accounting basis which recognises the group's share of retained surpluses in the statement of financial performance and its share of post acquisition increases or decreases in net assets in the consolidated statement of financial position.

Associates are entities in which the parent, either directly or indirectly, has a significant but not controlling interest.

(d) Statement of cash flows

The following definitions are used in the statement of cash flows:

- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments.
- Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and borrowings not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- Cash comprises cash on hand and in transit, bank in funds and short term deposits offset by bank overdrafts.
- Cash flows relating to current and non-current borrowings are presented as net cash flows as gross cash inflows and outflows include day-to-day cash management.

(e) Revenue

Goods and services

Sales revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Investment income

Dividend income is recognised in the period the dividend is declared.

Interest and rental income are accounted for as earned.

(f) Property, plant and equipment

Cost

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use. The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project, financing costs, and costs of obtaining regulatory consents that are directly attributable to the project.

Depreciation and disposal

Property, plant and equipment are depreciated on a straight line basis to allocate the cost, less any residual value, over their useful life. When property, plant and equipment are disposed of the gain or loss recognised in the statement of financial performance is calculated as the difference between the sale price and the carrying amount of the asset.

Estimated useful life of property, plant and equipment:

Freehold land	indefinite
Freehold buildings	50 - 100 years
Store fittings and equipment	4 - 10 years
Computer equipment	2 - 5 years
Vehicles	5 - 8 years
Work in progress	not depreciated

(g) Income tax

The income tax expense charged to the statement of financial performance includes both the current year provision and the income tax effects of timing differences calculated using the liability method. Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is recognised only if there is virtual certainty of realisation.

(h) Goods and services tax ("GST")

The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST with the exception of receivables and payables which include GST invoiced.

(i) Inventories

Inventories are stated at the lower of cost, determined on a weighted average cost basis, and net realisable value.

(j) Receivables

Receivables are carried at estimated realisable value after providing against debts where collection is doubtful.

(k) Employee entitlements

Employee entitlements to salaries and wages, annual leave, bonuses and other benefits are recognised when they accrue to team members as a result of services rendered prior to balance date.

(l) Investments

The parent company's investment in subsidiaries is stated at cost in the statement of financial position. Other investments are stated at the lower of cost or net realisable value.

(m) Leases

Group entities lease certain land and buildings. Certain plant and equipment are also leased for short terms. Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are recognised in the statement of financial performance in equal instalments over the lease term.

(n) Goodwill

Goodwill arising on the acquisition of a group company represents the excess of the purchase price paid over the fair value of identifiable net assets acquired. Goodwill is stated at cost and amortised on a straight line basis over five to ten years based on the expected benefits to be derived. Goodwill is reviewed for impairment every six months, prior to reporting the annual and half annual results. Where the estimated recoverable amount of the goodwill is less than its book value the asset is written down.

(o) Impairment of long life assets

Annually the directors assess the book value of each asset. Where the estimated recoverable amount of the asset is less than its book value the asset is written down. The impairment loss is recognised in the statement of financial performance.

(p) Share options

No compensation expense is recognised in respect of fixed price share options granted if the exercise price is equal to or greater than the market price of the shares on the date that the options are granted. If the options are granted at a discount to the market price, a compensation expense is recognised in the statement of financial performance based on that discount. When the options are exercised, the proceeds received will be recognised in share capital.

(q) Financial instruments

The group is party to the following financial instruments with off-balance sheet risk:

- Letters of credit to secure future purchasing requirements.
- Forward exchange contracts and currency options to reduce exposure to fluctuations in foreign currency exchange rates.
- Interest rate swaps to reduce exposure to fluctuations in interest rates.
- Electricity hedge contracts to reduce exposure to fluctuations in electricity prices.

Letters of credit exposures are disclosed as contingent liabilities in the financial statements until valid documents are received and terms, as set out in the letter of credit, are met.

Foreign currency forward exchange contracts and currency options are used to hedge foreign currency transactions. Any exposure to gains or losses on the foreign exchange derivatives are generally offset by a related loss or gain on the item being hedged.

Foreign currency option premiums paid are expensed and spread over the the period from the inception of the option to the exercise date.

Any amounts paid or received on interest rate swaps are recognised as an interest expense over the period of the underlying debt hedged.

Electricity contracts used to fix electricity prices are recognised as an expense over the period of usage.

Financial instruments are not used for the purpose of trading or speculation. All other financial exposures are recognised in the statement of financial position.

(r) Foreign currencies

Transactions in foreign currencies are converted to New Zealand dollars at the exchange rate ruling at the date of the transaction. Short term transactions covered by forward exchange contracts are measured and reported at the forward rates specified in those contracts.

At balance date foreign monetary assets and liabilities are translated to New Zealand dollars at the closing exchange rate, and exchange variations arising from these translations are recognised in the statement of financial performance.

(s) Translation of foreign operations

Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rates in effect at the date of the transaction, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars at the rates of exchange ruling at balance date.

Exchange differences arising from the translation of independent foreign operations are recognised in the foreign currency translation reserve, together with unrealised gains and losses on foreign currency monetary liabilities that are identified as hedges against these operations.

The following exchange rates were used to translate the group's Australian business:

Australian dollar exchange rates	2005	2004
Closing rate	0.8996	0.9050
Average rate	0.9244	0.8822

Changes in accounting policies

During the year, the group changed the definition of cost for property plant and equipment to include financing costs that are directly attributable to the acquisition or construction of property. Formerly, all financing costs were expensed as incurred.

The Board of Directors has adopted this change in accounting policy after reviewing the requirements of Financial Reporting Standard No. 3 Accounting for Property, Plant and Equipment.

This change in policy has resulted in \$385,000 of financing costs being capitalised during the year.

There have been no other changes in accounting policies.

Notes to the Financial Statements - Continued

2. Segment analysis

	Note	Sales	Sales	Operating Profit	Operating Profit	Operating Margin	Operating Margin
		2005 \$ 000	2004 \$ 000	2005 \$ 000	2004 \$ 000	2005 %	2004 %
The Warehouse New Zealand		1,483,669	1,477,338	138,573	151,298	9.3	10.2
Warehouse Stationery		198,966	199,096	3,856	6,990	1.9	3.5
Other group operations		9,182	12,480	(3,221)	(603)		
New Zealand operations		1,691,817	1,688,914	139,208	157,685		
The Warehouse Australia		518,636	567,300	(5,802)	(36,493)	(1.1)	(6.4)
Inter-segment eliminations		(7,896)	(11,760)	-	-		
Total		2,202,557	2,244,454	133,406	121,192	6.1	5.4
Gain/(loss) on property disposals				3,251	(639)		
Gallery Prints closure costs				(688)	-		
Goodwill amortisation	18			(6,892)	(7,170)		
Goodwill impairment	18			(32,897)	-		
Earnings before interest and tax				96,180	113,383	4.4	5.1
Net interest expense				(18,584)	(17,188)		
Operating surplus before income tax				77,596	96,195	3.5	4.3
				Operating Assets	Operating Assets	Return on Assets	Return on Assets
				2005 \$ 000	2004 \$ 000	2005 %	2004 %
The Warehouse New Zealand				324,793	322,952	42.7	46.8
Warehouse Stationery				61,525	75,538	6.3	9.3
Other group operations				199,642	169,606		
New Zealand operations				585,960	568,096		
The Warehouse Australia				187,683	201,465	(3.1)	(18.1)
Total operating assets				773,643	769,561	17.2	15.7
Cash	19			45,742	21,127		
Taxation				51,279	48,699		
Goodwill	18			-	40,621		
Total assets				870,664	880,008	11.0	12.9

The group operates predominantly in the retail sector. Return on net assets is calculated on the basis of total operating assets at year end.

3. Other revenue

	Note	Group	Group
		2005 \$ 000	2004 \$ 000
Interest income		554	691
Rental income		3,970	2,749
Gain on sale of property		3,251	-
Share of surplus of associate	11	3,915	3,548
Other income		9,281	7,073
Total other revenue		20,971	14,061

During the year the parent company received dividends from subsidiaries of \$44.296 million (2004: \$44.295 million).

4. Operating expenses

	Note	Group	Group
		2005 \$ 000	2004 \$ 000
Operating expenses include			
Bad debts written off		170	306
Provision for doubtful debts		191	(77)
Loss on sale of property		-	639
Loss on sale of plant and equipment		794	571
Donations		151	110
Interest on borrowings		19,138	17,879
Leasing costs		87,752	82,776
Net foreign currency exchange loss		50	32
Amortisation and impairment			
Goodwill amortisation	18	6,892	7,170
Goodwill impairment	18	32,897	-
Total amortisation and impairment		39,789	7,170
Depreciation			
Freehold buildings		2,081	1,443
Store fittings and equipment		34,416	37,130
Computer equipment		14,036	16,330
Vehicles		684	1,567
Total depreciation		51,217	56,470

Notes to the Financial Statements - Continued

5. Auditors' remuneration

	Group	Group
	2005	2004
	\$ 000	\$ 000
Auditing the group financial statements	340	350
Reviewing the half year financial statements	85	120
Internal auditing services	-	194
Other services	67	33
Total auditors' remuneration	492	697

Ernst & Young resigned as external auditors at the annual meeting on 26 November 2004. Ernst & Young continue to provide internal audit services to the group. Auditor's remuneration for 2005 refers to services provided by PricewaterhouseCoopers as the group's new external auditors. Fees paid to PricewaterhouseCoopers for non-audit services relate to engagements entered into prior to their appointment as external auditors.

6. Directors' remuneration

	Group	Group
	2005	2004
	\$ 000	\$ 000
Executive directors		
S R Tindall (non executive from 1 October 2004)	252	594
P G Inger (resigned 6 May 2005)	675	534
I R Morrice (appointed 1 October 2004)	1,245	-
I Tscaldas	810	360
Total executive directors remuneration	2,982	1,488

Executive directors do not receive director's fees. The stated remuneration of executive directors relates to their capacities as team members. I R Morrice's remuneration represents an 11 month period and includes the period prior to his appointment as director. I R Morrice also received additional remuneration of \$425,000 in compensation for loss of benefits as a result of foregoing a long term incentive plan with his previous employer. The remuneration for I Tscaldas in 2004 represents the 8 month period following commencement of his employment with the group in November 2003.

Non executive directors

K R Smith	105	100
S R Tindall (non executive from 1 October 2004)	50	-
J R Avery	60	55
R L Challinor	60	55
J C Dahlsen	84	79
G F Evans	60	55
N R Plummer (resigned 31 July 2004)	-	55
J Withers (resigned 30 June 2005)	55	45
Total non executive directors remuneration	474	444

T
non-executive director.

	Options Granted 16/03/2004	Options Granted 16/04/2003	Total Options
	000s	000s	000s
Directors share options outstanding at 31 July 2005			
P G Inger	200	225	425
R L Challinor	-	11	11
J Withers	13	11	24

7. Income tax expense

		Group	Group	Parent	Parent
	Note	2005	2004	2005	2004
		\$ 000	\$ 000	\$ 000	\$ 000
Operating surplus before income tax		77,596	96,195	44,288	44,287
Taxation calculated at 33%		25,607	31,744	14,615	14,615
Adjusted for the tax effect of					
Non taxable dividends		(91)	(68)	(14,618)	(14,618)
Goodwill amortisation and impairment		13,130	2,366	-	-
Other non deductible expenditure		1,292	966	-	-
Share of associates tax paid earnings		(1,292)	(1,171)	-	-
Section DF7 notional interest on staff share purchase plan		(55)	(110)	-	-
Income tax expense on operating surplus		38,591	33,727	(3)	(3)
Income tax (over) / under provided in prior year		(228)	965	-	-
Total income tax expense		38,363	34,692	(3)	(3)

Total income tax expense comprises

Current year income tax payable	10	46,752	40,450	(3)	(3)
Deferred taxation	13	(8,389)	(5,758)	-	-
Total income tax expense		38,363	34,692	(3)	(3)

8. Earnings per share

	Group	Group	Ordinary Shares	Ordinary Shares
	2005	2004	2005	2004
	\$ 000	\$ 000	000s	000s
Group net surplus / weighted average number of shares on issue	38,979	61,179	305,489	305,489
Net surplus per share (cents per share (cps))			12.8 cps	20.0 cps

Earnings per share is calculated by dividing the group net surplus attributable to parent shareholders by the weighted average number of ordinary shares on issue during the year.

Notes to the Financial Statements - Continued

12. Inventory

	Group	Group
	2005	2004
	\$ 000	\$ 000
Retail stock	344,858	343,670
Goods in transit from overseas	41,869	52,804
Total inventory	386,727	396,474

In some instances where goods have been purchased locally, the supplier retains title to the goods until payment has been made. No inventories have been specifically or separately pledged as security for any liabilities.

Goods in transit

Goods in transit from overseas are recognised when title to the goods is passed to the group. Title to the goods is passed when valid documents (which usually include a 'bill of lading') are received, and terms, as set out in a supplier's letter of credit or in the supplier's terms of trade, are met.

13. Deferred tax

		Group	Group
	Note	2005	2004
		\$ 000	\$ 000
Deferred tax at beginning of year		19,765	14,007
Recognised in the statement of financial performance	7	8,389	5,758
Deferred tax at end of year		28,154	19,765

Deferred tax asset consists of

Depreciation differences	10,138	4,756
Inventory differences	6,929	4,965
Holiday pay and other payroll related accruals	8,264	7,489
Provisions and other timing differences	2,823	2,555
Total deferred tax	28,154	19,765

14. Payables and accruals

		Group	Group
	Note	2005	2004
		\$ 000	\$ 000
Trade creditors		120,639	108,770
Goods in transit creditors		30,079	30,617
Foreign currency exchange swap		392	-
Accrued staff entitlements		38,875	35,288
Onerous leases	15	2,289	446
Property development payables		8,343	12,396
Total creditors and accruals		200,617	187,517

Trade creditor terms are between 7-90 days.

15. Provisions

		Group	Group
	Note	2005	2004
		\$ 000	\$ 000
Onerous leases			
Value at beginning of year		2,195	-
Additional provision		3,888	2,195
Amounts charged		(860)	-
Effect of exchange rate movements		54	-
Provisions at end of year		5,277	2,195
Represented by:			
Current	14	2,289	446
Non-current		2,988	1,749
Total provisions		5,277	2,195

As at 31 July 2005, the group has leases on four (2004: two) stores in Australia, which are adversely impacted by decisions regarding store zoning. The zoning issues have led to concerns over the possible under utilisation and profitability of these stores. An onerous contracts provision was created based on the likelihood that the group will exit the stores and will be able to sub-lease them in the future, albeit at a discount to the current annual lease amount paid by the group. An additional provision for a surplus lease resulting from the replacement of a New Zealand store was also made during the year.

Notes to the Financial Statements - Continued

16. Property, plant and equipment

	Freehold Land	Freehold Buildings	Store fittings and Equipment	Computer Equipment	Motor Vehicles	Work in Progress	Total
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Additions	15,256	34,983	27,658	8,703	601	(1,728)	85,473
Disposals	(2,241)	(4,775)	(1,398)	(268)	(80)	-	(8,762)
Depreciation	-	(2,081)	(34,416)	(14,036)	(684)	-	(51,217)
Effect of exchange rate movements	102	219	156	18	(2)	(337)	156
Movement in book value for the year	13,117	28,346	(8,000)	(5,583)	(165)	(2,065)	25,650

Carrying amount at beginning of year, comprising

Cost	54,992	99,066	282,795	102,698	6,481	24,049	570,081
Accumulated depreciation	-	(8,128)	(154,213)	(72,198)	(4,717)	-	(239,256)
Book value 2004	54,992	90,938	128,582	30,500	1,764	24,049	330,825

Carrying amount at end of year, comprising

Cost	68,109	129,400	302,667	109,990	6,160	21,984	638,310
Accumulated depreciation	-	(10,116)	(182,085)	(85,073)	(4,561)	-	(281,835)
Book value 2005	68,109	119,284	120,582	24,917	1,599	21,984	356,475

Property valuation

The directors, having taken into consideration purchase offers, independent and government valuations and other known factors, have assessed the fair value of freehold land and buildings to be \$252.896 million (2004: \$194.675 million). The directors' valuation was approved by the Board on 8 September 2005.

Freehold land and buildings as at 31 July 2005

	Carrying Amount	Directors Valuation
	\$ 000	\$ 000
Auckland (NZ) support offices	15,930	24,500
Sydney (Aust) support office	11,751	12,750
North Island (NZ) distribution centres	44,521	57,500
New Zealand stores	75,232	87,246
Australian store	847	2,500
Development assets	39,112	68,400
Total freehold land and buildings	187,393	252,896

New Zealand stores comprises nine different store locations. Development assets include four Auckland (NZ) properties and property at Gisborne (NZ), Palmerston North (NZ) and Timaru (NZ).

Property titles

Title was held by the group at balance date for all property, except for the Balmoral (NZ) and Queenstown (NZ) properties. Passing of title for the Queenstown property has been delayed until certain works regarding the subdivision and amalgamation of the property have been completed. The Balmoral property was purchased immediately prior to balance date and title will pass on settlement of the outstanding consideration in October 2005. The carrying amount of the properties at balance date was \$7.983 million.

Work in progress

Significant items included in work in progress at balance date include the Palmerston North (NZ) store development and the group's share of the Te Rapa (NZ) joint venture development.

17. Commitments

	Group	Group
	2005	2004
	\$ 000	\$ 000

Capital commitments

Contracts entered into for capital expenditure within the next twelve months which have not been provided for in the statement of financial position

19,123 28,950

The contractual commitments at balance date relate to the group's share of development work at Te Rapa (NZ) retail complex and ten store refits (five store refits in New Zealand and five store refits in Australia).

Lease commitments

The group has the following non-cancellable operating lease commitments which relate to leases of stores and distribution centres:

Due within one year	93,573	85,270
Due within one to two years	86,094	76,816
Due within two to five years	195,920	187,838
Due after five years	130,238	136,117
Total lease commitment	505,825	486,041

The parent company had no capital or lease commitments (2004: nil).

18. Goodwill

	Note	Group	Group
		2005	2004
		\$ 000	\$ 000

Balance at beginning of year		40,621	48,277
Amortisation	4	(6,892)	(7,170)
Impairment	4	(32,897)	-
Effect of exchange rate movements		(832)	(486)
Balance at end of year		-	40,621

Carrying amount at end of year, comprising

Cost	70,663	70,663
Accumulated amortisation and impairment	(70,663)	(30,042)
Book value 2005	-	40,621

Impairment review

On 8 September 2005, the Board resolved to write-off the carrying value of the goodwill relating to the group's Australian business (refer to note 30).

Notes to the Financial Statements - Continued

19. Cash balances

	Group	Group	Parent	Parent
	2005	2004	2005	2004
	\$ 000	\$ 000	\$ 000	\$ 000
Cash on hand and at bank	17,760	21,127	789	645
Deposits at call (interest rate: 5.40%)	27,982	-	-	-
Total cash	45,742	21,127	789	645

Cash on hand and at bank includes EFTPOS (Electronic Funds Transfer at Point of Sale) transactions 'in transit'. The timing of the end of the financial year means three days (2004: three days) EFTPOS sales remain in transit at balance date.

20. Borrowings

	Group	Group	Unused Facility	Unused Facility	Facility Limit	Facility Limit
	2005	2004	2005	2004	2005	2004
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
Borrowings						
Repayable within one year	39,865	126,950	45,135	23,050	85,000	150,000
Current borrowings	39,865	126,950	45,135	23,050	85,000	150,000
Repayable within one to two years	35,000	-	-	-	35,000	-
Repayable within two to five years	238,995	198,895	117,259	110,497	356,254	309,392
Non-current borrowings	273,995	198,895	117,259	110,497	391,254	309,392
Borrowings - secured						
Repayable within two to five years	1,149	-	12,351	-	13,500	-
Total borrowings	315,009	325,845	174,745	133,547	489,754	459,392
Bank overdraft	169	7,415	10,198	2,530	10,367	9,945
Letters of credit	-	-	25,764	34,578	46,683	56,630
Total facility			210,707	170,655	546,804	525,967

Borrowings have been aged in accordance with the bank facilities under which the funds have been drawn. All borrowings are drawn down by way of short term bills at interest rates current at draw down date.

Negative pledge deed

Bank borrowings are subject to a negative pledge deed. The negative pledge deed provides a guarantee to the group's banking institutions that the parent and its guaranteeing group companies (refer note 1.1) will comply with certain quarterly debt ratios and restrictive covenants.

The principal covenants of the negative pledge were:

- the group gearing ratio will not exceed 60% in the October first quarter or exceed 50% for the remaining three quarters of the year;
- the interest cover ratio for the group will not be less than two times;
- the total tangible assets of the guaranteeing group will constitute at least 90% of the total tangible assets of the group.

Secured borrowings

The secured borrowings relate to the group's interest in 'The Base Te Rapa Limited' joint venture. The borrowings of the joint venture are secured by first mortgage over certain assets of the joint venture. The groups share of total tangible assets at balance date was \$11.592 million.

20. Borrowings (Continued)

Interest rate repricing periods

	Group	Group	Notional Principal of interest rate swaps	Notional Principal of interest rate swaps	Weighted average effective interest rate	Weighted average effective interest rate
	2005	2004	2005	2004	2005	2004
	\$ 000	\$ 000	\$ 000	\$ 000	%	%
Borrowings						
Reprices within six months	98,246	193,248	-	-	6.91	6.02
Reprices within six to twelve months	27,790	-	27,790	-	6.29	-
Reprices within one to two years	55,580	-	55,580	-	5.83	-
Reprices within two to five years	133,393	132,597	133,393	132,597	6.12	6.12
Total borrowings	315,009	325,845	216,763	132,597	6.33	6.06

Currency denomination at end of year

	Group	Group	Notional Principal of interest rate swaps	Notional Principal of interest rate swaps	Weighted average effective interest rate	Weighted average effective interest rate
	2005	2004	2005	2004	2005	2004
	\$ 000	\$ 000	\$ 000	\$ 000	%	%
New Zealand dollars	76,014	126,950	-	-	7.20	6.15
Australian dollars	238,995	198,895	216,763	132,597	6.05	6.00
Total borrowings	315,009	325,845	216,763	132,597	6.33	6.06

Interest rates

Certain borrowings have been paired with interest rate swaps to hedge interest rate risk. Short term forward rate agreements have been used to provide seasonal cover over the six month period following balance date. The two agreements each have a notional principal of NZ\$35.0 million and run consecutively. The effect of the interest rate swaps and the forward rate agreements are included in the calculation of the effective interest rate and repricing periods.

Bank overdrafts

The average interest rate incurred for the year was 8.27% (2004: 7.24%) on New Zealand dollar denominated overdrafts and 9.00% (2004: 8.79%) on Australian dollar denominated overdrafts. The bank overdrafts are set off against cash balances pursuant to the right of set off arrangement with each bank.

Notes to the Financial Statements - Continued

21. Share capital

	Group & Parent	Group & Parent	Ordinary Shares	Ordinary Shares
	2005	2004	2005	2004
	\$ 000	\$ 000	000s	000s
Share capital at beginning and end of year	218,976	218,976	305,489	305,489

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Share restrictions

The share plan trustee holds 915,000 shares (2004: 1,162,000 shares) allocated to team members purchasing shares in accordance with the group's share purchase plans. The trading restrictions placed on these shares are detailed in note 28.

22. Treasury stock

	Group	Group	Ordinary Shares	Ordinary Shares
	2005	2004	2005	2004
	\$ 000	\$ 000	000s	000s
Treasury stock at beginning of year	6,490	5,432	1,458	1,216
Staff share purchase plan forfeited	560	1,058	144	242
Treasury stock at end of year	7,050	6,490	1,602	1,458

Ordinary shares held by the trustee of the share purchase plan

Unallocated treasury stock			1,602	1,458
Allocated to staff share purchase plan	28		915	1,162
Total ordinary shares held by the trustee			2,517	2,620

Percentage of share capital **0.82%** 0.86%

Shares held by the trustee are fully paid and carry the same voting rights as other issued ordinary shares. Voting rights attached to the shares are held by the trustee, and dividends paid on unallocated shares are retained by the trustee for the benefit of the group. The directors may appoint or remove any trustee by directors' resolution.

23. Foreign currency translation reserve

	Group	Group
	2005	2004
	\$ 000	\$ 000
Foreign currency translation reserve at beginning of year	(3,209)	1,984
Exchange difference on translation of overseas subsidiaries	(635)	(3,374)
Effect of hedging the net investment of overseas subsidiaries	(1,188)	2,817
Taxation effect of movements in the translation reserve	10	2,170
Foreign currency translation reserve at end of year	(2,862)	(3,209)

24. Retained earnings

	Group	Group	Parent	Parent
	2005	2004	2005	2004
	\$ 000	\$ 000	\$ 000	\$ 000
Retained earnings at beginning of year	147,912	131,028	698	703
Net surplus attributable to parent shareholders	38,979	61,179	44,291	44,290
Dividends paid to parent shareholders	25 (44,296)	(44,295)	(44,296)	(44,295)
Retained earnings at end of year	142,595	147,912	693	698

25. Dividends

	Group & Parent	Group & Parent	Cents per share	Cents per share
	2005	2004	2005	2004
	\$ 000	\$ 000		
First half year - current year	32,076	32,076	10.5 cps	10.5 cps
Second half year - previous year ¹	12,220	12,219	4.0 cps	4.0 cps
Total dividends paid	44,296	44,295	14.5 cps	14.5 cps

All dividends paid were fully imputed. Supplementary dividends of \$1.447 million (2004: \$1.074 million) were paid.

Dividend policy

The group has a policy of paying at least 50% of the net surplus attributable to shareholders back to shareholders in the form of ordinary dividends.

of the net surplus relating to the second half of the year are accounted for in the year they are paid. The declared dividend payout ratio for the year is 113.6% (2004: 72.4%), excluding the impairment of goodwill the payout ratio is 61.6%.

Dividends declared, in respect of:

First half year - current year	32,076	32,076	10.5 cps	10.5 cps
Second half year - current year ¹	12,220	12,220	4.0 cps	4.0 cps
Total dividends declared	44,296	44,296	14.5 cps	14.5 cps

¹ Subsequent event

On 8 September 2005 the directors declared a second half dividend of 4 cents per ordinary share. The dividend will be paid on 21 November 2005 to all shareholders on the group's share register at the close of business on 11 November 2005.

26. Minority interest

	Group	Group
	2005	2004
	\$ 000	\$ 000
Minority interest at beginning of year	293	184
Net surplus attributable to minority interest	254	324
Dividends paid to minority shareholders	(325)	(215)
Minority interest at end of year	222	293

Notes to the Financial Statements - Continued

27. Option Plans

Grant Date	Exercise Period	Option Value	Exercise Price	Number of options 2004	Options Issued	Options Exercised	Options Lapsed	Number of options 2005
		\$	\$	000s	000s	000s	000s	000s
2001 Fixed price share option plan								
18/03/2002	18/03/2005 - 31/05/2005	0.50	8.64	4,903	-	-	(4,903)	-
				4,903	-	-	(4,903)	-
2003 Fixed price share option plan								
16/04/2003	16/03/2006 - 16/03/2008							
	(target price \$6.52)	0.91	5.36	4,577	-	-	(852)	3,725
16/03/2004	16/03/2007 - 16/03/2009							
	(target price \$5.12)	0.76	4.38	5,392	-	-	(1,014)	4,378
Total share options				14,872	-	-	(6,769)	8,103

2001 Fixed price share option plan

In accordance with the share option plan approved by shareholders at the special general meeting held in June 2001, two tranches of share options were granted to team members in 2001 and 2002.

The exercise price for this plan was calculated using the weighted average market price of the group's share price over the ten trading days prior to grant date, increased by the group's estimated cost of equity (after adjusting for dividends) between the grant date and earliest exercise date. The estimated cost of equity is independently determined by external advisors and approved by the directors prior to the share options being granted. All shares granted in accordance with the plan have lapsed without any options being exercised.

2003 Fixed price share option plan

The second fixed price share option plan was approved by shareholders at the special general meeting held in March 2003. This plan cancelled and replaced the last two tranches of the 2001 option plan. The new plan allowed for a total of 11.0 million share options to be granted over two years in two 5.5 million tranches.

The main difference between the two plans is the 2003 plan will result in a smaller share dilution if all options were exercised. The reduction in the share dilution is achieved by granting fewer share options, with a higher ascribed fair value at grant date. The share price must exceed

the 2003 plan have been calculated using the same method.

Accounting treatment

The fixed price share option plans are accounted for under the terms of APB25, an accounting standard issued in the United States. The standard requires the group to recognise as a compensation expense the difference between the market price of the shares when the options are granted and the exercise price. The exercise price at grant date was set 'out of the money' in the 2001 plan and 'at the money' in the 2003 plan for each tranche of the share options granted. No compensation expense has been recognised in the Statement of Financial Performance for any of the four tranches of fixed price share options granted.

Option value

The option value of the share options at grant date have been independently estimated using the Black-Scholes option pricing model and used to assess the number of share options allocated to individual team members. The share options granted to team members are intended to retain staff and bring the salaries for senior managers up to market rates for Australian and New Zealand companies. At year end 347 (2004:454) team members held share options.

Executive Share Scheme

In November 2004, shareholders approved the establishment of an Executive Share Scheme ("Scheme") whereby selected employees (including Executive Directors) of the company or any of its subsidiaries were granted a right to be transferred ordinary shares in the company upon satisfaction of certain conditions.

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". 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). The purpose of the Award Shares aspect of the Scheme is to provide a medium-term incentive for participating executive employees.

In October 2005, the company provided a loan of \$5,100,000 to The Warehouse Management Trustee Company No. 2 Limited and the company issued rights to acquire up to 1,169,185 shares under the Scheme to selected executive employees in 2005.

28. Share Purchase Plans

Grant Date	Exercise Period	Issue Price	Number of Shares 2004	Shares Allocated	Shares Redeemed	Shares Forfeited	Number of Shares 2005
		\$	000s	000s	000s	000s	000s
New Zealand staff share purchase plan							
31/5/1999	31/05/2002 - 31/05/2004	4.89	12	-	(9)	-	3
18/5/2001	18/05/2004 - 18/05/2006	4.04	525	-	(43)	(58)	424
24/5/2002	24/05/2005 - 24/05/2007	4.90	498	-	(29)	(86)	383
			1,035	-	(81)	(144)	810
Australian staff share purchase plan							
17/4/2003	17/04/2006 - 17/04/2008	4.55	127	-	(22)	-	105
Total shares			1,162	-	(103)	(144)	915

Staff share purchase plans

The Warehouse Management Trustee Company acts as trustee for the team members share purchase plans. At regular intervals the trustee offers shares to those permanent team members of the group with service in excess of 750 hours per year. The shares are usually offered at a discount ranging from 15% to 30% of market price at the time when the shares are offered. Team members accepting the share offer are provided financial assistance on an interest free basis, payable over five years in regular installments. Dividends paid on the allocated shares during the qualifying period are paid to team members.

New Zealand plan

Shares are offered to team members in accordance with Section DF7 of the New Zealand Income Tax Act 1994 to a maximum consideration of \$2,340 per team member in any three year period. The qualifying period between grant and vesting date is a minimum of three to a maximum of five years. If a team member leaves the group before the three year qualifying period ends the shares are repurchased by the trustee at the lesser of the market price or the price at which the shares were offered.

Australian plan

In April 2003 the group introduced a new share purchase plan in Australia for the group's Australian team members. The Australian plan mirrors the New Zealand plan to the extent that it has been possible to comply with Australian legislation requirements. The main differences between the two plans are:

- the maximum consideration is set at A\$2,340 per team member in any three year period;
- a team member who leaves the group before the three year qualifying period ends is entitled to keep the shares after repaying the loan;
- in the New Zealand plan the trustee exercises the voting rights of team members during the qualifying period whereas Australian team members can direct the trustee how to vote in respect of their shares.

Notes to the Financial Statements - Continued

29. Financial Instruments

Interest rate risk

The group manages its interest rate risk by using a combination of interest rate swaps to hedge floating rate borrowings and forward rate agreements to hedge seasonal funding requirements. The directors regularly review the amount and the mix of interest rate derivatives used for hedging purposes.

Currency risk

The group maintains an off-balance sheet portfolio of forward exchange contracts and currency options to reduce the currency risks associated with purchasing goods in foreign currencies. The group's overseas purchases are principally denominated in US dollars.

During the year the group reviewed its foreign currency hedging policy. The review resulted in the group increasing the mix of 'purchased currency options' in portfolio cover and a revision of hedge levels. The groups revised policy parameters from June 2005 are:

- 0 to 6 months hedge 40% to 100% of the forecasted US dollar commitments
- 6 to 12 months hedge 0% to 85% of the forecasted US dollar commitments

The foreign currency portfolio at balance date provided cover for 87% of the New Zealand business and 48% of the Australian business forecasted 12 month US dollar exposure.

Subject to the approval of the group's Chief Executive Officer the new policy allows additional longer term hedging of up to 70% of the 12 to 36 month forecasted US dollar exposure when the US dollar is trading at levels 20% above the ten year historical average. No long term cover had been placed at balance date.

Where specific currency exposures are known the group specifically hedges these risks as they arise.

Treasury management of foreign currency and interest rate risk is reported to the directors at each board meeting.

	Group	Group
	2005	2004
	\$ 000	\$ 000
Foreign currency portfolio		
Foreign currency options	49,808	-
Forward exchange contracts	252,288	293,854
Total contract amounts	302,096	293,854

Translation risk

The group uses a combination of Australian denominated borrowings and a foreign currency swap to hedge the translation risk associated with the group's investment in its Australian business.

Australia/New Zealand dollar currency swap

Notional principal	65,308	66,238
Valuation at balance date	(392)	930

The valuation at balance date is recognised as a current payable (note 14) (2004: current receivable (note 9)).

Commodity Price Risk

The group manages its NZ commodity price risk for electricity by using both 'contracts for difference' which establishes a fixed price and 'fixed price/variable volume' contracts.

The group policy sets the following hedge parameters:

- 1 to 12 months hedge 60% to 100% of the forecast power usage exposure
- 13 to 24 months hedge 0% to 75% of the forecast power usage exposure
- 25 to 36 months hedge 0% to 50% of the forecast power usage exposure

The group has hedged part of its New Zealand electricity requirements in the form of 'contracts for difference'. The group has hedge contracts of 96.1GWH (2004: 44.6GWH) in place at balance date.

The group has also entered into fixed price/variable volume contracts which finish in September 2006.

29. Financial Instruments (Continued)

Credit risk

Financial instruments that potentially subject the group to credit risk consist principally of bank balances, off balance sheet financial instruments, receivables and advances. The group's deposits and off balance sheet financial instruments are placed only with major banks within limits approved by the directors. Team members' advanced funds to purchase shares in accordance with the share purchase plan are not given the shares until the advances are fully repaid. Agreements for the sale of property are entered into only with parties of high credit quality, and title and possession do not pass until settlement. The group performs credit evaluations on customers requiring credit

the minor nature and spread of such accounts. There were no other concentrations of credit risk at balance date.

The Warehouse Financial Services Limited

The group's associate company, The Warehouse Financial Services Limited, offers consumer credit to customers who potentially expose the group to an indirect credit risk. The amount of capital invested by both parties, and the level of bad debt provisions maintained by the associate are determined in accordance with Westpac Banking Corporation standards. The directors are satisfied that these standards are appropriate for the nature and performance of the business, and that the bad debt provisions are adequate to meet expected credit losses.

	Group	Group	Parent	Parent
	2005	2004	2005	2004
	\$ 000	\$ 000	\$ 000	\$ 000
Maximum exposures to credit risk at balance date are:				
Cash, bank in funds and deposits	45,742	21,127	789	645
Trade receivables and advances	13,401	13,318	169,589	171,188
Foreign currency exchange swap	-	930	-	-
Property settlements receivable	33	9,507	-	-
Investment in associate	10,378	10,595	-	-
Total exposure to credit risk	69,554	55,477	170,378	171,833

Fair values

Except for the group's off balance sheet financial instruments and the staff share purchase plan advances the fair value of the group's financial instruments do not differ from their carrying values.

	Group	Group	Group	Group
	Carrying Amount	Carrying Amount	Fair Value	Fair Value
	2005	2004	2005	2004
	\$ 000	\$ 000	\$ 000	\$ 000
Off balance sheet financial instruments				
Foreign currency options	443	-	819	-
Forward exchange contracts	-	-	1,409	6,535
Interest rate swaps and forward rate agreements	15	(32)	(791)	1,682

The fair value of the interest rate derivatives and foreign exchange derivatives are based on the quoted market price of the financial instrument or comparable financial instruments. The carrying value of interest rate derivatives represents the accrued interest on these instruments. The carrying value of currency options represents the unamortised option premium spread over the period from inception to the exercise date.

It was not practicable to estimate the fair value of the staff share purchase plan advances as there is no market for the advances and the timing of repayment is uncertain.

The fair value of electricity contracts for difference have been independently valued at (\$59,000), (2004: not valued).

The parent has no off balance sheet financial instruments.

Notes to the Financial Statements - Continued

30. Adoption of New Zealand Equivalents to International Financial Reporting Standards

As announced by New Zealand's Accounting Standards Review Board in December 2002, The Warehouse Group Limited will be required to prepare financial statements under New Zealand equivalents to International Financial Reporting Standards ("NZIFRS") for the year ending 27 July 2008, including comparative financial information for the year ended 29 July 2007.

During the 2004 financial year a project team was established to plan for the transition to NZIFRS and identify the impacts of its implementation. A high level overview has been completed and reported to the audit committee of the board. The project team also examined the potential implications of adopting NZIFRS from 1 August 2005 and decided not to early-adopt the new standards.

The two main reasons for choosing not to early-adopt were, firstly, to reduce the risk of an inconsistent application of NZIFRS compared to other retailers, and, secondly, to allow time for increased shareholder and analyst understanding of the earnings volatility that will result from the transition.

To date, the project team has identified a number of accounting policy changes that will be required although some of these are subject to interpretation and further review before the impact on the group is fully understood. The areas of significant difference that have been identified to date for the group, between New Zealand Generally Accepted Accounting Practice ("NZGAAP") and NZIFRS, are set out below:

Accounting for goodwill

Impairment expense in the 2005 year as goodwill is written-off prior to adoption.

In accordance with existing NZGAAP goodwill is amortised on a straight line basis over the period during which benefits are expected to be received. Under NZIFRS goodwill is no longer amortised but is required to be annually reviewed for impairment, according to strict tests, and any loss in value recognised as an expense at the time the loss in value is identified.

In advance of fully adopting NZIFRS the board resolved on 8 September 2005 to write-off the goodwill attributable to the group's Australian business. At 31 July 2005 no goodwill remained on the balance sheet, therefore the new NZIFRS policies will apply only to goodwill acquired in the future.

Share-based remuneration

Initial impact on retained earnings on implementation.

Higher expenses.

The group has issued share options to team members as a form of equity-based compensation in previous years. The group's current accounting policy does not recognise an expense in respect of these share options.

The group also issues shares to team members under the "Employee share ownership plan" ("ESOP"). The shares are usually offered to team members at a discount ranging from 15% to 30% of the market price at the time of issue. The group does not recognise an expense for the discount on the issue of these shares.

On adoption of NZIFRS the group will be required to determine the fair value of all share-based remuneration, including the discount on shares issued by the ESOP and amortise the expense over the relevant vesting periods. In respect of the options currently on issue to team members, the vesting periods occur prior to the group's intended NZIFRS adoption date, and will result in an expense being recognised as an adjustment to the comparative period and as an adjustment to initial opening retained earnings.

A new share-based incentive plan was approved by shareholders at the November 2004 annual meeting and it is intended that shares be granted to selected team members in October 2005. The group will recognise a compensation expense based on fair value for shares granted to team members in accordance with the new incentive plan over the period from the grant date to the earliest vesting date. It is anticipated that the accounting treatment for the new plan will not differ significantly from the requirements of NZIFRS.

Taxation

Initial impact on retained earnings on implementation.

Additional deferred tax assets or liabilities recognised.

Under NZIFRS, deferred tax will be calculated using a "balance sheet" approach which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of balance sheet items rather than the accounting and tax values recognised in the Statement of Financial Performance. It is expected that, on adoption of NZIFRS, the group will be required to carry higher levels of deferred tax assets and liabilities.

Hedge accounting

Initial impact on retained earnings on implementation.

Volatility in future earnings.

New assets or liabilities recognised.

The group maintains an off-balance sheet portfolio of forward exchange contracts and currency options to hedge the currency risks associated with its future purchasing requirements of overseas sourced inventories. Under New Zealand GAAP these contracts are accounted for as hedges with any gains or losses deferred and recognised when the hedged transaction occurs.

Under NZIFRS all derivative contracts, whether used as hedging instruments or otherwise, will be recognised at fair value in the Statement of Financial Position. Changes in the fair value of the derivatives will be recognised in the Statement of Financial Performance unless strict hedge criteria are met. Portfolio hedging of currency risk does not meet NZIFRS hedge criteria and would require any foreign currency gains or losses on the portfolio hedge to be recognised in the Statement of Financial Performance. The project team has identified hedge accounting as the group's greatest challenge to adopting NZIFRS and is currently investigating how the group will manage currency exposures and reported earnings volatility in the future.

The group also uses financial instruments as hedges to manage exposure to interest rate, translation, and commodity risks. The group restructured its debt during 2004 to ensure it will be able to comply with NZIFRS hedge criteria for interest rate derivatives and foreign currency translation instruments. Further work will be required to determine if the group can meet the hedge criteria for its electricity contracts.

Where the group is unable to meet NZIFRS hedge criteria this will result in increased earnings volatility.

These differences have been identified based on the current group position and accounting policies. Any changes to these will be assessed for NZIFRS implications as applicable. Readers should be aware that the actual impact of adoption in 2008 may differ from the information presented above. As such the group is not yet in a position to quantify the differences that may arise from changes to the accounting policies under NZIFRS. We will continue with our preparatory work over the coming months to ensure all necessary changes to our accounting policies, procedures and systems are implemented in sufficient time to enable us to understand and comply with the requirements of the new standards.

Notes to the Financial Statements - Continued

31. Contingent Liabilities

	Group	Group
	2005	2004
	\$ 000	\$ 000
Bank letters of credit issued to secure future purchasing requirements	17,094	22,052
Occupational Health and Safety claim	407	-
Bank guarantees provided to landlords and the New Zealand Exchange Limited	793	769
Lease disputes	853	500
Product liabilities	413	500
Total contingent liabilities	19,560	23,821

Contingent liabilities

Bank letters of credit issued to secure future purchasing requirements are matched to a contingent asset of the same value representing the inventories purchased.

No settlement relating to bank guarantees has occurred since their inception and any future outflow is unlikely.

Other contingent liabilities arise in the ordinary course of business. The likelihood and value of any future outflow relating to these liabilities is uncertain.

Money back guarantee

The group has a contingent liability for guarantees which cannot be reliably estimated. The group offers a money back guarantee on goods sold, and any cost of making good a customer's purchase is accounted for when incurred.

The parent company had no contingent liabilities (2004: nil).

32. Related parties

	Group	Group
	2005	2004
	\$ 000	\$ 000
The group has paid for services at normal commercial rates from the following organisations in which a director or former director has an interest:		
BDO Spicers (K R Smith, partner)	143	167
Hesketh Henry (J R Avery, partner)	427	891
Pukeko Creek Limited (P G Inger, shareholder/director)	106	89

The group has paid for services at normal commercial rates from the following organisations in which a director or former director has an interest:

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Hesketh Henry (J R Avery, partner)	427	891
Pukeko Creek Limited (P G Inger, shareholder/director)	106	89

The group maintains an interest register in which members of its board record all parties and transactions in which they may have a potential or actual self-interest.

Directors are entitled to purchase goods at normal staff discount. Other specific director's disclosures are made in note 6.

33. Trading period

In order to align merchandise planning and financial management processes within The Warehouse, the group has reported the current year results on a 52 week basis instead of a calendar year basis. The current period represents a 364 day period commencing 2 August 2004 to 31 July 2005. Prior year comparative figures represent a 367 day period commencing 1 August 2003 to 1 August 2004.

Auditors' Report



To the Shareholders of The Warehouse Group Limited

We have audited the financial statements on pages 58 to 84. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the 52 week period ended 31 July 2005 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 62 to 63.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of financial statements which give a true and fair view of the financial position of the Company and Group as at 31 July 2005 and of their financial performance and cash flows for the 52 week period ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 58 to 84:
 - (i) comply with generally accepted accounting practice in New Zealand; and
 - (ii) give a true and fair view of the financial position of the Company and Group as at 31 July 2005 and their financial performance and cash flows for the 52 week period ended on that date.

Our audit was completed on 8 September 2005 and our unqualified opinion is expressed as at that date.

Chartered Accountants Auckland

Corporate Governance at The Warehouse

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1.0 Governance at The Warehouse

The Warehouse has a set of values and behaviours that underpin our everyday activities, ensures transparency, accountability and protection of stakeholder interests.

The focus of the Board is to enhance the interests of shareholders and other key stakeholders and to ensure the company is properly managed. The Board draws on relevant best practice principles of corporate governance to assist and contribute to the company's performance.

1.1 Compliance with ASX Corporate Governance Council Best Practice Recommendations and NZX Corporate Governance Best Practice Code

As the company is listed on the New Zealand and Australian Stock Exchanges it is subject to governance regulations in each country. Under NZX listing rules the company is required to include within its annual report a statement disclosing the extent to which it has followed NZX Corporate Governance Best Practice Code for the reporting period. The company considers its governance practices comply with the NZX Code in its entirety for the year ended 31 July 2005.

The company is also required to include in its annual report a statement detailing the extent to which it has complied with ASX Corporate Governance Council Best Practice Recommendation. The company considers that it complies with all ASX Corporate Governance Council Best Practice Recommendations, apart from ASX Recommendation 9.1 (see Section 7.2).

A table summarising the company's corporate governance practices against the ASX Corporate Governance Council's ("ASXCGC") Best Practice Recommendations, NZX Corporate Governance Best Practice Code ("NZXCG Best Practice Code"), and the New Zealand Securities Commission Corporate Governance Principles and Guidelines ("NZ Securities Commission CGP&G") is available on the company's website.

1.2 Role and responsibility of shareholders

The shareholders are the owners of The Warehouse and in that capacity elect the members of the Board. In addition to the election of Directors, shareholders retain the right to vote on other important matters including changes to the Group's constitutions, major transactions and election of auditors.

A copy of The Warehouse constitution is available on The Warehouse website.

2.0 Date of this statement

This governance statement outlines the company's main corporate governance practices as at 8 September 2005. Unless otherwise stated they reflect the practices in place throughout the financial year ending on that date.

3.0 The Board of Directors

3.1 Membership and expertise of the Board

The Board has a broad range of relevant financial and other skills and experience to meet its objectives. The Board composition at the 8th September 2005 with details of individual Directors' background is set out below. Directors identified as Independent were Independent for the entire financial year under review.

Name: John Avery, LLB

Age: 54

Term of office: Director since June 1994

Independent: Yes

External directorships: Chairman of Independent Timber Merchants Co-operative Limited and Snowplanet Limited, a director of other privately owned companies and a Trustee of the Tindall Foundation.

Skills, experience and expertise: John is a partner of law firm Hesketh Henry. Apart from directorships, his expertise includes commercial property, business services and risk management.

Warehouse Board Committee Membership: Chairman of Eldamos Investments Limited (the property holding company of The Warehouse), Member of the Audit Committee and Director of The Base Te Rapa Limited.

Name: Rob Challinor, BCom, FCA, FCIS, CMA, AF.INST.D

Age: 63

Term of office: Director since November 1996

Independent: Yes

External directorships: Chairman of publicly listed Kingfish Limited and human resource consultancy Sheffield Limited. Other directorships include Ports of Auckland Limited and CDL Investments New Zealand Limited, Australasian Advisory Board member of L.E.K. Consulting and is a joint venture committee member of Copthorne Bay of Islands Resort.

Skills, experience and expertise: Rob is a former partner in an international accounting firm, and a former corporate finance advisor, with 20 years' experience as a company director. He is currently a partner and director of investment bankers Northington Partners Limited.

Warehouse Board Committee Membership: Chairman of the Audit Committee and member of the Disclosure Committee and Corporate Governance Committee.

Name: John Dahlsen, LLB, MBA

Age: 70

Term of office: Director since September 2001

Independent: Yes

External directorships: Chairman of J.C. Dahlsen Pty. Limited and Southern Cross Broadcasting (Australia) Limited. He is a board member of The Smith Family and is an Australasian Advisory Board member of L.E.K. Consulting.

Skills, experience and expertise: John is a commercial solicitor and company director based in Melbourne.

Warehouse Board Committee Membership: None.

Name: Graham Evans

Age: 66

Term of office: Director since July 1998

Independent: Yes

External directorships: Director of The Tatura Co-operative Dairy Company Limited.

Skills, experience and expertise: 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.

Warehouse Board Committee Membership: Chairman of the Remuneration, Talent and Nomination Committee and Corporate Governance Committee, member of the Audit Committee.

Name: Ian R Morrice, MBA

Age: 44

Term of office: Director since September 2004

Independent: No, executive director

External directorships: None

Skills, experience and expertise: Ian was previously the managing director, commercial, for United Kingdom-based B&Q Plc. 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.

Warehouse Board Committee Membership: Member of the Disclosure Committee and attendee at the Audit Committee.

Name: Keith Smith, BCom; FCA

Age: 53

Term of office: Director since June 1994

Independent: Yes

External directorships: Chairman of Tourism Holdings Limited and Skellmax Industries Limited, deputy chairman of Genesis Power Limited, and a director of Macquarie Goodman (NZ) Limited and PGG Wrightson Limited and a number of private companies. A past president of the New Zealand Institute of Chartered Accountants.

Skills, experience and expertise: Keith is a senior partner of the national accounting practice BDO Spicers and specialises in company directorships.

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

Name: Stephen Tindall, ONZM; Dip. Mgt; FNZIM; Hon.D; DCom Honoris Causa.

Age: 54

Term of office: Director since June 1994

Independent: No

External directorships: Founder and a trustee of The Tindall Foundation, a charitable trust which aims to help New Zealanders reach their full potential by using the philosophy of a hand-up not a hand-out.

He is also a member of the New Zealand Business Council for Sustainable Development and a member of the Government Innovation and Advisory Board.

Skills, experience and expertise: 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.

Warehouse Board Committee Membership: Member of the Disclosure Committee and member of the Remuneration, Talent and Nomination Committee.

Name: Ian Tsicalas, BA, BCom

Age: 55

Term of office: Director since December 2003

Independent: No, executive director

External directorships: None

Skills, experience and expertise: Ian Tsicalas was appointed chief executive officer of The Warehouse Australia operation in November 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 was a diversified company whose activities included retail, towage, distribution, heavy engineering and maintenance.

Warehouse Board Committee Membership: None.

3.2 Board role and responsibility

The role and responsibilities of the Board are formalised in the Board Charter. The purpose of the Board Charter is to provide high standards of corporate governance and to clarify the role and responsibility of the Board.

The Charter defines Board responsibilities, responsibility of individual Directors as well as matters reserved for the Board and matters delegated to management.

The terms of reference of the Charter is available on The Warehouse website.

The Board of The Warehouse Group Limited is elected by the shareholders to supervise the management of the company and is accountable to shareholders for The Warehouse's performance and its responsibilities include:

- **strategy** - providing strategic direction and approving corporate strategic initiatives;
- **leadership selection** - evaluating the performance of and selecting the Group Chief Executive Officer ("CEO") and Group Chief Financial Officer (CFO);
- **Board performance and composition** - evaluating the performance of non-executive Directors, determining the size and composition of the Board as well as making recommendations for the appointment and removal of Directors;
- **remuneration** - setting CEO and senior executive remuneration and setting non-executive Director remuneration within shareholder approved limits;
- **succession planning** - planning Board and executive succession;
- **financial performance** - approving the annual budget, monitoring management and financial performance as well as the achievement of company strategic goals and objectives;
- **financial reporting** - considering and approving the annual and half-year financial reports;
- **audit** - selecting and recommending to shareholders the appointment of the external auditors. Maintaining a direct and on-going dialogue with the external auditors;
- **risk management** - approving The Warehouse risk management strategy and monitoring its effectiveness;
- **social responsibility** - setting business standards and promoting ethical and responsible decision-making by the company;

Corporate Governance at The Warehouse - Continued

• **relationship with regulators, exchanges and continuous disclosure** - maintaining direct and on-going dialogue with the NZX and ASX and ensuring that the market and shareholders are continually informed of material developments.

(ASXCGC Best Practice Recommendation 1.1, NZXCG Best Practice Code 2.1, NZ Securities Commission CGP&G 2 & 3)

3.3 Delegations

The Board has delegated a number of these responsibilities to its Committees. The responsibilities of these Committees are detailed in Section 4 of this Corporate Governance Statement.

While the day-to-day responsibility for the operation of the business is delegated to the executive management there are a number of matters which are required to be, or that in the interests of the company should be, decided only by the Board of Directors as a whole. The Board has therefore formally adopted a list of "Matters Reserved for the Board" for which no delegation is permitted.

A copy of the "Matters Reserved for the Board" is available on the company's website.

The delegation to the Group Chief Executive Officer is reviewed annually.

3.4 Board size and composition

As at the date of this Corporate Governance Statement the Board had a majority of independent Directors and the roles of Chairman and Group Chief Executive Officer were not exercised by the same person. The Chairman is an Independent Director. The Board consists of eight Directors, five of whom are Independent non-executive Directors, two executive Directors and one non-executive Director who is not deemed to be independent by virtue of his shareholding in the Company.

(ASXCGC Best Practice Recommendation 2.1, 2.2, 2.3, NZX CGBP 2.1, NZ Securities Commission CGP&G 2)

3.5 Director independence and tenure

The Board assesses each Director against a range of criteria to determine whether they are in a position to exercise independent judgement.

To assist the Board in assessing independence, it has adopted the following criteria for assessing whether a non-executive Director is an "Independent Director" based on ASX Corporate Governance Council's Best Practice Recommendations, except for the specified length of service criteria. The Board considers that a Director should not automatically be considered not independent merely because of his or her length of service with the company.

A non-executive Director is considered to be "independent" providing that Director:

1. Is not a substantial shareholder of the company holding more than ten percent of the company's voting stock.
2. Has not within the last three years been employed in an executive capacity by the company or been a director after leaving to hold any such employment.
3. Is not a principal or employee of a professional advisor to the company and its entities whose billings exceed five percent of the adviser's total revenues.
4. Is not a significant supplier or customer of the company. A significant supplier is defined as one whose revenues from the company exceed five percent of the supplier's total revenue.
5. Has no material contractual relationship with the company.
6. Has no other interest or relationship that could interfere with the director's ability to act in the best interests of the company and independently of management.

7. Is not a member of management of The Warehouse Group Limited or its subsidiaries.
8. The Corporate Governance Committee & Board determines the director is independent in character and judgement.

Directors classified as independent have been independent for the entire financial year under review.

Each year the Independent Directors are requested to confirm in writing their status as an Independent Director and they have each undertaken to inform the Board as soon as practicable if they think their status as an Independent Director has or may have changed. On appointment, each Director is required to provide information to the Board to assess and confirm their independence as part of their consent to act as a Director.

The Board does not believe that any Director has served on the Board for a period which could, or could reasonably be perceived to materially interfere with the Director's ability to act in the best interests of the company. The Board considers that Directors retain independence of character and judgement regardless of the length of service.

3.6 Avoidance of conflicts of interest

The Board has adopted a Code of Ethics and a Code of General Business Principles that address confidentiality, trading in company securities, receipt of gifts and entertainment, transparency and avoiding conflicts and reporting and resolving ethical issues.

All Directors have signed the Code.

Further details of the Code are contained in Section 8 of this report.

3.7 Board meetings and practice

Board meetings are scheduled in advance. The Chairman of the Board and the Company Secretary draft the agenda for each Board meeting and distribute it to Directors, normally one week prior to the relevant meeting. Each Board member is free to suggest the inclusion of items on the agenda. One of the responsibilities of the Chairman is to ensure that Board members receive sufficient and timely information regarding business issues to enable them to discharge their responsibilities.

During the year the format and content of the Board papers was formally reviewed with Directors.

3.8 Company Secretary

The Company Secretary is Mark Fennell. He is responsible for developing and maintaining the information systems and processes that are appropriate for the Board to fulfil its role. The Company Secretary is also responsible to the Board for ensuring compliance with Board procedures. He advises the Board, through the Chairman and Corporate Governance Committee, on governance matters. All Directors have access to his advice and services, and he retains independent advisory services at the request of the Board or Board Committees.

3.9 Board access to information and advice

The Board has established a procedure whereby Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required.

Independent professional advice includes legal advice and the advice of accountants and other professional advisers on matters of law, accounting and other regulatory matters but excludes advice concerning the personal interests of the Director concerned (such as service contracts with the company or dealings in the company's securities or disputes with the

company). Any advice obtained under this procedure will be made available to the other members of the Board.

A copy of the policy on independent professional advice is available on the company's website.

Through the Group Chief Executive Officer the Board has complete access to any company team member. The Board encourages management to schedule presentations at Board meetings by managers who can provide additional insight into the items being discussed, because of their personal involvement or have future potential that management believes should be demonstrated to the Board.

3.10 Nomination and appointment of new Directors

Procedures for the appointment and removal of Directors are governed by the company's constitution.

The Remuneration, Talent and Nomination Committee is delegated with the responsibility of identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Board has adopted a policy to govern the selection and appointment of Directors, a copy of which is available on the company's website.

The Board's procedure when selecting and appointing new Directors varies depending upon the circumstances of the company at the particular time. The Board believes that its membership should comprise Directors with an appropriate mix of skills, experience and personal attributes that allow the Directors individually, and the Board collectively, to:

- Discharge their responsibilities and duties under the law effectively and efficiently.
- Understand the business of the company and the environment in which the company operates so as to be able to agree with management on the objectives, goals and strategic direction which will maximise shareholder value.
- Assess the performance of management in meeting those objectives and goals.

Accordingly, in selecting potential new Directors, the committee seeks to identify the competencies required to enable the Board to fulfil its responsibilities. In so doing, the Remuneration, Talent and Nomination Committee has regard to the results of the annual appraisal of the Board's performance.

While recognising that each Director will not necessarily fulfil all criteria, the Remuneration, Talent and Nomination Committee has identified the existence of certain personal characteristics as relevant to the selection and appointment of new Directors.

The committee believes that a potential new Director should:

- Be outstanding in capability and have extensive and senior commercial experience.
- Be a cultural "fit" with existing Board members and have empathy with the company's culture.
- Have a high level of personal integrity.
- Be a team player.
- Have an independent state of mind.
- Be free of conflicts as identified by the company.
- Have the time available to meet the commitment required.

In addition, specific functional skills will be identified from time to time to complement the overall mix of functional skills of Board members.

Pursuant to NZX Listing Rule 3.3.2, the company is required to make an announcement to the market advising of the opening and closing dates for Director nominations. The opening date for nominations shall be not less than three months prior to the

annual shareholders' meeting with a closing date of not more than two months before the annual shareholders' meeting.

3.11 Retirement and re-election of Directors

The Warehouse constitution specifies that in each year one third of the Directors, or if their number is not a multiple of three then the nearest number to one third, shall retire from office and may offer themselves for re-election at the annual shareholders' meeting. The constitution identifies the Directors to retire as those who have been longest in office since they were last elected or deemed elected.

While the constitution provides for the payment of retirement benefits to Directors the company has not paid a retirement benefit since listing in 1994.

3.12 Terms and conditions of appointment and retirement of non-executive Directors

The terms and conditions of the appointment and retirement of a new non-executive or independent Director are set out in a letter of appointment which details remuneration, term of appointment (subject to shareholder approval), expectation of the Board in relation to attending and preparing for all Board meetings and Board Committee meetings, procedures for dealing with conflicts of interest and availability of independent professional advice.

A sample letter of appointment is available on the company's website.

3.13 Directors induction and education

When appointed to the Board, all new Directors undergo an induction programme appropriate to their experience to familiarise them with The Warehouse business and strategy. A detailed induction programme, including a familiarisation programme for non-executive Directors has been developed and approved by the Board.

The Board ensures Directors continue their education by scheduling at least one Board meeting each year in Australia to enable Directors to view the Australian operation and its retail competition and to spend time meeting with senior management. As part of the strategic planning review, Directors are formally briefed by senior management on relevant industry and competitive issues.

3.14 Board performance review

Each year the Chairman, with assistance from the General Manager People, formally assesses the performance of individual Directors whilst Directors also assess the collective performance of the Board and the performance of the Chairman.

(NZXCG Best Practice Code 2.9, 3.3, 3.9, 3.12)

4.0 Board committees

4.1 Board Committees and membership

The Board maintains four formally constituted standing Board Committees: the Audit Committee; the Remuneration, Talent and Nomination Committee; the Corporate Governance Committee; and the Disclosure Committee.

The four Board Committees and their membership at 8 September 2005 are set out below.

4.2 Board Committees and membership

The roles and responsibilities of the Board Committees are set out in the respective Committee Charters.

Copies of the Committee Charters are available on the company's website.

Corporate Governance at The Warehouse - Continued

Director	Membership classification	Committee membership			
		Audit committee	Remuneration, talent and nomination committee	Corporate governance committee	Disclosure committee
John Avery	Independent	Member	-	-	-
Rob Challinor	Independent	Chairman	-	Member	Member
John Dahlsen	Independent	-	-	-	-
Graham Evans	Independent	Member	Chairman	Chairman	-
Ian Morrice	Executive	-	-	-	Member
Keith Smith	Independent (Chairman)	Member	Member	-	Chairman
Stephen Tindall	Non-executive	-	Member	-	Member
Ian Tscicalas	Executive	-	-	-	-

4.3 Committees procedures and attendance

The Board Committees meet either quarterly or are convened as necessary. Each Committee is entitled to the resources and information it requires to operate effectively. The Group CEO and senior executives are invited to attend Committee meetings as necessary.

All Directors receive all Committee papers and non-executive Directors can attend all Committee meetings. Committee minutes are circulated for review and consideration by the full complement of Directors, supplemented by oral reports from the Committee chairmen or other members.

The performance of each Committee member (other than the Group CEO) is part of the annual performance review of each Director.

(ASXCGC Best Practice Recommendation 4.5, 7.3, 8.1, 9.5)

Details of the attendance by directors on Board Committees is noted in the Chairman's report.

4.4 Audit Committee

Membership of the Audit Committee

Membership of the Committee is restricted to non-executive Directors and the majority of Directors on the committee must be Independent Directors. The chairman of the committee must also be an Independent Director.

The Audit Committee includes members who have appropriate financial experience and an understanding of the industry in which The Warehouse operates.

All members of the Audit Committee satisfy the independence requirements that The Warehouse is currently required to comply with under ASXCGC Best Practice and NZX Best Practice. Two committee members, K R Smith and R L Challinor, are Fellows of the New Zealand Institute of Chartered Accountants.

Role of the Audit Committee

The main responsibilities of the Audit Committee are to:

- Exercise oversight of the accuracy and completeness of the financial statements (annual report and the half-year financial report).
- Assist the Board to review the effectiveness of the organisation's internal control environment covering:
 - Effectiveness and efficiency of operations;
 - Reliability of financial reporting; and
 - Compliance with applicable laws and regulations.
- Determine the scope of the internal audit function, its authority, resources and scope of work including co-ordination with external auditors.

- Oversee the effective operation of the risk management framework.
- Recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement and the scope and quality of the audit.
- Review and approve, within established procedures and before commencement, the nature and scope of non-audit services being provided by the external auditors. Policies in respect of audit independence are detailed later in this statement under Audit governance and independence.

In fulfilling its responsibilities the Audit Committee receives regular reports from management and the internal and external auditors. The Committee meets with the internal auditors at least four times a year and with the external auditor at least twice a year. The committee has an opportunity to meet with external auditors without management of the company being present. Qualifications of audit committee members are detailed in Section 3.1 of this Corporate Governance Statement.

The internal and external auditors have a clear line of direct communication at any time to either the chairman of the Audit Committee or the chairman of the Board, both of whom are non-executive Directors.

The Audit Committee relies on information provided by management and the external auditor. Management determines and makes representations to the Board that The Warehouse's financial statements and disclosures are complete and accurate. The external auditor has the duty to plan and conduct audits.

The committee met four times during the year.

The charter was reviewed in June 2005.

(ASXCGC Best Practice Recommendation 4.2, 4.3, 4.4, NZX CGBP 3.1, 3.2, 3.4, 3.8, 3.11, NZ Securities Commission CGP&G 2, 4)

4.5 Remuneration, Talent and Nomination Committee

Membership of the Remuneration, Talent and Nomination Committee

Membership of the Committee is restricted to non-executive Directors, and the majority of Directors on the Committee must be Independent Directors. The chairman of the Committee is an Independent Director. The charter was reviewed in June 2005.

Role of the Remuneration, Talent and Nomination Committee

The Committee is responsible for determining and reviewing compensation arrangements for the Directors, the group chief executive officer and the executive management team, ensuring appropriate performance management, talent identification and

succession planning frameworks are in place. The Committee is also responsible for reviewing the structure, size and composition of the Board, and identifying and nominating candidates for the approval of the Board.

The Committee met five times during the year.

(ASXCGC Best Practice Recommendation 2.4, NZXCG Best Practice Code 2.2, 3.7, 3.10, NZXCGBP 2.2)

4.6 Corporate Governance committee

Membership of the Corporate Governance Committee

Membership of the Committee is restricted to Independent Directors.

Role of the Corporate Governance Committee

This committee was established to ensure that the company maintains a high level of corporate governance through continuous monitoring of international corporate governance best practice as promulgated by the relevant authoritative bodies.

The committee is responsible for developing recommendations to the Board on corporate governance matters, undertaking an annual review of the alignment of the Board's governance systems with best practice, determining and monitoring independence of Directors, reviewing ethical guidelines, approving the corporate governance statements in the annual report, and reviewing the company's Disclosure Policy.

The committee met once during the year.

The charter was reviewed in July 2005.

(ASXCGC Best Practice Recommendation 9.2, NZX CGBP 3.7, 3.8, 3.10, 3.11, NZ Securities Commission CGP&G 5)

4.7 Disclosure Committee

Membership of the Disclosure Committee

The Disclosure Committee is a committee of Board Directors and management and comprises the Chairman of the Board, Chairman of the Audit Committee, Founder, Group CEO, Group CFO and Company Secretary.

Role of the Disclosure Committee

The committee is responsible for ensuring the company meets its disclosure objectives under the Australian Stock Exchange Listing Rule 3.1 and the New Zealand Exchange Listing Rule 10.1.

To achieve and maintain high standards of disclosure, the Board has approved a Market Disclosure Policy which is designed to ensure compliance with NZX and ASX continuous disclosure requirements. The policy ensures that information a reasonable person would expect to have a material effect on the price of The Warehouse's securities would be immediately disclosed.

The committee met four times during the year.

Further details on the operation of the company's Market Disclosure Policy are contained in section 9.0.

A copy of the Market Disclosure Policy is available on the company's website.

5.0 Audit governance and independence

5.1 Approach to audit governance

The independence of the external auditor is of particular importance to shareholders and the Board.

The Audit Committee is responsible for overseeing the external audit of the company. Accordingly it monitors developments in the areas of audit, and threats to audit independence, to ensure its policies and practices are consistent with emerging best practice in these areas.

The Board has adopted a policy on audit independence, the key elements of which are:

- The external auditor must remain independent of the company

at all times and comply with Professional Standards F.1 (Australia) and New Zealand Institute of Chartered Accountants (NZICA) Code of Ethics.

- The external auditor must monitor its independence and report to the Board that it has remained independent.
- Guidelines in relation to the provision of non-audit services by the external auditor in order that the provision of such services does not impair the external auditor's independence or objectivity.
- The audit firm may be permitted to provide non-audit services that are not considered to be in conflict with the preservation of the independence of the auditor subject to the approval of the company Audit Committee.

- The Audit Committee must approve significant permissible non-audit work assignments that are awarded to an external auditor, and the value of non-audit work must be reported at every Board meeting.

(NZXCG Best Practice Code 4.1, 4.2; NZ Securities Commission CGP&G 7)

5.2 Engagement of the external auditor

The Warehouse external auditor is PricewaterhouseCoopers ("PwC"). PwC was appointed by shareholders at the 2004 annual meeting in accordance with provisions of the Companies Act 1993. PwC is automatically reappointed as auditor under Section 200 of the Companies Act 1993.

5.3 Attendance at the annual meeting

PwC as auditor of the 2005 financial accounts, has been invited to attend this year's annual meeting and will be available to answer questions about the conduct of the audit, preparation and content of the auditor's report, accounting policies adopted by The Warehouse and the independence of the auditor in relation to the conduct of the audit.

(ASXCGC Best Practice Recommendation 6.2, NZ Securities Commission CGP&G 8)

5.4 Internal audit

The company has an internal audit function, which is independent of the company's external auditors. The powers and responsibilities of the internal audit team are defined in its Audit Charter. The internal audit function of the company is undertaken in conjunction with Ernst & Young. The respective internal audit teams report to and are directed by the Audit Committee.

Each year the internal audit programme is approved by the Audit Committee. The programme of audit work considers the most significant areas of business risk in the company and is developed following discussions with senior management, review of the business process model of the company and consideration of the findings of the annual strategic risk assessment. The programme also considers risks in relation to major projects that are planned or currently underway.

The role of internal audit is to:

- Assess the design and operating effectiveness of controls governing key operational processes and business risks.
- Provide the Board with an assessment, independent of management, as to the adequacy of the company's internal operating and financial controls, systems and practices.
- Assist the Board in meeting its corporate governance and regulatory responsibilities.

Store audits are conducted by company internal auditors. For the year ended 31 July 2005, 137 programmed, follow-up or trigger store audits were conducted by the company's internal auditors. Non-store internal business processes are audited by Ernst & Young. (NZXCG Best Practice Code 4.1, 4.2).

Corporate Governance at The Warehouse - Continued

5.5 Certification by the Group CEO and Group CFO

The Group CEO and Group CFO have provided the Board with written confirmation that the company's financial report presents a true and fair view, in all material respects, of the company's financial position for the year ended 31 July 2005, and that operational results are in accordance with relevant accounting standards.

(ASXCGC Best Practice Recommendation 4.1, NZX CGBP 4)

6.0 Controlling and managing risk

6.1 Approach to managing risk

Risk is the chance of something happening that will have an impact on business objectives. Using risk standard AS/NZS 4360: 2004 and having established an acceptable risk tolerance, The Warehouse approach is to identify, analyse, evaluate and appropriately treat risk in the business.

The Warehouse recognises three main types of risk:-

Operational risk - risk to earnings and reputation arising from inadequate or failed internal processes, people and systems or from external events;

Business risk - risk to earnings and reputation from business event risk, legal, compliance or regulatory risk;

Market risk - risk to earnings and reputation arising from competitor activity, product risk and risk associated with changes in financial markets (such as interest rate, foreign exchange and liquidity risk).

(ASXCGC Best Practice Recommendation 7.1, 7.2, NZ Securities Commission CGP&G 6, 7)

6.2 Risk management roles and responsibilities

The Board is responsible for reviewing and approving The Warehouse's risk management strategy.

The Board delegates day-to-day management of risk to the Group CEO who may further delegate such responsibilities to brand chief executive officers and other officers. Inherent in this delegation is the belief that responsibility for managing risks in the business is the domain of the business unit.

6.3 Group CEO and Group CFO Assurance

The Group CEO and Group CFO have provided the Board with written confirmation that the company's 2005 financial statements are founded on a sound system of risk management and internal compliance and control, and that such systems are operating efficiently and effectively in all material respects.

(ASXCGC Best Practice Recommendation 4.1, 7.2)

6.4 Risk monitoring and evaluation

The Audit Committee reviews the reports of management and the external and internal auditors on the effectiveness of systems for internal control, financial reporting and risk management. To assist in discharging this responsibility the Board has in place a number of strategies designed to safeguard the company's assets and interests and ensure the integrity of reporting.

The Audit Committee receives regular reports regarding the effectiveness of policies and processes to manage risk. These reports include quarterly reviews of store audit results, an annual strategic risk assessment of key risks and risk mitigation strategies and quarterly reports from Ernst & Young on internal audit findings.

6.5 Insurance

The Company maintains insurance coverage with reputable insurers for relevant insurable risk. The Company retains a \$1 million insurance deductible for any single event loss arising from damage or business interruption to stores, distribution centres or support offices. Apart from earthquake risk, the "per event" deductible is capped at \$5 million in any one insurance period.

The Warehouse Limited and Warehouse Stationery Limited are accredited employers under the ACC Partnership Programme for workers' compensation insurance. This programme encourages eligible employers to take responsibility for their own workplace health and safety, and injury management. This includes rehabilitation and claims management of employee work injuries. As a partnership employer the company self-insures the costs and compensation arising from workplace injuries up to a maximum limit of \$150,000 for any one event and up to \$1.6 million in any one year.

7.0 Remuneration

Making sure team members get the rewards they deserve is the responsibility of the Remuneration, Talent and Nomination Committee, a committee of the Board. The committee makes recommendations to the Board on salaries and incentive programmes and more generally on group issues, plans and policies relating to people management.

The committee is assisted by the General Manager, People, and by external remuneration advisors.

7.1 Non-executive Directors' remuneration

The fees payable to non-executive Directors are determined by the Board within the aggregate amount approved by shareholders. The Board considers the advice of independent remuneration consultants when setting remuneration levels. Total remuneration available to non-executive Directors is fixed by shareholders at the annual meetings. The current Directors' fee pool limit is \$489,000 which was approved by the shareholders at the annual shareholders' meeting on 29 November 2002.

Details of the remuneration paid to Directors, and other benefits provided by way of salaries, bonuses and exercising share options, are disclosed in Note 6 to the financial statements "Directors' remuneration".

7.2 Senior executive remuneration

The objective of the senior managerial remuneration strategy is to provide competitive remuneration aimed at:

- Aligning managers' rewards with shareholders' value.
- Achieving business plans and corporate strategies.
- Rewarding performance improvement.
- Retaining key skills and competencies.

The composition of senior executive remuneration is made up as follows:

- Base or fixed remuneration: determined by the scope of the role and the level of knowledge, skill and experience required by the individual. The main reference point is the salaries at the median of this group although the company is prepared to pay more to secure and retain the right people to deliver what the business needs.
- Short-term incentive plan: typically this comprises an annual incentive, based on a percentage of the fixed remuneration, dependent on the achievement of key performance and operating result objectives. For the group chief executive officer and group executive the bonus is typically up to 50 percent of base salary and is based on a combination of the group reported earnings and each executive's specific objectives.

- Long-term incentive plan: a reward for the achievement of long-term shareholder return. Under various options plans that have been approved by shareholders, participants may be entitled to purchase ordinary shares in the company if certain share price targets are met. Details of those plans, and the share price targets, are contained in Notes 27 "Options plans" and 28 "Share purchase plans" to the financial statements. All current options plans have been approved by shareholders.

Senior management remuneration is detailed in the wider disclosure made by the company in the employee remuneration section of the notes to the financial statement. That note details, in relevant bandings, the number of employees or former employees whose remuneration, inclusive of other benefits received by employees, exceeded \$100,000.

The company considers that this level of disclosure is adequate and has not adopted ASX Recommendation 9.1 which recommends disclosure of the five highest paid executive officers. The company considers that it is not appropriate to follow this ASX recommendation as these figures are distorted by the company having managers that reside in Australia where remuneration levels can differ widely from those in New Zealand. (ASXCGC Best Practice Recommendation 8.1, 9.3, 9.4, NZX CGBP 2.9, 3.3, 3.9, 3.12, NZ Securities Commission CGP&G 2)

8.0 Promoting ethical and responsible behaviour

8.1 The Warehouse Code of Conduct

The Board has adopted a Code of Ethics and a Code of General Business Principles.

The Code of Ethics provides Directors and executive officers with clear expectations of ethical standards expected in the company. The code has been adopted by all companies of The Warehouse Group Limited. It addresses:

- Confidentiality
- Trading in company securities
- Receipt of gifts and entertainment
- Transparency and avoiding conflicts
- Use of company information and assets
- Delegations of authority
- Processes for reporting and resolving ethical issues.

The Code of General Business Principles covers:

- Workplace responsibilities (diversity, employment practices, health and safety)
- Doing business in an environmentally responsible manner
- Interaction with customers and suppliers
- Fair competition in all the markets in which the company operates.

Copies of both codes are available on the company's website.

(ASXCGC Best Practice Recommendation 3.1, 3.3, 10.1, NZXCGC Best Practice Code 1.1, NZ Securities Commission CGP&G 1)

8.2 Insider trading policy and trading in The Warehouse shares

The Code of Conduct contains a Code of Practice for dealing in company securities which is modelled on the Securities Amendment Act 1988 and the subsequent Insider Trading (Approved Procedures for Company Officers) Notice 1996.

The in-house Code of Practice also limits Directors and senior management to dealing in the company's shares, options or other securities only in the six-week period commencing one day after the release of the interim and annual financial results. In this

connection, team members deemed to be senior management are those defined by the Group Chief Executive Officer from time-to-time.

All company team members must obtain written consent of the Group Chief Executive Officer or Company Secretary prior to dealing in company shares or options at any time. Directors of the company must also obtain written consent from either the Chairman of the Board or the Chairman of the Audit Committee, prior to dealing in company shares or options.

Directors and senior management are prohibited from short-term trading in company shares.

The company monitors trading by senior team members of the company and reports any share movements to the Board each month.

(ASXCGC Best Practice Recommendation 3.2, 3.3)

8.3 Concern reporting

Team members are encouraged to bring any problems to the attention of management, this includes activities or behaviour that may not be in accord with the Code of Conduct or other regulatory requirements or laws.

Concerns can be raised anonymously through The Warehouse free-phone line.

(ASXCGC Best Practice Recommendation 3.1, 3.3, 10.1)

9.0 Market disclosure

The Warehouse considers that shareholders and the investment market generally should be promptly informed of all major business events that influence the Company.

To achieve and maintain high standards of disclosure, the Board has approved a Market Disclosure Policy which is designed to ensure compliance with NZX and ASX continuous disclosure requirements. The policy ensures that information a reasonable person would expect to have a material effect on the price of The Warehouse's securities would be immediately disclosed [subject to the three riders].

A copy of the Market Disclosure Policy is available on the company's website.

To assist the company with its Market Disclosure Policy, the Board has appointed a Disclosure Committee. The committee is chaired by the Chairman of the Board of Directors and involves the Chairman of the Audit Committee, Founder, Group CEO, Group CFO and Company Secretary.

The committee is responsible for making decisions on what should be disclosed publicly under continuous disclosure policy in compliance with ASX Listing Rule 3.1 and NZX Listing Rule 10.1.

The Company Secretary is the Disclosure Officer of the company and has responsibility for ensuring compliance with the continuous disclosure requirements of the NZX and ASX listing rules, and overseeing and coordinating disclosure to the NZX, ASX, analysts, brokers, shareholders and the media.

The market disclosure policy was reviewed in June 2005.

(ASXCGC Best Practice Recommendation 5.1, NZ Securities Commission CGP&G 4)

10.0 Shareholder communication and relations

The company values its dialogue with institutional and private investors and is committed to giving all shareholders comprehensive, timely and equal access to information about its activities.

Communication with investors through the ASX and the NZX

Corporate Governance at The Warehouse - Continued

includes periodic disclosure to shareholders through the annual report and interim reports together with quarterly store sales and other announcements in accordance with continuous disclosure rules. Live and recorded web casts of the interim and annual result are also available on the company's website.

Up-to-date information on the company's various activities is available on the company's website (www.thewarehouse.co.nz) which contains recent major announcements, presentations and reports including all major notices to the Australian and New Zealand stock exchanges. This information will be found in the "Investor Centre" under "Governance", "Press Releases" or "Presentations".

In September 2004 The Warehouse undertook a four-city New Zealand roadshow for its private investors to give shareholders an opportunity to understand company strategy and goals. This will be repeated every two years.

Private and institutional investors are encouraged to attend and participate in the company's annual shareholders' meeting which is usually held towards the end of November at a date, time and venue considered convenient to the greatest number of its shareholders. This year's meeting will be held on 25 November 2005.

The notice of meeting is circulated at least twenty-eight days before the meeting and is also posted on the company's website. Shareholders are provided with notes on all the resolutions proposed through the notice of annual meeting each year. Directors and the company's external auditor are available to answer shareholder questions. The Board encourages full participation of shareholders to ensure a high level of accountability and identification with the company's strategies and goals.

Leading up to the 2005 annual meeting shareholders will be invited to email questions to the Board via the email address asktheboard@thewarehouse.co.nz. Where possible and practical those questions will be answered at the annual meeting.

During the year shareholders can direct queries or comments to the company via the comprehensive "Contact Us" section on the company's website.

(ASXCGC Best Practice Recommendation 6.1, NZ Securities Commission CGP&G 4, 8)

11.0 Corporate responsibility and sustainability

The Warehouse aims to manage its business in a way that will produce positive outcomes for all stakeholders including the public, our customers, team members, suppliers and our shareholders. Our intention is to monitor our progress towards business sustainability in which we seek to assess and actively improve the social and environmental characteristics of our business. This is a goal we are strategically committed to and which we seek to integrate more fully into our day-to-day operations.

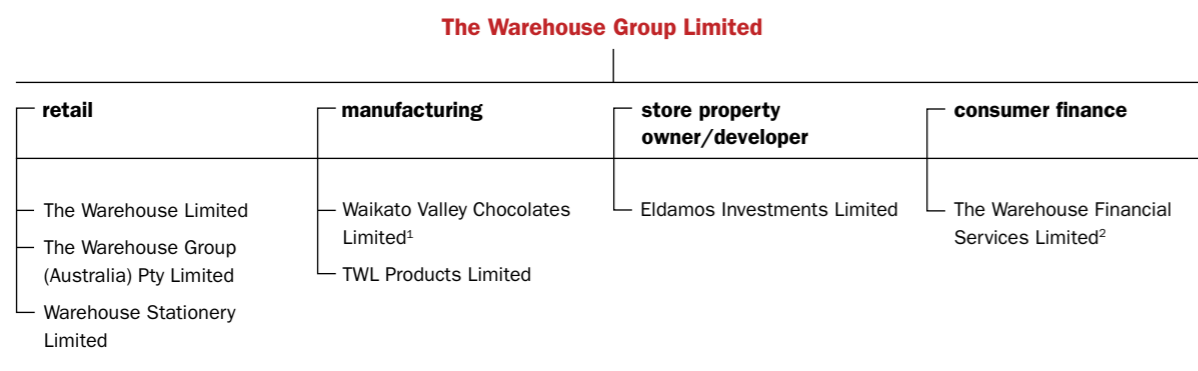
A summary of the Social and Environment Report is included with this annual report. The full report is available on the company's website.

The Warehouse has recently received the following governance and sustainability ratings:

- Institutional Shareholder Services Corporate Governance Quotient Index for The Warehouse was 96.8, Industry average 93.7.

(ASXCGC Best Practice Recommendation 10.1, NZ Securities Commission CGP&G 9)

Organisational Structure at The Warehouse



¹ 50% shareholding

² 49% shareholding, 51% held by Westpac-Holding-NZ Limited

Other Statutory Information

Twenty Largest Registered Shareholdings as at 30 September 2005

	Number of Ordinary Shares	Percentage of Ordinary Shares
S R Tindall	83,058,283	27.19%
The Tindall Foundation Inc.	66,323,220	21.71%
National Nominees New Zealand Limited - NZCSD A/C ¹	23,816,293	7.80%
Westpac Banking Corporation - Client Assets No. 2 - NZCSD A/C ¹	15,511,144	5.08%
RBC Global Services Australia Nominees Pty Ltd	12,204,006	3.99%
ANZ Nominees Limited - NZCSD A/C ¹	5,881,362	1.93%
Citibank Nominees (New Zealand) Limited - NZCSD A/C ¹	3,536,320	1.16%
S R Tindall & K R Smith & J R Avery (as trustees)	3,389,844	1.11%
R G Tindall & G M Tindall & J R Avery & K R Smith & S R Tindall (as trustees)	3,000,000	0.98%
Accident Compensation Corporation - NZCSD A/C ¹	2,651,580	0.87%
Custody and Investment Nominees Limited - NZCSD A/C ¹	2,602,387	0.85%
The Warehouse Trustee Management Company Limited	2,489,464	0.81%
NZ Superannuation Fund Nominees Limited - NZCSD A/C ¹	1,960,634	0.64%
AMP Investments Strategic Equity Growth Fund - NZCSD A/C ¹	1,583,180	0.52%
HSBC Nominees (NZ) Limited - NZCSD A/C ¹	1,460,346	0.48%
Asteron Life Limited - NZCSD A/C ¹	1,213,960	0.40%
T.E.A. Custodians Limited - New Zealand Equities Trust - NZCSD A/C ¹	1,182,345	0.39%
AMP Life Limited - NZCSD A/C ¹	1,077,691	0.35%
Cogent Nominees Limited - NZCSD A/C ¹	1,026,128	0.34%
NZGT Nominees Limited - NZCSD A/C ¹	1,008,504	0.33%
	234,976,691	76.93%

¹ Shareholdings held in New Zealand Central Securities Depository Limited (NZCSD)
Total holdings in NZCSD were 70,097,140 (22.94%)

Distribution of Ordinary Shares as at 30 September 2005

Size of Shareholding	Number of shareholders	Percentage	Number of shares held	Percentage
1 - 1,000	7,745	46.07%	4,617,449	1.51%
1,001 - 5,000	7,201	42.83%	17,703,908	5.80%
5,001 - 10,000	1,137	6.76%	8,654,212	2.83%
10,001 - 100,000	670	3.98%	15,756,168	5.16%
100,000 and over	61	0.36%	258,757,131	84.70%
	16,814	100.00%	305,488,868	100.00%

Registered Address of Shareholders

Auckland and Northland	5,276	31.39%	185,029,982	60.57%
Waikato and Central North Island	4,258	25.32%	12,002,584	3.93%
Lower North Island and Wellington	2,667	15.86%	79,741,473	26.10%
Canterbury, Marlborough and Westland	1,635	9.72%	5,764,229	1.89%
Otago and Southland	1,288	7.66%	3,764,117	1.23%
Australia	1,500	8.92%	18,577,188	6.08%
Other Overseas	190	1.13%	609,295	0.20%
	16,814	100.00%	305,488,868	100.00%

Other Statutory Information - Continued

Team members receiving remuneration and other benefits exceeding \$100,000 per annum.

The number of team members or former team members, not being directors, who received remuneration and other benefits valued at or exceeding \$100,000 during the year under review are stated below:

Remuneration (\$000)	Number of team members		Remuneration (\$000)	Number of team members	
	2005	2004		2005	2004
100-110	31	34	270-280	-	1
110-120	18	15	280-290	-	1
120-130	17	17	290-300	-	1
130-140	17	22	310-320	-	2
140-150	24	15	340-350	-	1
150-160	2	9	350-360	1	1
160-170	5	8	370-380	1	-
170-180	8	6	420-430	-	1
180-190	4	6	430-440	1	2
190-200	5	3	440-450	1	-
200-210	2	3	470-480	1	-
210-220	4	3	500-510	-	1
220-230	3	4	520-530	-	1
230-240	5	5	710-720	1	-
240-250	4	3	830-840	-	1
250-260	5	1	850-860	1	2
260-270	1	1	1770-1780	-	1
				162	171

Directors' equity participation

At 31 July 2005 the following directors, or entities related to them, had interests in the following Warehouse shares:

Directors' shareholdings as at 31 July 2005

	Beneficial interest		Non-beneficial interest		Non beneficially owned, held by related parties and associated persons (including family trusts)	
	2005	2004	2005	2004	2005	2004
J R Avery	-	-	7,974,700	7,974,700	405,145	405,145
R L Challinor	2,394	2,394	-	-	-	-
G F Evans	11,202	11,202	-	-	-	-
P G Inger ¹	2,350,579	3,250,000	-	2,620,136	1,850,000	2,750,000
I R Morrice	1,000,000	-	2,516,885	-	-	-
K R Smith	-	-	9,638,725	9,741,976	1,739,756	1,739,156
S R Tindall	84,358,283	84,358,283	7,065,272	9,685,408	9,600	9,600
I Tsicalas	325,000	25,000	-	-	-	-
J Withers ²	6,414	6,414	-	-	-	-
J C Dahlsen	110,600	93,700	-	-	-	-

1. Glen Inger retired as a director of The Warehouse Group Limited on 6 May 2005.
2. Joan Withers retired as a director of The Warehouse Group Limited on 30 June 2005.

Major shareholdings in which more than one director has an interest in the same parcel of shares are as follows:

- The shareholding held beneficially and non-beneficially by P G Inger and J R Avery are the same parcels of shares as to 500,000 shares (July 2004: 500,000 shares).
- I R Morrice and K R Smith held non-beneficially the same parcels of shares 2,516,885 (July 2003: 2,620,136 shares) as trustees of The Warehouse Management Trustee Company Limited. I R Morrice was appointed a director of The Warehouse Management Trustee Company Limited on 24 May 2005. G Inger and S R Tindall resigned as directors of The Warehouse Management Trustee Company Limited on 6 May 2005 and 1 June 2005 respectively.
- S R Tindall maintains a beneficial interest in 1,300,000 shares sold to I Morrice (1,000,000) and I Tsicalas (300,000) due to being a grantor of a put option in favour of registered holder exercisable any time on or prior to 19 November 2009 and holder of a mortgage over shares to secure debt.

Share dealings

During the year the following directors acquired or disposed of equity securities in the company:

Directors' share transactions

Share transaction	Date of transaction	Number of ordinary shares acquired/ (disposed)	Dollar consideration
K R Smith and I R Morrice as trustees of The Warehouse Management Company Limited	Various dates	(103,251)	
John Dahlsen Superannuation Fund Pty Limited	15.3.05-16.3.05	16,900	A\$64,108
I Tsicalas	19.11.04	300,00	\$1,128,000
I R Morrice	19.11.04	1,000,000	\$3,760,000
S R Tindall	19.11.04	(1,300,000)	\$4,888,000
R L Challinor	30.10.04	(1,769)	\$9,695
R L Challinor and S Challinor	30.10.04	1,769	\$9,695
R L Challinor	22.3.05	(625)	\$2,531
R L Challinor and S Challinor	22.3.05	625	\$2,531
R L Challinor	18.5.05	Lapse of 20,000 options	-
P G Inger ¹	7.10.04-22.10.04	(600,000)	\$2,437,149
P G Inger ¹	22.4.05-26.4.05	(300,000)	\$1,101,897
P G Inger ¹	14.7.05	579	\$2,339
J Withers ²	18.5.05	Lapse of 20,000 options	-

¹ Glen Inger retired as a director of The Warehouse Group Limited on 6 May 2005.
² Joan Withers retired as a director of The Warehouse Group Limited on 30 June 2005.

Other Statutory Information - Continued

Nature of trading market

Stock exchange listing

The ordinary shares of the company are listed on both the New Zealand Exchange ("NZX") and Australian Stock Exchange ("ASX").

Ordinary Shares

The authorised ordinary share capital of The Warehouse consists of 305,488,868 ordinary shares of nominal value 50 cents each. At the close of business on 30 September 2005, 305,488,868 ordinary shares were issued and outstanding.

Holders of each class of equity security as at 30 September 2005

Class of equity security	Number of Holders	Number of shares or options
Ordinary shares	16,814	305,488,868
Share options - Fixed price share option plan	347	8,103,000

Rights attaching to shares

Ordinary shares in the company each carry a right to vote on a poll at a meeting of shareholders on any resolution. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative, or attorney. Voting may be conducted by voice, a show of hands or a poll. Each of the company's ordinary shares entitles the holder to one vote.

There were 15,124 recorded holders of ordinary shares with New Zealand addresses as at 30 September 2005 whose shareholdings represented approximately 93.7% of total issued and outstanding ordinary shares on that date.

Substantial Security Holders

The following information is given in accordance with section 26 of the Securities Amendment Act 1988. According to notices received the following persons were substantial security holders in the company as at 30 September 2005.

	Relevant interest	Date of notice
Morgan Stanley Asset & Investment Trust Management	16,953,815	28 April 2005
S R Tindall	84,141,524	19 March 2004
The Tindall Foundation Inc.	66,323,220	19 March 2004

Donations

In accordance with section 211(1)(h) of the New Zealand Companies Act 1993, the company records that it donated \$151,000 (2004:\$110,000) to various charities during the year.

Disciplinary action

Neither the NZX nor ASX has taken disciplinary action against the company during the period under review.

Waivers and Rulings

The company obtained several waivers from various NZX Listing Rules in relation to the provision of financial assistance to the Trustee of The Warehouse Group Limited Executive Share Scheme ("Scheme") in 2004 and 2005 and the offer of conditional rights under that Scheme in 2005.

On 15 October 2004 the company was granted a waiver from the requirement pursuant to NZX Listing Rule 7.6.6 that financial assistance must be given within six months of a resolution of shareholders approving the financial assistance. Under the waiver the time period was extended to 12 months.

On 25 May 2005 the company was granted various waivers in relation to certain disclosure and notification requirements pursuant to NZX Listing Rules 7.10, 7.12.1, 7.12.2, 7.12.9 and 11.2. NZX Listing Rule 7.10 sets out various requirements in relation to rights issues. These requirements did not fit with the granting of conditional rights to a limited number of executives under the Scheme (which was not a rights issue to all shareholders).

Other disclosures

The company is not subject to chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares.

The Warehouse changed its admission category on the Australian Stock Exchange (ASX) from ASX Foreign Exempt to ASX Listing in 2002. As a consequence of becoming fully listed on the ASX, The Warehouse is required to make the following disclosures:

Incorporation

The Warehouse Group Limited is incorporated in Auckland, New Zealand.

Non-marketable parcels of shares

As at 30 September 2005, 548 shareholders hold ordinary shares of less than a marketable parcel (defined as between one and 140 shares).

On-market share buybacks

The company is not, at the date of this Annual Report, undertaking any on-market share buy-back.

Limitations on the acquisition of the company's securities imposed by New Zealand law are as follows:

- I. In general, securities in the company are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition;
- II. The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20% of the voting rights in the company or the increase of an existing holding of 20% or more of the voting rights in the company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or acquisition in any manner if a shareholder holds 90% or more of the voting rights in the company;
- III. The New Zealand Overseas Investment Act and Overseas Investment Regulations regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Commission is required where an "overseas person" acquires shares or an interest in shares in the company that amount to more than 25% of the shares issued by the company or, if the overseas person already holds 25% or more of the Company's shares and the acquisition increases that overseas person's holding; and
- IV. The New Zealand Commerce Act 1986 restricts a person from acquiring shares in the company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in the New Zealand market.

Escrow

Apart from shares held under the staff share purchase scheme (refer note 28), the company has no securities subject to an escrow agreement.

Material differences

There are no material differences between the ASX Appendix 4E issued by the company on 9 September 2005 for the year ended 31 July 2005 and this Annual Report.

Dividend and Share Information

Dividends on ordinary shares

The Warehouse has paid dividends on its ordinary shares every year without interruption since listing on the New Zealand Exchange in 1994. The Board is proposing a final dividend of 4 cents, to give a full year dividend in respect of 2005 of 14.5 cents per share, the same payout as the 2004 payment. The level of future payments will depend upon the cash earnings of The Warehouse and the intention to maintain a conservative gearing ratio.

The dividends (including interim dividends) declared for each of the last five financial years were as follows:

Cents per share					
	2005	2004	2003	2002	2001
Interim	10.5	10.5	10.5	9.5	8.5
Final	4.0	4.0	4.0	4.0	4.0
Total	14.5	14.5	14.5	13.5	12.5

Share price history

The following tables show the high and low sale prices for the ordinary shares during the periods indicated, based on mid-market prices at the close of business on the New Zealand Exchange for the following periods:

- (i) The five most recent financial years; and
(ii) Each of the five most recent months.

(i) Five most recent financial years

	Ordinary Shares	
	High	Low
2005	4.67	3.04
2004	6.03	3.89
2003	7.55	3.96
2002	7.90	5.30
2001	6.85	5.25

(ii) The five most recent months

Up to 30 September 2005	Ordinary Shares	
	High	Low
September 2005	4.05	3.77
August 2005	3.88	3.60
July 2005	3.99	3.50
June 2005	4.00	3.21
May 2005	3.75	3.04

Directory

Directors

John R Avery, LLB.
Robert L Challinor, BCom; FCA; FCIS; CMA; F. Inst. D.
John C Dahlsen, LLB; MBA.
Graham F Evans
Ian R Morrice, MBA.
Group Chief Executive Officer, The Warehouse Group Limited
Keith R Smith, BCom; FCA.
Chairman
Stephen R Tindall, ONZM; Dip. Mgt; FNZIM; Hon.D; DCom
Honoris Causa.
Founder
Ian Tsicalas, BA; BCom.
Chief Executive Officer, The Warehouse Australia

Secretary to the board

Mark Fennell

Group Executive

Luke N Bunt, CA.
Chief Financial Officer
Ed Connolly
Chief Executive Officer, Warehouse Stationery
Owen S McCall, BCom; BA.
Chief Information Officer
Ian R Morrice, MBA.
Group Chief Executive Officer, The Warehouse Group Limited
and Chief Executive Officer, The Warehouse
New Zealand
Ian Tsicalas, BA; BCom.
Chief Executive Officer, The Warehouse Australia

Place of business

26 The Warehouse Way
Akoranga Drive, Northcote
PO Box 33-470, Takapuna
Auckland, New Zealand
Tel: 64-9-489 7000
Fax: 64-9-489 7444

Registered offices

New Zealand
C/- BDO Spicers
Level 8, Westpac Tower
120 Albert Street
PO Box 2219
Auckland, New Zealand
Tel: 64-9-379 2950

Australia

The Warehouse Group (Australia) Pty Limited
59 Kirby Street
Rydalmere NSW 2116
PO Box 6559
Parramatta BC NSW 2150
Australia
Tel: 61-2-8898 7777
Fax: 61-2-8898 7591

Information for shareholders

New Zealand share registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, North Shore City
Private Bag 92119
Auckland 1020, New Zealand
Tel: 64-9-488 8777
Fax: 64-9-488 8787
E-mail: enquiry@computershare.co.nz

Australian share registrar

Computershare Registry Services Pty. Limited
Level 3, 60 Carrington Street
Sydney, NSW 2000
GPO Box 7045
Sydney NSW 1115, Australia
Tel: 61-2-8234 5000
Freephone: 1800-269 981
Fax: 61-2-8234 5450

Shareholder register enquiries and details

Investors with enquiries about transactions, change of address, Inland Revenue Department numbers or dividend payments should contact the appropriate share registrar.

Direct banking of dividends

Direct banking of ordinary share dividends enables investors to have dividends paid directly to bank accounts. Further information can be obtained from the New Zealand or Australian share registrar.

Investor relations

For investor relations enquiries contact the investor relations manager at the place of business listed above or email investor@twl.co.nz.

Website

www.thewarehouse.co.nz

Stock exchange listings

New Zealand: (WHS)
Australia: (WHS)

Company numbers

A.R.B.N. 094 719 089
New Zealand Incorporation: AK/611207



The company is a member of the New Zealand Business Council for Sustainable Development (NZBCSD). The NZBCSD is a coalition of leading businesses united by a shared commitment to sustainable development via the three pillars of: economic growth, ecological balance and social progress. Its mission is to provide business leadership as a catalyst for change toward sustainable development and to promote eco-efficiency, innovation and responsible entrepreneurship.



The company is a member of the World Business Council for Sustainable Development (WBCSD). The WBCSD is a coalition of 170 international companies united by a shared commitment to sustainable development via the three pillars of: economic growth, ecological balance and social progress.