

We've been Shopping

Annual Report 2000



-----CONTENTS-----

- 1....* Managing Director's Review
- 12....* A profile of Stephen Tindall
- 12....* A profile of Greg Muir
- 13....* Corporate Governance
- 15....* Environmental Update
- 18....* Financial and Operational Highlights
- 19....* Financial Contents

Highlights

BETWEEN 1 AUGUST 1999 AND 31 JULY 2000 THE WAREHOUSE:

- * Achieved an audited net surplus after tax of \$70.1 million.
- * Achieved \$1 billion sales for the first time.
- * Opened two new Warehouse stores and three replacement stores.
- * Opened six new Warehouse Stationery stores.
- * Generated a positive operating cash flow of \$70.6 million.
- * Announced its entry into the Australian retail market with the acquisition of the 'Clint's Crazy Bargains' and 'Silly Solly's' chains, effective 1 August, 2000.
- * Assisted local clubs and charities in raising \$2.3 million for their community needs.

Financial Statistics



Sales	\$1.075 billion	\$0.933 billion
Net Surplus	\$70.1 million	\$54.1 million
Total Assets	\$374.4 million	\$375.7 million
Equity	\$179.3 million	\$170.1 million
Earnings per share	24.3 cents	18.9 cents
Ordinary Dividends per share	12.5 cents	9.5 cents

MANAGING DIRECTOR'S REVIEW

Dear Friends...

Once again it's a pleasure to be able to report on another satisfying year in the history of The Warehouse. And this year, for the first time, we can report sales of more than one billion dollars. A remarkable achievement.

We also have the exciting news of our launch into Australia, and the wonderful opportunities it will provide for everyone including our new team members there. They will be reading a Warehouse annual report for the first time so I'd like to take this opportunity of welcoming them on board.

This is the sixth opportunity I've had, since the group went public in 1994, to present the year's results in this way, and it's gratifying to know that some of you have been here from the very beginning. I'm sure that, like many others, you'll be surprised and pleased by how far we've come since then. Interestingly, shareholder numbers have nearly doubled since 1994 so I must also welcome all the new people who have joined us in the last year. I'm sure you'll discover that, while the past has been successful and interesting, the future promises even more of the same.

THE SUCCESS OF THE JULY 2000 YEAR

Key highlights of the year to July 2000 – our first 'billion dollar year' – include:

- * Group sales of \$1.075 billion, up \$142 million or 15.3 per cent on the 1999 year which was itself 24.3 per cent up on 1998.
- Of the total sales figure:
- * \$1.012 billion came from The Warehouse stores (up 14.1 per cent) with same-store sales – a measurement that excludes sales from newly-opened and replacement stores – up 10.1 per cent.
 - * \$63 million came from Warehouse Stationery stores (up 37.4 per cent) with same-store sales up 23.3 per cent.

- * Operating earnings before interest and tax (EBIT) were \$111.3 million. This is \$26.1 million (30.7 per cent) above that achieved in 1999. Importantly, the EBIT margin rose once again to 10.4 per cent from 9.1 per cent in 1999 and 8.3 per cent in 1998.
- * Profits (after tax) again rose strongly to \$70.1 million compared with \$54.1 million in 1999; that's a 29.6 per cent increase in profits.
- * Apparel sales were up 30 per cent. Other highlights: green garden sales up 23 per cent; books up 18 per cent; barbecues and related products up 31 per cent.
- * A busy real estate year including:
 - The opening of five new Warehouse stores – two new locations (Cambridge and Mount Wellington) and three larger replacement stores (Porirua, Wanganui and New Plymouth).
 - Fourteen store refurbishments.
 - One store extension.
 - Two small old-format stores in Auckland (Panmure and Papatōetoe) were closed, their roles having been overtaken by much larger stores nearby.
 - The opening of six new Warehouse Stationery stores (Mount Wellington, Napier, Wanganui, Kilbirnie, Porirua and Papanui).The sum of all this activity was:
 - A 5.5 per cent increase in retail space (to 253,717 square metres) for The Warehouse.
 - A 40 per cent increase in retail space (to 29,062 square metres) for Warehouse Stationery.

That means that as at the end of July we were operating sixty-nine Warehouse stores and twenty-four Warehouse Stationery stores. And a lot more new stores, replacement stores, refurbishments and extensions are planned for the 2001 year.





Managing Director's Review

SUCCESS FOR ALL OUR STAKEHOLDERS

This time last year I placed a lot of emphasis on our five stakeholder groups – our customers, team members, suppliers, community and shareholders – and how our success was a direct result of focusing on their needs. This record-breaking year has been no different, and all stakeholder groups have benefited from the results.

Customers: Customers continue to respond to the experience, merchandise and prices available at more and more Warehouse stores throughout the country. Same-store sales figures are ample evidence of that, confirmed by our traffic surveys which show that weekly foot traffic increased to 1.5 million per week, of which 750,000 were paying customers, and that the value of the average sale went up 3.2 per cent to \$26.07.

As well as researching customer needs, and sourcing the right product for the

team members agree that 'The Warehouse is where people come first'. That's up from 82 per cent last year.

Much of this satisfaction comes from our training programmes which I referred to last year and which are becoming more and more important. The foundation programme, the Achievers Certificate, received a recent 'face-lift'. Now, using self-paced workbooks, all team members can learn for themselves about merchandising, health and safety, loss prevention and customer service. Extensive time and effort are also invested in the future, and we now have twenty-eight cadet managers and fifty-one trainees. The existing management team also receives leading-edge training, all with an emphasis on leadership and our 'people first' philosophies.

Part of 'putting people first' is the provision and maintenance of a safe working environment. To gauge our performance in this respect we use a standard

system of measuring time lost due to work-related injuries. Known as the 'lost time injury frequency rate' (LTIFR) it rose to 2.94 hours per 100,000 hours worked this year, compared with 1.64 hours for the previous year. The increase in LTIFR despite continued efforts to improve workplace safety is of concern to us. We remain committed to our health and safety vision and the elimination of injuries of all kinds.

Suppliers: Our record sales over the last year brought obvious benefits to our growing list of **New Zealand suppliers**. In fact, orders raised from local suppliers increased 26 per cent to \$176 million. New Zealand suppliers also benefited from our cross-docking capabilities – existing streamlined distribution from our own distribution centres to our own stores – which relieve participating suppliers of distribution worries and costs allowing them to sharpen their prices accordingly. This year, 62 per cent of our local suppliers took advantage of our cross-docking systems.

Now, as we enter a new era, **New Zealand and Australian suppliers** will potentially be able to supply both the Australian and New Zealand markets through a combined buying group that they know can provide them with a vast and growing base of customers every week of the year. The future does indeed look bright for our suppliers.

As usual, in late August, our suppliers gave wonderful support to the annual Bob Tindall classic golf tournament and charity dinner, raising \$350,000 for Surf Life Saving New Zealand. Our thanks go to them all.

The Community: Again this year every Warehouse store was encouraged to be vigorous in its own **community**, where its customers live and upon which it depends for its very existence and success. Last year our team members' collective efforts raised more than \$2.3 million for local charities, sporting and community groups. A wonderful achievement.

SHE LOVES me...
She loves me not!
whatever the case I LOVE
THE WAREHOUSE
for gifts.

right price, we are constantly driven to improve efficiencies – especially at check-out – to reduce queues and speed up the entire sales process for the benefit of every customer. The gradual roll-out of our 'Sprint' check-out systems aims to improve customer interaction and reduce transaction time by more than thirty per cent. In this respect we continue to find ways to look after our customers better.

Team Members: This year I would like to offer a special vote of thanks to our **team members**, working within our Warehouse and Stationery stores throughout New Zealand, and our **management team**. Together they not only turned in a marvellous result – of which they can all be especially proud – but they also laid the groundwork for a new era for their company. Interestingly, while they were being so busy they also recorded record high levels of satisfaction, with our latest 'People First' surveys showing that 86 per cent of





And The Tindall Foundation, a registered charity and major shareholder of The Warehouse, also made grants to community, educational and environmental groups – from its dividend income – of \$7.4 million.

Shareholders: For **shareholders**, the group has maintained its policy of paying half its earnings in the form of ordinary dividends. The directors have declared a fully imputed final dividend of 4 cents per share. That means, after adjusting for the March 2000 one-for-one bonus issue, ordinary dividends for the



**GOT
Pooh Bear
AND he helped me choose...
the boogie board,
SKATEBOARD,
AND TENNIS BALLS FOR
THE KIDS.**

Now, help me find the big kids' presents for

CHRISTMAS!

year total 12.5 cents per share, or 32 per cent above the 9.5 cents per share paid last year.

In addition to the 12 cents per share special dividends paid last year, a further special dividend of 9 cents per share was paid in the current year (after adjusting for the 1:1 bonus issue).

Like our staff shareholders, our private shareholders are also recognised as a special Warehouse group. Some of them, we know, have been with us since 1994. If you count yourself in that exclusive club then you deserve our appreciation for your loyalty and your enthusiastic support for the company, its culture and its aims. We know you have been rewarded financially, and it is my belief that, as the company enters its new era, the security and value of your shareholding will continue to increase and bring you the reliable rewards you deserve each year.

THE SUCCESS OF THE LAST DECADE

Having looked back over the last year I think it's also timely to take a quick look farther back – say over the last decade – to see just where we've come from and how our successes and milestones have laid such a strong foundation for the new century. Because, for The Warehouse Group, the year 2000 marks a genuine transition: the end of one era, the dawning of another.

A decade's growth at a glance First, a brief look at where we were at the March end of the 1990 financial year compared with the financial year to July 2000. For anyone looking ahead another decade, the figures make interesting reading:

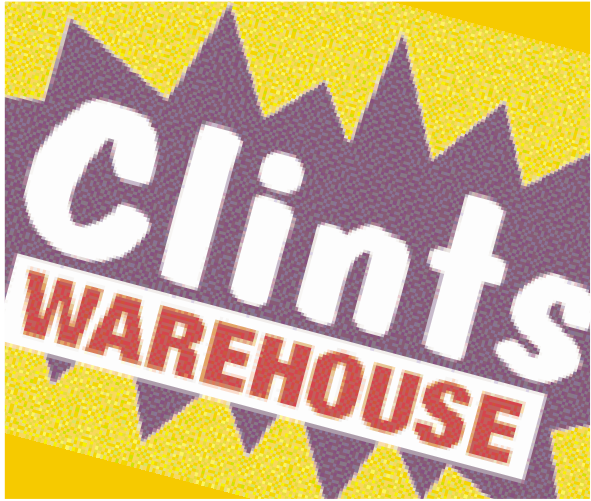
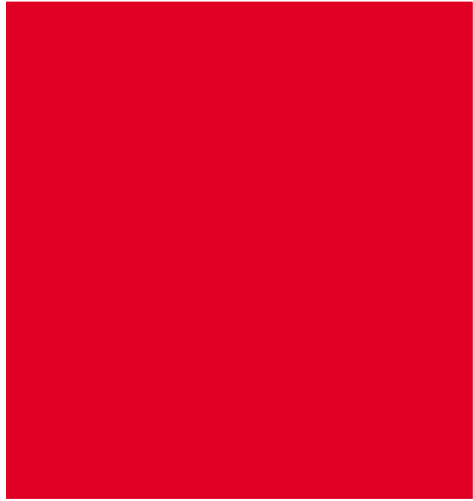
	1990	2000	INCREASE
Sales	\$65.4 million	\$1.075 billion	More than \$1 billion
Operating earnings	\$4.6 million	\$111.3 million	\$106.7 million
Net profit after tax	\$3.0 million	\$70.5 million	\$67.5 million
Operating margin	7.1%	10.4%	3.3%
Shareholders' equity	\$7.5 million	\$179.3 million	\$171.8 million
Total assets	\$15.9 million	\$374.4 million	\$358.5 million
Number of Warehouse stores	27	69	42
Number of Warehouse Stationery stores	0	25	25
Number of NZ towns and cities served	11	47	36
Number of staff	1,200 (approx)	7,264	6,000 (approx)
NZ-sourced product	\$19 million	\$176 million	\$157 million

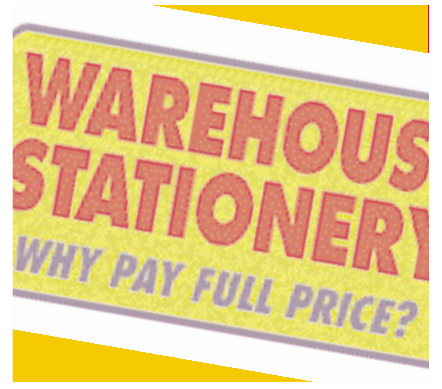
TEN YEARS OF MILESTONES

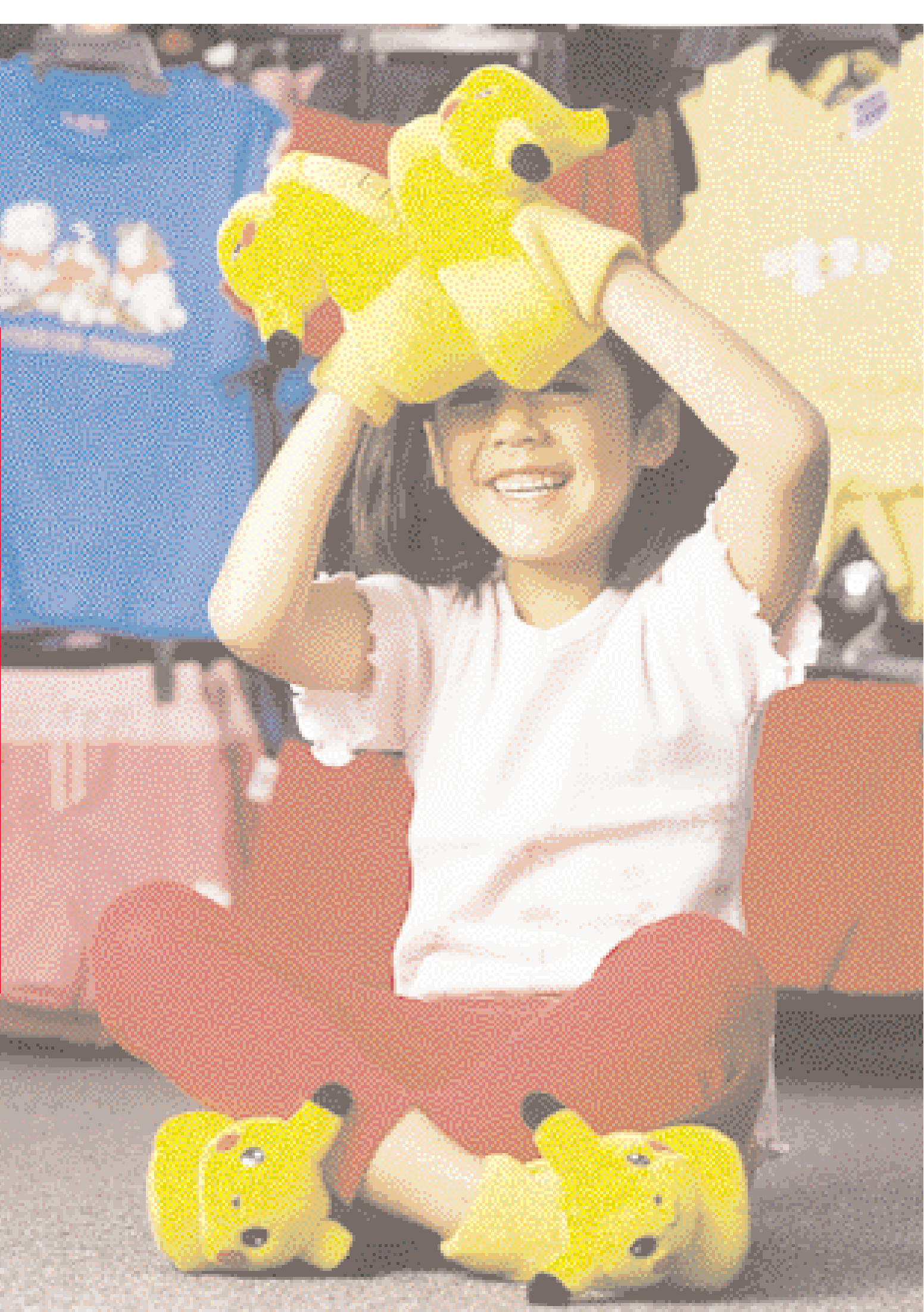
And here are just a few of the milestones we can look back on with pride:

- * First nationally-distributed advertising mailer 1990
- * Sales exceed \$100 million 1991
- * Launching of Warehouse Stationery with just one store 1991
- * Opening of first store of 25,000 square feet (2,322 m²) (hyperstore) in Manukau 1992
- * Public float and listing on New Zealand Stock Exchange 1994
- * Launching of The Warehouse card 1994
- * Opening of South Island Distribution Centre 1994
- * Opening of first store of 50,000 square feet (4,645 m²) 1994
- * The Warehouse added to NZSE40 index 1995
- * Launch of the revolutionary (and somewhat controversial) TUI computer stock system which continues to serve the company well today 1995
- * Introduction of green gardening department 1995
- * Opening of North Island Distribution Centre 1996
- * Opening of new support office in Northcote 1996
- * Introduction of the major AEG brand 1996
- * Opening of first large format Warehouse Stationery store 1997
- * Opening of first store of 75,000 square feet (6,967 m²) 1997
- * Introduction of apparel as a major department 1998
- * First shipment of parallel imported product 1998
- * Launch of first Warehouse Stationery priced catalogue 1999
- * Market capitalisation in excess of \$1 billion 1999
- * The Warehouse added to NZSE10 index 2000
- * Introduction of Gateway Computers to Warehouse Stationery 2000
- * Sales exceed \$1 billion 2000
- * Opening of first store of 100,000 square feet (9,290 m²) 2000
- * Offshore expansion into the Australian retail market 2000









- * The Clint's/Solly's group has 115 stores and six distribution centres. However, the stores are much smaller than New Zealand Warehouse stores, averaging 1,100 square metres compared with The Warehouse average of 3,677 square metres.
- * The comparisons are therefore interesting:

AT 31 JULY 2000	THE WAREHOUSE (EXC WAREHOUSE STATIONERY)	CLINT'S/SOLLY'S
Number of stores:	69	115
Average store size:	3,677 m²	1,100 m²
Total sales:	\$NZ1.012 billion	\$A310 million
Average sales per store:	\$NZ14.6 million	\$A2.7 million
Number of staff:	6,817	2,500
Average sale per customer:	\$NZ26.07	\$A11.00

* The upfront purchase price is \$A105 million subject to audited accounts with a potential for an additional payment of up to \$A24 million if the operation achieves \$A30 million EBIT in July 2003. Settlement is in a combination of cash and shares.

A similar group with a similar history... The Australian business evolved from a family business which was founded in 1978. It has a similar 'people come first' philosophy to ours, as well as similar values and culture. Indeed, in many respects, including merchandise and business-systems policies, it is familiar to us, recognisable as The Warehouse of about seven years ago.

In other words there is a natural 'fit' with the Clint's/Solly's stores.

- * They operate in the bargain store retail sector which we understand.
- * It's the fastest growing general retail category in Australia, and is one in which the Clint's/Solly's stores already have a significant share.
- * In a country with a thriving economy and about six times more people than New Zealand.

...and a marvellous potential I believe these factors, combined with what we can add to the business, suggest a marvellous potential that will deliver big benefits to the new era

Warehouse Group.

It's a potential that will be built on:

- * Our New Zealand experience with larger stores combined with Clint's/Solly's experience in the Australian market.
- * A business mass – trading profitably now – to give us entry into Australia's three key states.
- * The vast long-term opportunities in the three eastern states, let alone the rest of the country.
- * Our expertise in logistics, information technology and merchandising.
- * Economies of scale – particularly in buying, management, finance and

distribution technologies – to benefit both the New Zealand and Australian operations, and therefore The Warehouse Group Limited as a whole, and all its stakeholders.

MANAGEMENT IN THE NEW ERA

The current Chief Executive in Australia, Dave Rickards, a co-founder of Clint's, will continue to lead the Australian operations, reporting to Greg Muir in New Zealand.

In addition, Greg Foran has stepped in as Chief Operating Officer in Australia. Greg is a senior Warehouse executive with more than twenty-one years retail experience across New Zealand and Australia.

IMMEDIATE PROSPECTS

Over the next couple of years, as we consolidate our understanding of the Australian business and market, and as we gradually consolidate our own plans to improve infrastructure and systems, we are expecting no more than a natural and modest growth and return from the Australian operation.

However, after that establishment period I am confident you will see an

AFTER THIS

weekend

My **GARDEN** will be

the talk

of the neighbourhood...

THE WAREHOUSE
THE WAREHOUSE LIMITED
MASTERTON SHOPPING CENTRE
Tax Invoice includes GST # 414-82354
DK: 80764 SP:MOHANA 15/10/00 11:00am
07820113 GLV 2.47 1 2.47
GARDENING GLOVES COLOURED 3 PK 7.99 1 7.99
TRT EAR MUFFS STONEBRIDGE 14.99 1 14.99
5016227020290 LOPP 39.99 1 39.99
LOPPERS CENTERLEVER ANVIL 28IN
2000002031246 JKT 39.99 1 39.99
JKT MN STRETCH PU NAVY S
Total 65.44

acceleration in growth of store size, sales and profits, all of which will be reflected in The Warehouse Group's bottom line.

The company also plans to list on the Australian Stock Exchange later in 2000. This will provide Australian investors, and our Australian team members, with the opportunity to follow their company and participate locally.

SEEING THINGS IN A NEW WAY

As the coming year unfolds you will, of course, read about our Australian progress in our interim and annual reports which will consolidate the results of the Australian and New Zealand operations.

In the first year comparisons with the New Zealand company's immediate past will not be meaningful simply because we will have become an Australasian business. The different natures and sizes of what were two operations – New Zealand and Australia – will quickly become irrelevant as, over the following years, historical comparisons will be made with our group past.



THE END OF AN ERA. A NEW START.

So you see, this year marks more than just the start of a new millennium. It also marks the passing of an era for The Warehouse as a New Zealand retailer, and a fresh start for thousands of people – shareholders, staff, suppliers and their staff, the members of large and small towns and communities – throughout Australia and New Zealand.

The Warehouse has already made a big impact on so many lives, I'm sure that it will continue to do so next year and as far into the new century as it is possible to imagine.

When, in 1982, I started our small Warehouse 'shed' in Takapuna, with the help of my wife, Margaret, and my parents, none of us could imagine just how much would happen in just eighteen years. Now, as we start this new era, it's appropriate that I take another step up, allowing our chief operating officer, Greg Muir, to move closer to the front line. Indeed, as I said in my report and address last year, by the end of the 2001 financial year I will have withdrawn from day-to-day management in what I expect to be a seamless transfer of authority and responsibility to Greg. Greg, as you will see, is a dynamic and professional manager of vast experience, ideally suited to our Australian expansion and the new era.

As Greg takes up the reins I will be retaining my substantial shareholding, and my seat on the Board of Directors, and will therefore be free to concentrate on the strategic direction, management monitoring, people and corporate governance of the group. I will also be devoting time to the Tindall Foundation – which Margaret and I established in 1994 – as well as some private investment and mentoring for some new and innovative kiwi businesses. One way or another I'm sure I will be kept busy.

Meanwhile, after four busy years of sterling service, Philip Brass is retiring from the board, and I'd like to take this opportunity to thank him personally for his contribution. Philip has always worked quietly, behind the scenes, in the interests of the company and the shareholders, and his board colleagues and I have always appreciated his thoughtful approach.

Finally, may I wish you all the very best for the rest of 2000. I look forward to Greg's report to you this time next year when I'm sure we'll all be able to look back on another job well done in both New Zealand and Australia, and the start of our new era as an Australasian retailer.



S. R. TINDALL
Managing Director

A PROFILE OF

Stephen Tindall

After twelve years with retailer George Court & Sons, Stephen Tindall founded The Warehouse, in 1982, with one store and \$80,000 capital. The company remained in private hands until it went public in late 1994. At that time Stephen assumed the role of Managing Director of The Warehouse Group Limited.

From the beginning, Stephen was the architect of the company's culture and philosophy of putting people first, ensuring that *all* stakeholders in the business – customers, team members, suppliers, shareholders and the community – could share in the company's success. It was his belief that growth and continued success could be assured only when all the people involved could see that their contribution was recognised and appreciated.

Stephen's personal and business successes, his charisma and generosity, and the success of the company he founded, have combined to bring him a number of personal awards and notices of recognition including: the 1997 New Zealand Herald Business Person of the Year, the 1998 Deloitte/Management Magazine *Executive of the Year*, and, of course, his naming as *Officer of the New Zealand Order of Merit (ONZM)* in 1997. He has also accepted, on behalf of the company, a large number of other business awards including the National Business Review award for *Best Business in the Retail Category (1993)*, *Most Improved Communicator* award from the New Zealand Society of Investment Analysts (1997) and the 1997 Top 500 award from Deloitte and Management Magazine for *Most Improved Enterprise*.

Stephen Tindall is forty-nine years old. He is married to Margaret, with whom he started the company (in 1982) and founded the Tindall Foundation (1994); they have five children. As well as his love of family, and active sports, he says his special interest is in helping New Zealanders realise their full potential for their own sake and to the overall benefit of the country.

A PROFILE OF

Greg Muir

Forty-two year old Greg has been Chief Operating Officer for The Warehouse since March 1999. He joined the company after many years experience at the top level of New Zealand business including general management or CEO positions in the Lion Nathan Group, Enerco New Zealand, TNT and Blue Star.

Greg, who has both a Master of Business Administration (MBA) and a B.A. from Otago University, is married with two young children. His family is the focus of his leisure time although he also enjoys golf and is a director of the Auckland Rugby Union.

Corporate Governance...

ROLE OF THE BOARD

The board of directors of The Warehouse Group Limited ('the company') is elected by the shareholders to supervise the management of the company and its subsidiaries. It establishes the company's objectives and medium-term strategic plan, defines the strategies for achieving these objectives and plans, and approves the company's annual budget.

The board monitors management's performance relative to these goals and plans, and has delegated day-to-day management of the company to the managing director.

TABLE OF ATTENDANCE AT BOARD AND COMMITTEE MEETINGS FOR THE YEAR 1 AUGUST 1999 – 31 JULY 2000

	SMITH	TINDALL	AVERY	BRASS	CHALLINOR	WITHERS	EVANS	INGER	PLUMMER
The Warehouse board	9	8	9	8	9	9	8	9	9
Audit committee	2		2	1	2	2	2		
Remuneration committee	2	2	2		2	2	2		

BOARD OPERATIONS AND MEMBERSHIP

The composition of the board is determined in accordance with the following principles and guidelines:

- * It should comprise at least seven directors of whom a majority should be non-executive.
- * The chairperson must be a non-executive director.
- * The directors should have an appropriate range of qualifications and expertise.
- * The board should meet at least nine times a year, and follow meeting guidelines set down to ensure all directors are made aware of, and have available, all necessary information necessary for them to participate in an informed discussion of all agenda items.

Members of the Board of Directors The directors in office at the date of this statement were:

NAME	POSITION
K R Smith	Chairman, non-executive director
J R Avery	Non-executive director
P Brass	Non-executive director
R L Challinor	Non-executive director
J Withers	Non-executive director
S R Tindall	Managing director
P G Inger	Property director
N R Plummer	Merchandise director

The full board met formally nine times during the financial year ended 31 July 2000. In addition, directors met throughout the year on matters of strategic planning, committee business, and to attend to business between meetings.

Retirement of Philip Brass Mr Philip Brass has announced his intention to retire as non-executive director at the conclusion of this year's Annual General Meeting. Philip has been a member of the board since November 1996, and has made an important contribution to The Warehouse. The board would like to express its sincere appreciation of his services to the group.

BOARD COMMITTEES

The board has two formally constituted committees: the Audit Committee, and the Remuneration Committee.

Audit committee It is the board's responsibility to ensure that an effective internal control framework exists within the business. Accordingly, the board has established an audit committee which operates under a charter approved by the board.

This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, including:

- * The safeguarding of assets.
 - * The maintenance of proper accounting records.
 - * The reliability of financial information.
 - * Other non-financial considerations such as the benchmarking of operational key performance indicators.
 - * Directing and monitoring the internal audit function.
 - * Nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half-year statutory audit or review.
- The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of this committee are non-executive directors. They met twice during the year.



Corporate Governance...

They were:

- * R L Challinor (chairman)
- * K R Smith
- * J Withers
- * J R Avery
- * G Evans

Remuneration committee The board is responsible for determining and reviewing compensation arrangements for the directors, the Chief Executive Officer, and the executive team.

The board has therefore established a remuneration committee comprising five non-executive directors and the Managing Director. The members of this committee, which met twice during the year, were:

- * K R Smith (chairman)
- * R L Challinor
- * J R Avery
- * G Evans
- * J Withers
- * S R Tindall

YEAR 2000

No 'Year 2000' compliance issues arose as a result of the changeover from 1999 to 2000.

BOARD RESPONSIBILITIES

As the board acts on behalf of, and is accountable to, the shareholders, it seeks to identify the expectations of the shareholders as well as other regulatory and ethical expectations and obligations. In addition, it is responsible for identifying areas of significant business risk, and ensuring arrangements are in place to adequately manage those risks.

The board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the consolidated entity is delegated by the board to the Managing Director and the executive team. The board ensures that this team is appropriately qualified and experienced to discharge their responsibilities, and has in place procedures to assess the performance of the Managing Director and the executive team.

The board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the board, and it has a number of mechanisms in place to ensure this alignment is achieved.

In addition to the establishment of the committees referred to above, these mechanisms include:

- * Board approval of a strategic plan which encompasses the company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.
- * Implementation of operation plans and budgets by management, and board monitoring of progress against budget; this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes.
- * Establishment of committees to report on environmental issues and concerns, and occupational health and safety.
- * Procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the company's expense.

BOARD MEETINGS

Scheduling and selection of agenda items for board

Board meetings are scheduled in advance, usually every month.

The Chairman of the Board and the Secretary of the company draft the agenda for each board meeting, and distribute it in advance to the members of the board. Each board member is free to suggest the inclusion of items on the agenda.

Board presentations, and access to employees and independent advice

The board has complete access to any Warehouse employee.

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.
- * Have future potential that management believes should be demonstrated to the board.

The board can also request, through the chairman, independent professional advice at the company's cost in any circumstances warranting additional assurance.

Outside directors' discussion The board's policy is to have a separate meeting time for the outside directors, regularly scheduled at least twice a year during the regularly-scheduled board meetings.

DIRECTORS AND EXECUTIVE SHARE TRADING

The board has adopted a code of practice modelled on the Securities Amendment Act, 1988, and the subsequent Insider Trading (Approved Procedures for Company Officers) Notice, 1996.

This code prevents trading in the company shares while directors and executive management are in possession of inside information and during certain mandated 'closed window' periods.

FINANCIAL STATEMENTS AND DIVIDEND

The directors are required by the Companies Act, 1993, to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year, and of the financial performance and cash flows for the financial year.

The directors consider that in preparing the financial statements the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all financial reporting standards, which they consider to be applicable, have been followed. The directors also have responsibility for ensuring that the company keeps accounting records which disclose, with reasonable accuracy, the financial position of the company and the group, and which enable them to ensure that the financial statements comply with the Financial Reporting Act, 1993.

Dividend for the year In presenting the following financial statements for the year ended 31 July 2000, the directors have declared a final dividend of 4 cents per share. The final dividend, fully imputed, will be paid out on 27 November 2000 to shareholders registered at 5.00 p.m on 10 November 2000. This payment, together with the interim dividend and special dividend paid on 24 March 2000, brings the total fully imputed dividend for the year to 21.5 cents per share (adjusted for the fully imputed 1:1 taxable bonus issue made on 24 March 2000).

Environmental Update...

ENVIRONMENTAL VISION STATEMENT

At the Warehouse we understand all business activities have environmental impacts. We believe we can make a difference in safeguarding our environment for present and future generations. Our long-term economic goal is to conduct our business sustainably. We will do this by focusing on:

OURSELVES

By developing group policies, by training and by fostering change.

OUR SUPPLIERS

By influencing them to reduce the environmental impacts of their activities and products.

OUR CUSTOMERS

By raising their awareness of relevant issues. We are serious about our commitment and we have no illusions. The journey will be long and difficult. To achieve our vision we will need everyone's help and understanding.

HIGHLIGHTS OF THE YEAR TO 31 JULY 2000

In the 1999 annual report the directors of The Warehouse Group expressed their environmental vision for the group in setting and attaining 'sustainable development' objectives.

Sustainable development was defined as 'economic development maintained within acceptable levels of global resource depletion and environmental depletion'.

The following are highlights of the group's progress during the year towards the achievement of sustainable development in the service of the environmental vision.

New Zealand Business Council for Sustainable Development

During the 1999 year The Warehouse became a founding member of the New Zealand Business Council for Sustainable Development (NZBCSD).

During the year in review the council undertook a number of projects addressing both social and environmental issues. As a founding member, The Warehouse remains committed to being a leader in sustainable development for New Zealand business. Stephen Tindall is the new Council Chairman.

The annual Survey Of Corporate Environmental

Responsiveness The Warehouse is one of a group of ten industry leaders supporting a new research initiative: the annual Survey of Corporate Environmental Responsiveness. Part of Massey University's programme for business and sustainable development, the survey is expected to help the company assess its approach to environmental responsibility, enabling it to compare performance with others in the retail sector as well as within national and international contexts.

The Natural Step Developed in Sweden, The Natural Step programme has been adopted by The Warehouse as the framework of sustainable development. It is based on a few simple yet scientific principles including reducing the dependence on fossil fuels, metals, mined minerals, and non-biodegradable substances, as well as reducing the over-use of and damage to nature, and putting people first. These principles, when taken together, provide the company with a 'compass' to use on its journey towards sustainable development; they have already been used as the basis for a number of projects.

The social audit As part of the group's effort to become a good corporate citizen it will, over the next twelve months, be undertaking a social audit. Working with 'Social Audit New Zealand', the company will measure its progress towards important non-financial goals looking at our major stakeholders.

The results of this audit will be reported in the next annual report.

Clean up New Zealand

As major sponsor for both the 1999 and 2000 'Clean up New Zealand' campaign, The Warehouse continues to show its commitment to supporting both the people in our local communities as well as the environment in which we all live. In this year's event – which attracted more than 200,000 volunteers – every branch of The Warehouse and Warehouse Stationery had staff working closely with local schools, councils and interest groups.

Zero waste to landfill Last year The Warehouse made a commitment that all stores would achieve 'zero waste to landfill' by 2020. To date, eight branches have achieved this goal; they no longer even have waste skips on-site. As a result it looks as though the 'zero waste to landfill' goal will be achieved well ahead of time.

A timber procurement policy Another medium term objective is to develop a policy to purchase only sustainably-produced indoor and outdoor timber furniture products that meet independent timber certification criteria for high environmental and social standards.

Environmental Choice NZ Environmental Choice NZ is a label used to identify products made from recycled material. Launched at The Warehouse last year, there are now thirty licensed products in the current range including paints, rubbish bags and checkout bags. Although this is double the number of a year ago, sales response has not been as great as hoped.

'Joint Venture' with Credit Card Holders Over the last three years the company has arranged, in conjunction with its cardholders 'Project Kiwi' and 'Trees for Canterbury'. Kuaotuna Kiwi Sanctuary on the Coromandel Peninsula has benefited by \$80,000 and a native reforestation project in Canterbury has received 17,500 trees.

SAY HELLO

THE STARS OF THE WAREHOUSE

The Warehouse is a good place to work. By receiving the respect they deserve, and being treated as the group's greatest asset, Warehouse team members continue to deliver bigger and better results for customers and shareholders.

And through participation in regular surveys they demonstrate both their loyalty to The Warehouse and the satisfaction they receive from their work. For example, the most recent survey showed that 86 per cent of team members agree that 'The Warehouse is where people come first'. A remarkably high figure.

In recognition of this loyalty and performance, team members receive significant bonuses as well as a number of other benefits including, for example:

- * Birthdays off on full pay.
- * Unlimited sick leave.
- * Employee assistance programme.
- * Staff share purchase schemes.
- * Training programmes including national achiever's certificate.
- * Attendance at the annual nation-wide conference (with partners).

The Warehouse Culture Much of the success of the company's relationship with its team members is due to The Warehouse culture in which it has always been grounded.

"We set out with one simple concept in mind: to put the customer first and let everything else, every business activity and consideration, flow from that principle. Within the business we all work together, and our team spirit comes through because we enjoy being successful and we aim to keep our customers satisfied."

"We regard our employees as our greatest asset; they choose to stay with us because we care and we take time to recognise individual qualities."

"The Warehouse is a way of life for countless New Zealanders. We make a difference to people's lives, especially family life, by making the desirable affordable."

The Future The culture of The Warehouse is unique – especially in New Zealand – and its success means that its future is assured. Clint's and Solly's also have a unique and distinct culture which is similar to The Warehouse culture, equally successful, and equally secure for the future.

THE STARS OF THE WAREHOUSE: Wearing a variety of team shirts – familiar red for The Warehouse, blue for Warehouse Stationery, as well as blue & yellow shirts from Clint's and the red shirts from Solly's – Warehouse team members come together to symbolise the new era for Warehouse stakeholders throughout Australia and New Zealand.



TOTAL TE

TO



AMWORK



-----FINANCIAL AND OPERATIONAL HIGHLIGHTS -----



INCREASE

The Warehouse	\$1.01b	\$886.9m	+\$123.1m	(+14.1%)
Warehouse Stationery	\$63.0m	\$45.9m	+\$17.1m	(+37.3%)
Operating Earnings	\$111.3m	\$85.2m	+\$26.1m	(+30.6%)
Tax-paid profit after minorities	\$70.1m	\$54.1m	+\$16.0m	(+29.6%)
Net cash flow from operations	\$70.6m	\$68.7m	+\$1.9m	(+2.7%)
Earnings per share (cents)	24.3c	18.9c	+ 5.4c	
EBIT Margin	10.4%	9.1%	+1.3%	
Dividend				
Ordinary normal dividend per share (cents)	12.5c	9.5c		
Special dividend per share (cents)	9.0c	12.0c		
Equity and debt				
Shareholders' equity	\$179.3m	\$170.1m		
Net debt to equity	50.9%	38.0%		
Net interest cover	23.3x	29.1x		
Customers (The Warehouse only)				
Number of paying customers per year	38.3 million	35.2 million		
Average sale per customer	\$26.07	\$25.22		
Warehouse Stores				
New stores opened	2	4		
Replacement stores opened	3	4		
Stores closed	2	2		
Total store numbers	69	69		
Retail area (square metres)	253,717	240,589		
Warehouse Stationery Stores				
New stores opened	6	1		
Replacement stores opened	–	1		
Total store numbers	24	18		
Retail area (square metres)	29,062	20,768		

Financial Calendar

HALF YEAR YEAR

Balance date	31 January, 2001	31 July, 2001
Results announced	March, 2001	September, 2001
Reports published/dividends paid	April, 2001	November, 2001
Quarterly sales announced	November, 2000	May, 2001
	February, 2001	August, 2001

Annual General Meeting

The Annual General Meeting of the company will be held at the Great Northern Room, Ellerslie Convention Centre, Ellerslie Racecourse, Ellerslie, Auckland, on 24 November, 2000 at 9.30 am.



-----FINANCIAL CONTENTS-----

- 20....* Ten Year Review
- 22....* Statement of Financial Performance
- 22....* Statement of Movements in Equity
- 23....* Statement of Financial Position
- 24....* Statement of Cash Flows
- 26....* Notes to and forming part of the
Financial Statements
- 36....* Auditor's Report
- 37....* Directors' Disclosures
- 40....* Shareholder Statistics and Information
- 42....* Other Statutory Information
- 43....* Senior Management and Directors



* - - - - - TEN YEAR REVIEW - - - - - *



Financial Results (\$000s)

	00	99	98	97	96
Sales Revenue	1,075,349	932,769	750,220	647,852	528,614
Operating Profit	111,336	85,202	62,456	55,322	33,352
Interest	(4,786)	(2,925)	(6,742)	(7,592)	(5,746)
Goodwill and exceptional items	1,502	182	1,826	1,441	3,539
Net surplus before taxation	108,052	82,459	57,540	49,171	31,145
Taxation expense	(37,593)	(28,030)	(17,202)	(13,728)	(7,964)
Net surplus after taxation	70,459	54,429	40,338	35,443	23,181
Minority Interests	(406)	(376)	(229)	(169)	(72)
Net surplus attributable to shareholders	70,053	54,053	40,109	35,274	23,109

Ratios

Operating margin %	10.4%	9.1%	8.3%	8.5%	6.3%
Tax paid return on average net assets %	40.1%	31.9%	25.2%	25.5%	19.5%
Net interest cover (times)	23.3x	29.1x	9.3x	7.3x	5.8x
Dividends per share (cents) ³	21.5c	21.5c	7.0c	5.0c	5.0c
Earnings per share (cents) ²	24.3c	18.9c	14.0c	12.4c	8.1c

Financial Position (\$000s)

Current assets	193,961	177,331	147,991	146,601	155,911
Current liabilities	185,153	145,657	96,846	119,094	169,702
Working capital	8,808	31,674	51,145	27,507	(13,791)
Deferred taxation	2,205	7,049	5,318	4,040	3,011
Fixed assets and investments	166,401	154,296	140,585	153,555	140,529
Intangible assets	11,881	7,050	1,518	1,745	2,049
	189,295	200,069	198,566	186,847	131,798
Term liabilities	10,000	30,000	30,000	37,500	8,273
Net assets	179,295	170,069	168,566	149,347	123,525

Ratios

Current assets to current liabilities	1.05 :1	1.22 :1	1.53 :1	1.23 :1	0.92 :1
Net debt to equity	50.9%	38.0%	33.9%	58.0%	92.4%
Equity to total assets	47.9%	49.2%	57.1%	48.8%	41.0%

Cashflows (\$000s)

Operating cashflow	70,560	68,694	61,550	35,750	(14,645)
Capital expenditure	65,443	52,407	42,082	34,870	88,708

Operating Statistics

Full-time permanent	2,987	2,758	2,456	2,008	2,082
Part-time permanent	3,759	2,488	2,381	1,999	2,006
Casual	518	367	169	717	474
Retail employee numbers	7,264	5,613	5,006	4,724	4,562
The Warehouse stores at year end	69	69	67	62	59
Warehouse Stationery stores at year end	24	18	17	13	10
Total retail stores at year end	93	87	84	75	69
The Warehouse retail area (sq. metres)	253,717	240,589	215,942	188,371	165,307
Warehouse Stationery retail area (sq. metres)	29,062	20,768	16,824	11,055	7,432
Retail area at year end (sq. metre)	282,779	261,357	232,766	199,426	172,739
The Warehouse average store size (sq. metres)	3,677	3,487	3,223	3,038	2,802
Warehouse Stationery average store size (sq. metres)	1,211	1,154	990	850	743
Average store size (sq. metres)	3,041	3,004	2,771	2,659	2,503
Rolling average sales per store (\$000s)					
The Warehouse	14,616	12,782	10,934	10,030	8,661
Warehouse Stationery	3,004	2,623	2,085	2,039	2,093
Rolling weighted average sales per sq. metre					
The Warehouse (sq. metre)	4,039	3,763	3,450	3,400	3,681
Warehouse Stationery (sq. metre)	2,487	2,382	2,214	2,441	2,987
Number of towns and cities served	47	46	44	43	42

MARCH MARCH MARCH MARCH MARCH
95 **94¹** **93¹** **92¹** **91¹**

407,142	300,813	224,699	171,862	107,629
48,514	25,924	17,909	17,666	12,466
(1,805)	(2,501)	(791)	(331)	(12)
2,167	(964)	-	-	-
48,876	22,459	17,118	17,335	12,454
(13,655)	(6,974)	(5,879)	(6,004)	(4,115)
34,221	15,485	11,239	11,331	8,339
8	-	-	-	-
35,229	15,485	11,239	11,331	8,339

11.9%	8.6%	8.0%	10.3%	11.6%
43.4%	34.0%	32.4%	52.5%	104.8%
26.9x	10.4x	22.6x	53.4x	1038.8x
5.8c	0.7c	-	-	-
12.3c	5.4c	-	-	-

103,512	72,918	52,796		
65,814	48,117	44,424		
37,698	24,801	8,372		
1,967	1,319	-		
89,433	45,918	33,691		
-	-	-		
129,098	72,038	42,063		
15,894	22,914	-		
113,204	49,124	42,063	27,244	15,912

1.57 :1	1.52 :1	1.19 :1	1.72 :1	1.84 :1
4.4%	74.7%	47.8%	28.1%	3.4%
58.1%	40.9%	48.6%	53.0%	55.5%

28,684	10,503	17		
45,097	22,850	10,052		

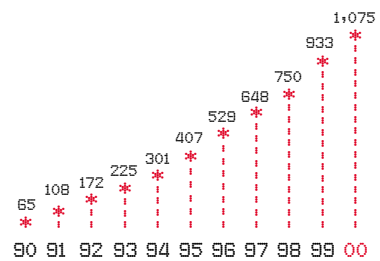
1,356	1,078			
1,939	1,430			
160	286			
3,455	2,794			
53	50	47	42	32
8	5	3	1	-
61	55	50	43	32

112,301	94,733	77,844		
4,552	2,694	1,765		
116,853	97,427	79,609		
2,119	1,895	1,656		
569	539	588		
1,916	1,771	1,592		

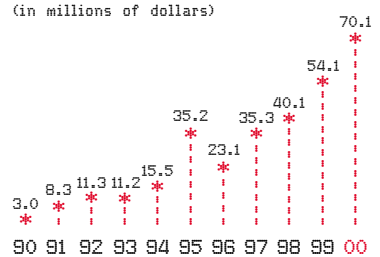
7,682	6,016	4,781	4,092	3,363
1,771	1,523	1,394	500	-

3,810	3,541	3,078		
2,960	2,363	2,089		
39	36	33	27	20

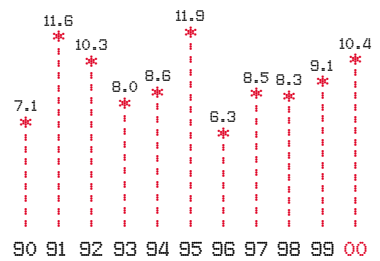
Sales
(in millions of dollars)



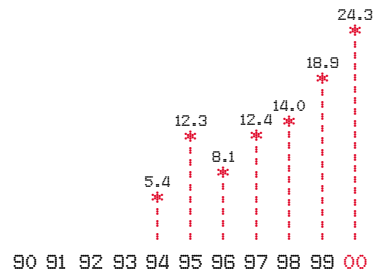
Net surplus attributable to shareholders
(in millions of dollars)



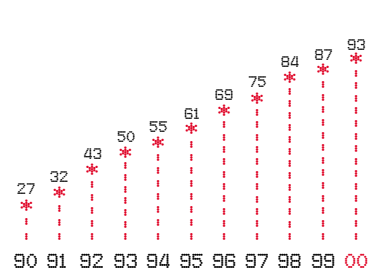
Operating margin
(Percentage)



Earnings per share
(Cents per share)



Retail stores
(Number at year end)



1. The 1991 to 1994 accounts are reconstructed accounts for the group as detailed in the prospectus date 12 October, 1994.
2. Earnings per share is based on the weighted average number of shares on issue during the year, and adjusted for bonus issues.
3. Dividends per share have been adjusted for bonus issues.
4. The 1991-3 years are not stated where they are not applicable, non-comparable or not available.
5. The 1996 four month period ended 31 July as a result of the change in balance date is not stated as it is not comparable.



----- STATEMENT OF FINANCIAL PERFORMANCE -----

For the year ended 31 July 2000

		GROUP JULY	GROUP JULY	PARENT JULY	PARENT JULY
		00	99	00	99
		\$000	\$000	\$000	\$000
	NOTE				
Operating revenue					
Sales revenue		1,075,349	932,769	-	-
Other revenue	2	30,210	8,578	97,852	61,634
		<u>1,105,559</u>	<u>941,347</u>	<u>97,852</u>	<u>61,634</u>
Net surplus before taxation	3	108,052	82,459	97,836	61,632
Taxation expense	4	(37,593)	(28,030)	5	(3)
Net surplus after taxation		70,459	54,429	97,841	61,629
Minority interests		(406)	(376)	-	-
Net surplus for the year		<u>70,053</u>	<u>54,053</u>	<u>97,841</u>	<u>61,629</u>
Earnings per share	7	24.3 cents	18.9 cents		

----- STATEMENT OF MOVEMENTS IN EQUITY -----





For the year ended 31 July 2000

Total equity at beginning of year		170,069	168,566	122,236	110,877
Net surplus attributable to					
Parent company shareholders		70,053	54,053	97,841	61,629
Minority interest shareholders		406	376	-	-
Total recognised revenues and expenses		<u>70,459</u>	<u>54,429</u>	<u>97,841</u>	<u>61,629</u>
Contributions					
Issue of shares	6	-	5,318	-	5,318
Issue of options	6	1,089	6,046	1,089	6,046
Total contributions		<u>1,089</u>	<u>11,364</u>	<u>1,089</u>	<u>11,364</u>
Distributions					
Ordinary dividends	8	(35,976)	(27,239)	(35,976)	(27,239)
Special dividends	8	(25,901)	(34,395)	(25,901)	(34,395)
Dividends paid to minority interests		(485)	(258)	-	-
Total distributions		<u>(62,362)</u>	<u>(61,892)</u>	<u>(61,877)</u>	<u>(61,634)</u>
Movement in treasury stock		40	(2,398)	-	-
Total equity at end of year		<u>179,295</u>	<u>170,069</u>	<u>159,289</u>	<u>122,236</u>

The accompanying statement of accounting policies and notes form part of these financial statements.

----- STATEMENT OF FINANCIAL POSITION -----

As at 31 July 2000

		GROUP JULY	GROUP JULY	PARENT JULY	PARENT JULY
					
	NOTE	\$'000	\$'000	\$'000	\$'000
Equity					
Share capital	6	155,738	118,674	155,738	118,674
Treasury stock	9	(4,477)	(4,517)	-	-
Retained earnings		27,634	55,433	3,551	3,562
Attributable to shareholders of the company		178,895	169,590	159,289	122,236
Minority interest		400	479	-	-
Total Equity		179,295	170,069	159,289	122,236
Non-Current Liabilities					
Term borrowings – secured	19	10,000	30,000	-	-
Current Liabilities					
Bank overdrafts – secured	19	-	1	-	-
Short term borrowings – secured	19	63,816	41,260	-	-
Creditors and accruals	16	89,823	83,131	-	-
Provision for dividend	8	11,514	17,265	11,514	17,265
Current portion of term borrowings – secured	19	20,000	4,000	-	-
Total Current Liabilities		185,153	145,657	11,514	17,265
Total Equity and Liabilities		374,448	345,726	170,803	139,501
Fixed Assets and Capital Work in Progress					
Investments and Intangibles		161,303	151,657	-	-
Advances receivable	10	2,098	2,639	-	-
Investments in listed companies	17	3,000	-	-	-
Investments in group companies	11	-	-	42,000	42,000
Intangible assets	13	11,881	7,050	-	-
Total Investments and Intangibles		16,979	9,689	42,000	42,000
Deferred Taxation Asset	5	2,205	7,049	-	-
Total Non-Current Assets		180,487	168,395	42,000	42,000
Current Assets					
Cash, bank in funds and deposits		2,470	10,641	106	55
Receivables and prepayments	15	15,718	17,382	-	38
Current portion of advances receivable	10	851	840	-	-
Inventory on hand	18	140,326	116,155	-	-
Goods in transit from overseas		30,298	31,616	-	-
Dividend receivable		-	-	11,514	17,265
Advances to subsidiary companies		-	-	115,935	79,534
Taxation receivable	4	4,298	697	1,248	609
Total Current Assets		193,961	177,331	128,803	97,501
Total Assets		374,448	345,726	170,803	139,501

On behalf of the Board of Directors, 31 August 2000.







K R Smith – Chairman



S R Tindall – Managing Director

-----STATEMENT OF CASH FLOWS-----

For the year ended 31 July 2000

	GROUP JULY	GROUP JULY	PARENT JULY	PARENT JULY
				
NOTE	\$000	\$000	\$000	\$000
Cash Flows from Operating Activities				
Receipts from customers	1,090,378	939,694	-	-
Interest received	117	107	-	-
Taxation receipts	-	-	596	732
Income received from subsidiary companies	-	-	67,629	55,104
Payments to suppliers and employees	(979,945)	(839,298)	(3)	(2)
Interest paid	(4,871)	(3,545)	-	-
Taxation paid	(35,119)	(28,264)	-	-
4				
Net Cash Flows from Operating Activities	70,560	68,694	68,222	55,834
Cash Flows from Investing Activities				
Proceeds from sale of fixed assets	37,466	29,652	-	-
Employee share purchase advances repaid	950	3,069	-	-
Advances to third parties repaid	2,820	100	-	-
Purchase of fixed assets	(65,443)	(52,407)	-	-
Net cash paid for acquisition of joint venture	-	(475)	-	-
Purchase of investments	(3,090)	(90)	-	-
Advances to third parties	(630)	(59)	-	-
Advances to subsidiary companies	-	-	664	(5,418)
Refund of employee share purchase scheme advances	(39)	(146)	-	-
Cash Flows from Investing Activities	(27,966)	(20,356)	664	(5,418)
Cash Flows from Financing Activities				
Short term borrowings	22,556	19,243	-	-
Issue of shares	-	-	-	5,318
Proceeds from the sale of treasury stock	-	163	-	-
Repayment of term loan	(4,000)	(3,500)	-	-
Dividends paid	(68,835)	(55,679)	(68,835)	(55,679)
Dividends paid to minority shareholders	(485)	(258)	-	-
Purchase of treasury stock	-	(95)	-	-
Cash Flows from Financing Activities	(50,764)	(40,126)	(68,835)	(50,361)
Net (Decrease) / Increase in Cash held	(8,170)	8,212	51	55
Opening cash position	10,640	2,428	55	-
Closing Cash Position	2,470	10,640	106	55

The accompanying statement of accounting policies and notes form part of these financial statements.

	GROUP JULY	GROUP JULY	PARENT JULY	PARENT JULY
	00	99	00	99
NOTE	\$'000	\$'000	\$'000	\$'000
Closing Cash Position is represented by				
Cash, bank in funds and deposits	2,470	10,641	106	55
Bank overdrafts	–	(1)	–	–
	<u>2,470</u>	<u>10,640</u>	<u>106</u>	<u>55</u>
Reconciliation of Net Surplus After Taxation with Net Cash Flows from Operating Activities				
Reported net surplus after taxation	<u>70,459</u>	<u>54,429</u>	<u>97,841</u>	<u>61,629</u>
Adjustments for non-cash items				
Depreciation	22,935	18,819	–	–
Goodwill amortisation	325	285	–	–
Option scheme amortisation	3,074	1,637	–	–
Mobile telephone handset amortisation	14 6,245	49	–	–
Movement in deferred tax	4 4,844	(1,731)	–	–
Bonus issue	–	–	(35,975)	–
Other non-cash adjustments	407	218	–	–
Total non-cash items adjustments	<u>37,830</u>	<u>19,277</u>	<u>(35,975)</u>	<u>–</u>
Items classified as investing or financing activities				
Net gain on sale of fixed assets	(5,662)	(440)	–	–
Mobile telephone handset capitalisation	14 (10,957)	(3,235)	–	–
Mobile telephone rebate reclassified to working capital	14 (2,369)	2,369	–	–
Other investing and financing activities	1,116	400	1,206	575
Total investing and financing adjustments	<u>(17,872)</u>	<u>(906)</u>	<u>1,206</u>	<u>575</u>
Movement in working capital component of assets and liabilities				
Trade creditors	9,984	23,804	–	–
Taxation	(3,601)	510	(639)	184
Trade receivables and prepayments	(3,387)	(2,115)	38	(24)
Dividend receivable	–	–	5,751	(6,530)
Inventory on hand and in transit	(22,853)	(26,305)	–	–
Movement in working capital	<u>(19,857)</u>	<u>(4,106)</u>	<u>5,150</u>	<u>(6,370)</u>
Net cash flows from operating activities	<u>70,560</u>	<u>68,694</u>	<u>68,222</u>	<u>55,834</u>

The accompanying statement of accounting policies and notes form part of these financial statements.

----- NOTES TO AND FORMING PART OF -----

THE FINANCIAL STATEMENTS

For the year ended 31 July 2000

1. Statement of Accounting Policies

Reporting Entity

The Warehouse Group Limited is a company registered under the Companies Act, 1993 and is listed on the New Zealand Stock Exchange.

The Warehouse Group Limited is an issuer for the purposes of the Financial Reporting Act, 1993. The financial statements and group financial statements of The Warehouse Group Limited have been prepared in accordance with the 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 comprise the parent company and its subsidiaries, in-substance subsidiaries and joint venture investments. Subsidiaries and in-substance subsidiaries have been consolidated using the purchase method. All significant intercompany transactions are eliminated on consolidation.

(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) Statement of Cash Flows

For the purposes of the Statement of Cash Flows, cash comprises cash on hand and in transit, bank in funds and short term deposits offset by bank overdrafts. Cash flows relating to short term borrowings are presented as net cash flows, as gross cash inflows and outflows include day to day cash management.

(d) Fixed Assets

Fixed assets are stated at cost and depreciated on a straight line basis to allocate the cost, less any residual value, over their useful life. Where a fixed asset is 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 fixed asset.

Estimated useful life of fixed assets:

Freehold land	indefinite
Freehold buildings	50 - 100 years
Store fittings and equipment	4 - 10 years
Computer equipment	2 - 5 years
Vehicles	5 - 8 years

(e) 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.

(f) Inventories

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

(g) Investments

Non-current investments are stated at cost. The directors write down an investment where they believe there has been a permanent impairment in the value of the investment.

(h) 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 included in the determination of the operating surplus in equal instalments over the lease term.

(i) Goodwill

Goodwill arising on the acquisition of a subsidiary or joint venture represents the excess of purchase price paid over the fair value of the identifiable net assets acquired. Goodwill is stated at cost and amortised on a straight line basis over 5 to 10 years based on the expected benefits to be derived.

(j) Share Options

Share options are granted to team members based on future company performance. The fair value of the option when granted is recognised in equity and as an intangible asset representing the future service to be provided to the company by the team members. This asset is amortised on a straight line basis over 27 months from the time the option is granted until it can be exercised.

(k) Mobile Telephone Handsets

Mobile telephone handsets are sold below cost as an inducement to customers and can only be used in conjunction with telephone cards supplied exclusively by The Warehouse. The net unrecovered cost from the sale of mobile telephone handsets is recognised as an asset and amortised on a straight line basis over the period during which benefits from the sale of telephone cards are expected to be received. The maximum amortisation period is 2 years, subject to adjustment for churn.

(l) 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 and forward rate agreements to reduce exposure to fluctuations in interest rates.

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 these foreign exchange derivatives are generally offset by a related loss or gain on the item being hedged.

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

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

(m) Foreign Currencies

Transactions in foreign currencies are converted to New Zealand currency 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 currency at the closing exchange rate, and exchange variations arising from these translations are recognised in the Statement of Financial Performance.

Changes in Accounting Policies

There have been no material changes in accounting policies. All policies have been applied on bases consistent with those used in previous periods.

		GROUP JULY	GROUP JULY	PARENT JULY	PARENT JULY
		00	99	00	99
	NOTE	\$000	\$000	\$000	\$000
2. Other Revenue					
Interest Income		127	594	-	-
Rental Income		3,172	1,746	-	-
Income from the sale of mobile telephone handsets	14	13,812	3,199	-	-
Rebates from the sale of mobile telephone airtime		4,538	-	-	-
Dividend revenue from subsidiaries		-	-	97,852	61,634
Gain on sale of properties		5,636	467	-	-
Gain on sale of fixed assets		26	-	-	-
Net foreign currency exchange gain		-	391	-	-
Store fire loss of profits insurance claim		483	-	-	-
Other income		2,416	2,181	-	-
Total Other Revenue		30,210	8,578	97,852	61,634
3. Net Surplus Before Taxation					
After charging					
Bad debts written off		286	218		
Movement in provision for doubtful debts		619	52		
Australian business origination costs		2,252	-		
Costs associated with the development of financial services in stores		1,557	-		
Donations		323	390		
Interest on borrowings		4,913	3,519		
Leasing costs		26,613	19,597		
Loss on sale of fixed assets		-	27		
Net foreign currency exchange loss		79	-		
Year 2000 compliance costs		178	849		
Amortisations					
Depreciation		22,935	18,819		
Goodwill		325	285		
Option scheme		3,074	1,637		
Mobile telephone handsets	14	6,245	49		
Directors' remuneration					
Fees paid to non-executive directors		210	200		
Remuneration and benefits provided to executive directors		1,253	1,290		
Included in the option scheme amortisation		175	97		
Auditors' remuneration					
Auditing financial statements of the group		161	165		
Other services		197	80		
Included in Australian business origination costs		375	-		

* - - - - - NOTES TO AND FORMING PART OF - - - - - *
THE FINANCIAL STATEMENTS - CONTINUED

For the year ended 31 July 2000

	GROUP JULY	GROUP JULY	PARENT JULY	PARENT JULY
				
NOTE	\$000	\$000	\$000	\$000

4. Taxation

Net surplus before taxation	108,052	82,459	97,836	61,632
Prima facie taxation calculated at 33%	35,657	27,211	32,286	20,339
Adjusted for the tax effect of				
Non taxable income	(254)	(141)	(32,291)	(20,339)
Option scheme amortisation	1,014	540	-	-
Goodwill amortisation	107	94	-	-
Business origination costs	743	-	-	-
Other non deductible expenditure	300	367	-	-
Section DF7 notional interest on employee share purchase advances	(91)	(40)	-	-
Income tax expense on surplus	37,476	28,031	(5)	-
Income tax under / (over) provided in prior year	117	(1)	-	3
Total income tax expense	37,593	28,030	(5)	3
Deferred taxation	5 (4,844)	1,731	-	-
Current year taxation payable	32,749	29,761	(5)	3
Taxation receivable at beginning of year	(697)	(1,209)	(609)	(793)
Taxation (paid) / received	(35,119)	(28,264)	596	732
Supplementary dividends	(1,206)	(575)	(1,206)	(575)
Use of money interest and other adjustments	(25)	(410)	(24)	24
Taxation receivable at end of year	(4,298)	(697)	(1,248)	(609)

There are no income tax losses or unrecognised timing differences carried forward.

Imputation Credit Account

Memorandum account

Imputation credit at beginning of year	28,364	26,491	99	99
Taxation payments made	34,300	28,000	-	-
Credits attached to dividends paid	(49,848)	(26,543)	(49,848)	(26,543)
Credits attached to dividends received	510	-	49,848	26,543
Adjustments to previous years	4	416	-	-
Imputation credit at end of year	13,330	28,364	99	99

The parent company, together with its wholly-owned subsidiary companies, form a consolidated group for income tax purposes. Accordingly the group imputation credit account movements reported are for the tax group, and are available to shareholders through their shareholding in the parent company.

5. Deferred Taxation

Balance at beginning of year	7,049	5,318	-	-
Recognised in the Statement of Financial Performance	(4,844)	1,731	-	-
Balance at end of year	2,205	7,049	-	-

Deferred taxation asset consists of:

Depreciation differences	(97)	793		
Differences arising from capitalising telephone handsets	(2,606)	(269)		
Holiday pay and other payroll related accruals	3,141	5,529		
Year 2000 compliance costs	273	280		
Provisions and other timing differences	1,494	716		
	2,205	7,049		

	GROUP & PARENT JULY	GROUP & PARENT JULY	ORDINARY SHARES JULY	ORDINARY SHARES JULY
	00	99	00	99
NOTE	\$000	\$000	000's	000's

6. Share Capital

		118,674	107,310	143,877	143,127
Share capital at beginning of year					
Share options exercised		–	–	85	–
Shares issued at \$7.09 per ordinary share	9	–	5,318	–	750
Share options granted net of options forfeited		1,089	6,046	–	–
1:1 bonus issue at \$0.25 per ordinary share	8	35,975	–	143,895	–
Share capital at end of year		155,738	118,674	287,857	143,877

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

Share option plan

In accordance with the two share option plans approved by shareholders at the Annual Meetings in 1998 and 1999, 1,245,000 options (1999 – 9,527,000 options) were issued to team members and 39,680 options (1999 – nil) to non-executive directors during the year. A total of 10,039,680 options have been issued and 216,000 options exercised. All share options forfeited as a consequence of team members leaving the company have been reissued to new team members. The options have no nominal value and have no cash issue price, and are recognised in equity and intangible assets (note 13) based on an independent valuation of the options at the date they are granted.

7. Earnings Per Share

Group net surplus/Weighted average number of shares on issue	70,053	54,053	287,846	286,531
Net surplus per share (cents per share – cps)			24.3 cps	18.9 cps





Earnings per share is calculated by dividing the group net surplus after taxation and minority interests by the weighted average number of ordinary shares on issue during the year, and adjusted for the March 2000 1:1 bonus issue.

8. Dividends and Bonus Issues

Interim dividend	24,462	18,606	8.5 cps	6.5 cps
Interim special dividend	25,901	25,763	9.0 cps	9.0 cps
Final dividend provided	11,514	8,633	4.0 cps	3.0 cps
Final special dividend provided	–	8,632	–	3.0 cps
Total dividends paid and provided in cash (cents per share – cps)	61,877	61,634	21.5 cps	21.5 cps
Bonus issue provided from retained earnings (25 cents per share)	35,975	–		
Total distributions to shareholders	97,852	61,634		

Dividends per share have been adjusted for the March 2000 1:1 bonus issue.

* - - - - - NOTES TO AND FORMING PART OF - - - - - *
THE FINANCIAL STATEMENTS - CONTINUED

	GROUP JULY	GROUP JULY	ORDINARY SHARES JULY	ORDINARY SHARES JULY
				
NOTE	\$000	\$000	000's	000's
9. Treasury Stock				
Treasury stock at beginning of year	4,517	2,119	959	805
Ordinary shares issued to the trustee of the share purchase scheme	–	5,318	–	750
Employee share purchase scheme forfeited shares	259	135	64	61
1:1 bonus issue at \$0.25 per ordinary share	240	–	960	–
Allocated to employee share purchase scheme	–	(2,901)	–	(593)
Shares traded on the open market	–	(44)	–	(22)
Shares issued to staff in lieu of cash remuneration	(539)	(110)	(114)	(42)
Treasury stock at end of year	<u>4,477</u>	<u>4,517</u>	<u>1,869</u>	<u>959</u>
Ordinary shares held by the trustee of the share purchase scheme				
Unallocated treasury stock			1,869	959
Allocated to employee share purchase scheme	10		832	1,309
			<u>2,701</u>	<u>2,268</u>
Percentage of share capital			0.94%	1.58%

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.

10. Advances Receivable

Advances on shares allocated to employees under the employee share purchase scheme	2,244	3,413	832	1,309
Other advances	705	66		
	<u>2,949</u>	<u>3,479</u>		
Less advances repayable within 12 months	(851)	(840)		
Total advances repayable after more than 1 year	<u>2,098</u>	<u>2,639</u>		
Percentage of share capital			0.29%	0.91%

Employee Share Purchase Scheme

The Warehouse Management Trustee Company acts as trustee for the employee share purchase scheme. At regular intervals the trustee offers shares to permanent employees of the group with service in excess of 750 hours per year. Shares are offered at a price set by the trustee and allocated from treasury stock under Section DF7 of the Income Tax Act, 1994 to a maximum consideration of \$2,340 per employee in any 3 year period. Employees accepting the share offer are provided financial assistance on an interest free basis, payable over 5 years in regular instalments.

The shares allocated to staff are held in trust for a 3 year restrictive period, and then until outstanding advances are fully repaid. If a staff member terminates employment during the restrictive period, the shares are returned to treasury stock and may be reissued at the discretion of the directors.

11. Investment in Subsidiary Companies

	PRINCIPAL ACTIVITY
Significant subsidiaries (100% owned)	
The Warehouse Limited	Retail
Warehouse Stationery Limited	Retail
Eldamos Investment Limited	Store property owner
Boye Developments Limited	Holding company
In-substance subsidiary (100% owned)	
Warehouse Management Trustee Company Limited	Share scheme trustee
Joint ventures (50% owned)	
Lincoln West Limited	Store property owner
Care Chemist Limited	Franchise owner

There have been no changes in shareholdings in subsidiaries during the year. The balance date of all subsidiaries and the Lincoln West Limited joint venture is 31 July. The balance date of Care Chemist Limited is 31 March.

	GROUP JULY 2000			GROUP JULY 1999		
	COST	ACCUM	BOOK	COST	ACCUM	BOOK
	\$'000	DEPN \$'000	VALUE \$'000	\$'000	DEPN \$'000	VALUE \$'000
12. Fixed Assets						
Freehold land	18,905	–	18,905	28,925	–	28,925
Freehold buildings	48,855	3,785	45,070	49,637	2,942	46,695
Store fittings and equipment	101,165	51,370	49,795	83,433	38,244	45,189
Computer equipment	44,719	30,092	14,627	38,993	22,463	16,530
Vehicles	4,047	2,661	1,386	4,554	2,519	2,035
Work in progress	31,520	–	31,520	12,283	–	12,283
Total Fixed Assets	249,211	87,908	161,303	217,825	66,168	151,657

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 \$105,837,000 (1999 – \$98,008,000).

	NOTE	GROUP JULY 2000			GROUP JULY 1999		
		COST	ACCUM	BOOK	COST	ACCUM	BOOK
		\$'000	AMORT \$'000	VALUE \$'000	\$'000	AMORT \$'000	VALUE \$'000
13. Intangible Assets							
Goodwill		2,766	1,369	1,397	2,766	1,044	1,722
Deferred option scheme		6,992	4,568	2,424	6,046	1,637	4,409
Mobile telephone handsets	14	14,192	6,294	7,898	866	49	817
Pharmacy franchises		200	38	162	110	8	102
Total Intangible Assets		24,150	12,269	11,881	9,788	2,738	7,050

Deferred option scheme

Options are granted as an incentive to team members selected at the discretion of the directors, and can be exercised after 27 months. The options entitle the holder to subscribe for ordinary shares based on the increment in the group's share price relative to the New Zealand Stock Exchange 40 Gross Index over the period. The options are recognised at the fair value of the options at grant date, and amortised over 27 months representing the future service to be provided to the group by the team members.

	OPTIONS GRANTED DATE	NUMBER OF OPTIONS GRANTED 000's	FAIR VALUE AT GRANT DATE \$'000	EXERCISE PERIOD COMMENCES	OPTIONS EXPIRY DATE	FAIR VALUE AT BALANCE DATE \$'000
Directors options						
N R Plummer	16/12/98	300	199	16/03/01	15/03/02	1,365
P G Inger	16/12/98	240	159	16/03/01	15/03/02	1,092
J R Avery	22/12/99	8	10	22/03/02	21/03/03	18
P Brass	22/12/99	8	10	22/03/02	21/03/03	18
R L Challinor	22/12/99	8	10	22/03/02	21/03/03	18
G F Evans	22/12/99	8	10	22/03/02	21/03/03	18
J Withers	22/12/99	8	10	22/03/02	21/03/03	18
Team members options						
1st tranche–170 team members	16/12/98	8,149	5,423	16/03/01	15/03/02	37,078
2nd tranche–13 team members	16/07/99	450	477	15/10/01	15/10/02	1,332
3rd tranche–32 team members	22/12/99	645	684	22/03/02	21/03/03	1,425
Total options issued		9,824	6,992			42,382

The fair value of the options at balance date has been assessed as though the options could be exercised on 31 July 2000 and a group share price of \$5.72 per share.



* - - - - - NOTES TO AND FORMING PART OF - - - - - *
THE FINANCIAL STATEMENTS - CONTINUED

	GROUP JULY 2000	GROUP JULY 1999
	\$ 000	\$ 000
14. Mobile telephone handsets		
Balance at beginning of year	817	-
Handsets capitalised		
Income from sale of 131,761 handsets (1999 – 36,457 handsets)	(13,812)	(3,199)
Cost of handsets sold	24,769	6,434
Net handset capitalisation	10,957	3,235
Expected rebate netted against intangible assets in 1999, reclassified to working capital in 2000	2,369	(2,369)
Handset amortisation including an allowance for churn ¹	(6,245)	(49)
Balance at end of year	7,898	817

¹ Churn is the rate at which customers stop using their mobile telephones

15. Receivables and Prepayments

Trade receivables	7,640	3,017
Prepaid expenses and interest	2,171	3,407
Property development advance	1,379	3,518
Property settlements receivable on unconditional sale agreements	4,528	7,440
	15,718	17,382

16. Creditors and Accruals

Trade creditors	54,322	46,772
Goods in transit creditors	15,386	12,213
Accrued employee entitlements	20,115	20,477
Property development payables	-	3,669
	89,823	83,131

Employee entitlements include provisions for holiday pay, long service leave, PAYE, and pay periods ending after balance date.

17. Investment in listed companies

eVentures New Zealand Limited	3,000	-
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In May 2000 the company subscribed for 5 million shares at 60 cents per share in eVentures New Zealand Limited, the market value of the shares at 31 July 2000 was \$2,650,000 (53 cents per share).

18. Inventory

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.

GROUP JULY	GROUP JULY	EFFECTIVE INTEREST RATE JULY	EFFECTIVE INTEREST RATE JULY
00	99	00	99
\$ 000	\$ 000	%	%



19. Borrowings – secured

Bank overdrafts	–	1	8.35%	6.60%
Short term borrowings				
Over night borrowings	43,816	35,260	6.90%	5.00%
90 day borrowings	20,000	6,000	7.28%	5.13%
	63,816	41,260	7.02%	5.02%
Term borrowings				
Repayable:				
7 to 12 months	30,000	4,000	7.07%	7.63%
Current portion of term borrowings	30,000	4,000		
19 to 24 months	10,000	10,000	6.03%	5.82%
31 to 36 months	–	20,000	–	7.09%
Term borrowings repayable after more than 1 year	10,000	30,000	6.03%	6.67%
Total term borrowings	40,000	34,000	6.81%	6.78%

Interest rates

Term borrowings reprice at 90 day intervals, which are matched to a combination of interest rate swaps and forward rate agreements (note 20). These interest rate derivatives determine the term and effective interest rate of term borrowings.

Short term interest rate derivatives in place at balance date provided seasonal cover of approximately \$20 million from June 2000 to November 2000 at effective interest rates ranging between 7.20% and 7.45%. The effect of these interest rate derivatives has been allowed for in determining the effective interest rates of short term borrowings at balance date.

Security

Borrowings are secured by a debenture trust deed over the assets and liabilities of the parent company and its subsidiaries.

20. Financial Instruments

Off-Balance Sheet Financial Instruments

Forward exchange contracts and currency options

Contract amounts (New Zealand dollars)	165,121	141,943
Valuation at balance date (New Zealand dollars)	179,238	143,990

Notional principal of interest rate derivatives

Matched to term borrowings	40,000	34,000
Short term 90 day seasonal hedges	30,000	–

The parent has no off-balance sheet financial instruments.

Interest rate risk

The group uses interest rate swaps and forward rate agreements to manage interest rate risk. The directors regularly review the amount, and the mix of the interest rate derivatives used to hedge borrowings. Interest rates and interest repricing periods on borrowings after allowing for interest rate derivatives are disclosed in note 19.

Currency risk

The group enters into 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 and the groups policy since March 1998 has been to cover between 35% and 65% of the forecasted US dollar commitments on a rolling 12 month basis.

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



* - - - - - NOTES TO AND FORMING PART OF - - - - - *
THE FINANCIAL STATEMENTS - CONTINUED

Credit risk

Financial instruments which potentially subject the group to credit risk principally, consist of bank balances, trade and property receivables, advances and off balance sheet financial instruments.

The group's deposits and off balance sheet financial instruments are placed only with major banks within limits approved by the directors. Agreements for the sale of property are only entered into with parties of high credit quality. Title and possession do not pass until settlement. Where employees have been advanced funds to purchase shares in accordance with the share purchase scheme, the shares are held in trust until the advances have been fully repaid. The Warehouse Card (a private label credit card), does not expose the group to any credit risk as credit is granted through Westpac Banking Corporation on a non-recourse basis. The group performs credit evaluations on customers requiring credit but generally does not require collateral. Concentrations of credit risk with respect to trade receivables are limited due to the minor nature and spread of such accounts. There are no other concentrations of credit risk.

GROUP JULY	GROUP JULY	PARENT JULY	PARENT JULY
00	99	00	99
\$000	\$000	\$000	\$000

Maximum exposures to credit risk at balance date are:

Cash, bank in funds and deposits	2,470	10,641	106	55
Trade receivables and advances	11,968	10,014	115,935	79,572
Property settlements receivable on unconditional sale agreements	4,528	7,440	-	-
Total exposure to credit risk at balance date	18,966	28,095	116,041	79,627

Credit Facilities

The group had bank funding facilities (including letters of credit, but excluding seasonal facilities) of \$180,000,000 available at 31 July 2000 (1999 – \$192,500,000). The amount undrawn after borrowings and outstanding letters of credit was \$42,822,000 (1999 – \$83,854,000).

Fair Values

The estimated fair values of the groups financial instruments which differ from the carrying values are as follows:

CARRYING AMOUNT JULY	FAIR VALUE JULY	CARRYING AMOUNT JULY	FAIR VALUE JULY
00	00	99	99
\$000	\$000	\$000	\$000

Group

Investments in listed companies	3,000	2,650	-	-
Off-balance sheet financial instruments				
Forward exchange contracts and currency options	-	14,117	-	2,047
Interest rate swaps and forward rate agreements	-	323	-	(340)
Bank letters of credit issued to secure future purchasing requirements	-	(36,994)	-	(33,385)
Bank letters of credit issued to secure deposit on Australian acquisition	-	(6,368)	-	-

The fair value of the bank letters of credit has been determined on the face value of the credit. The fair value of the interest rate derivatives, forward exchange contracts, currency options and investment in listed companies are based on the quoted market price of the financial instrument or comparable financial instruments.

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

21. Contingent Liabilities

Bank letters of credit issued to secure future purchasing requirements	36,994	33,385
New Zealand Stock Exchange bond	75	75
Total contingent liabilities	37,069	33,460

The parent company had no contingent liabilities (1999 – nil).

The Warehouse Card (a private label credit card) operates a bonus points system on purchases made using the card. Points may be redeemed for discount in conjunction with particular marketing promotions. Any discounts redeemed are accounted for as a promotional cost at the time of the promotion. Bonus points cannot be accumulated for more than 12 months. The Warehouse Limited offers a money back guarantee on goods sold, and any cost is accounted for when incurred. Any contingent liability for bonus points or guarantees cannot be reliably estimated.

Australian new business

The group announced its intention to acquire Clint's Crazy Bargains and Silly Solly's, two Australian discount variety chains in June 2000. The up-front acquisition cost to the group, subject to adjustment pending the completion of audited settlement accounts is \$105 million Australian dollars, with a potential earn-out of up to \$24 million Australian dollars additional consideration should the Australian businesses achieve certain earnings targets by the year 2003. The effective completion date for the acquisition was 1 August 2000.

22. Commitments

Capital Commitments

Contracts entered into for capital expenditure which have not been provided for in the Statement of Financial Position	13,375	5,264
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Lease Commitments

The group has the following non-cancellable operating lease commitments which relate to leases of store premises:

Due within one year	30,281	23,466
Due within one to two years	29,151	22,001
Due within two to five years	77,010	60,456
Due after five years	66,796	58,919
Total lease commitment	203,238	164,842

The parent company had no capital or lease commitments (1999 – nil).

23. Related parties

The group has paid for professional services at normal commercial rates from the following firms in which a director has an interest.

Spicer & Oppenheim (K R Smith – Partner)	79	92
Hesketh Henry (J R Avery – Partner)	409	334
L.E.K Consulting Pty Limited (R L Challinor – Advisory Board member)	569	–
Total professional fees paid to related parties	1,057	426

Directors are entitled to purchase goods at normal staff discount. No related party debt has been written off or forgiven during the year.

24. Segment Information

The group operates predominantly in the New Zealand retail sector.



Auditor's Report

To the Shareholders of The Warehouse Group Limited

We have audited the financial statements on pages 22 to 35. The financial statements provide information about the past financial performance of the company and group and their financial position as at 31 July 2000. This information is stated in accordance with the accounting policies set out on page 26.

Directors' Responsibilities

The directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company and group as at 31 July 2000 and of their financial performance and cash flows for the year ended on that date.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report 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:

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the circumstances of the company and the 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 to the presentation of information in the financial statements.

Ernst & Young undertakes consulting projects for the company and group.

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 22 to 35:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the financial position of the company and group as at 31 July 2000, and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 31 August 2000, and our unqualified opinion is expressed as at that date.

Ernst & Young
Auckland

* - - - - - DIRECTORS' DISCLOSURES - - - - - *

Disclosure of Interest

The following are general disclosures entered in to the interests register pursuant to Section 140(2) of the Companies Act 1993:

Mr K R Smith – Chairman

Chairman	Healthcare Holdings Limited
Director	TV3 Network Holdings Limited and subsidiaries
Director	Lowe Corporation Limited and subsidiaries
Director	Enterprise Motor Group Limited
Director	New Zealand Flower & Garden Show Limited
Director	Cooper Henderson Motors (1993) Limited
Director	Tourism Holdings Limited
Director	James Raymond Holdings Limited
Director	Genesis Power Limited
Partner	Spicer & Oppenheim

Mr J R Avery

Chairman	Fund Managers Auckland Limited
Director	NSM Contracting Limited
Director	The Selwyn Foundation
Chairman	Independent Timber Merchants Society Limited
Chairman	Osterley Nominees Limited
Partner/Chairman	Hesketh Henry

Mr P Brass

Chairman	N M Rothschild & Sons (Australia) Pty Limited
Chairman	Mayor of Shanghai International Business Leaders' Advisory Council (Australia)
Director	SecureNet Limited

Mr R L Challinor

Chairman	Sheffield Consulting Group Limited
Director	Ports of Auckland Limited
Chairman	Tower Health Limited
Chairman	Mighty River Power Limited
Joint Venture Committee Member	Copthorne Waitangi Resort
Australasian Advisory Board Member	L.E.K. Consulting Pty Limited
Director/Shareholder	Northington Partners Limited

Mrs J Withers

Director	Bendon Group Limited
Director	Auckland International Airport Limited
Director	Auckland Trotting Club Inc.
Director	Meridian Energy Limited
Member	Broadcasting Standards Authority

Mr G F Evans

Director	Frucor Beverages Group Limited
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Mr S R Tindall

Director (Company's representative)	eVentures New Zealand Limited
Director	U-Clic Limited
Director	Aspiring Technology Limited

-----DIRECTORS' DISCLOSURES - CONTINUED-----

SHARE TRANSACTIONS	NUMBER OF SHARES ACQUIRED/(DISPOSED)	DOLLAR CONSIDERATION	DATE OF TRANSACTION
S R Tindall, K R Smith and P G Inger			
Non-beneficial trustees of The Warehouse Management Trustee Company Limited	(614,796)	Pursuant to Trust Deed	Various
	960,554	Pursuant to 1:1 Bonus Issue	24/3/00
K R Smith			
Non-beneficial as trustee	1,500,000	Pursuant to Trust Settlement	2/9/99
	38,127,958	Pursuant to 1:1 Bonus Issue	24/3/00
Non-beneficial – related party	2,400	Pursuant to 1:1 Bonus Issue	24/3/00
J R Avery			
Non-beneficial as trustee	1,500,000	Pursuant to Trust Settlement	2/9/99
	37,627,460	Pursuant to 1:1 Bonus Issue	24/3/00
Non-beneficial related party	201,464	Pursuant to 1:1 Bonus Issue	24/3/00
P Brass			
Beneficial interest	40,000	Pursuant to 1:1 Bonus Issue	24/3/00
P G Inger			
Beneficial interest	7,246	\$36,956	12/10/99
	2,904	\$22,216	2/11/99
	2,711,660	Pursuant to 1:1 Bonus Issue	24/3/00
	4,139	\$9,689	12/4/00
Non-beneficial–related party	2,000,000	Pursuant to 1:1 Bonus Issue	24/3/00
N R Plummer			
Beneficial interest	1,522	\$10,904	20/5/99
	7,269	\$37,061	12/10/99
	2,956	\$22,613	2/11/99
	804,723	Pursuant to 1:1 Bonus Issue	23/3/00
	4,139	\$9,689	12/4/00
S R Tindall			
Beneficial interest	5,611	\$29,567	12/10/99
	3,298	\$28,363	18/01/00
	42,354,191	Pursuant to 1:1 Bonus Issue	24/3/00
	5,101	\$11,941	12/4/00
Non-beneficial interest as trustee	1,500,000	Pursuant to Trust Settlement	2/9/99
	36,838,663	Pursuant to 1:1 Bonus Issue	24/3/00
Non-beneficial – related party	4,800	Pursuant to 1:1 Bonus Issue	24/3/00
J Withers			
Beneficial interest	77	\$548	28/5/99
	1,423	\$10,303	31/5/99
	1,500	Pursuant to 1:1 Bonus Issue	24/3/00

Remuneration of Directors

Remuneration and other benefits provided to directors of The Warehouse Group Limited during the accounting period under review are stated below:

	JULY 2000	JULY 1999

Directors' fees paid to non-executive directors:		
K R Smith	60,000	50,000
J R Avery	30,000	30,000
R L Challinor	30,000	30,000
P Brass	30,000	30,000
J Withers	30,000	30,000
G F Evans	30,000	30,000

Remuneration paid and benefits provided by way of salaries and bonuses to executive directors:

S R Tindall	479,840	343,984
P G Inger	385,674	311,684
N R Plummer	387,474	311,684

In addition, non-executive directors receiving options independently valued at \$1.26 each under the External Directors Share Option Plan were:

J R Avery	7,936 options
R L Challinor	7,936 options
P Brass	7,936 options
J Withers	7,936 options
G F Evans	7,936 options

The maximum amount of directors' fees including options at issue value to non-executive directors is set at \$315,000 per annum. Executive directors do not receive directors' fees. The stated remuneration of executive directors relates to their capacities as employees.

Other Interests

As provided by Section 162 of the Companies Act 1993 and in accordance with the company's constitution, the group has provided insurance for, and indemnities to, directors and employees of the company and its subsidiaries for losses from actions undertaken in the course of their legitimate duties.

During the period eVentures New Zealand Limited issued share options to its directors. As the group's representative on the eVentures New Zealand Limited board Mr Tindall transferred 1,000,000 options to the benefit of the group by way of a Deed of Trust.

There were no disclosures of interests in any other transactions or the use of company information entered into the interests register during the period under review.

Directors shareholdings as at 31 July 2000

	BENEFICIAL INTEREST		NON-BENEFICIAL INTEREST		RELATED PARTY	
	2000	1999 ¹	2000	1999 ¹	2000	1999 ¹
J R Avery	-	-	75,254,920	36,127,460	402,928	201,464
P Brass	80,000	40,000	-	-	-	-
R L Challinor	-	-	-	-	-	-
G F Evans	-	-	-	-	-	-
P G Inger	5,427,459	2,701,510	2,683,266	2,337,508	4,000,000	2,000,000
N R Plummer	1,584,996	792,498	-	-	-	-
K R Smith	-	-	78,939,182	38,965,466	4,800	2,400
S R Tindall	84,713,483	42,345,282	76,360,592	37,676,171	9,600	4,800
J Withers	3,000	-	-	-	-	-

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

The shareholding held non-beneficially by Messrs J R Avery, K R Smith and S R Tindall are the same parcels of shares as to 73,343,992 shares (July 1999-35,171,996 shares).

The shareholding held beneficially and non-beneficially by Messrs P G Inger and J R Avery are the same parcels of shares as to 1,400,000 shares (July 1999-700,000 shares).

The shareholding held beneficially and non-beneficially by Messrs N R Plummer and K R Smith are the same parcels of shares as to 1,584,996 shares (July 1999-792,498 shares).

Messrs P G Inger, K R Smith and S R Tindall hold non-beneficially the same parcels of 2,683,266 shares (July 1999-2,337,508 shares) as trustees of The Warehouse Management Trustee Company Limited.

¹The 1999 comparative figures have not been adjusted for the March 2000 1:1 bonus issue.



* - - - - - SHAREHOLDER STATISTICS AND INFORMATION - - - - - *

Twenty Largest Registered Shareholders as at 26 September, 2000

REGISTERED SHAREHOLDER	NUMBER OF ORDINARY SHARES	PERCENTAGE OF ORDINARY SHARES
S R Tindall	84,713,483	29.43%
M M Tindall & S R Tindall & J R Avery & K R Smith (as trustees of The Tindall Foundation)	66,323,220	23.04%
National Nominees New Zealand Limited ¹	20,642,167	7.17%
ANZ Nominees Limited ¹	15,147,183	5.26%
The Trustees Executors and Agency Company of New Zealand Limited ¹	6,982,217	2.43%
Citibank Nominees (New Zealand) Limited ¹	4,087,531	1.42%
P G Inger	4,027,459	1.40%
J A Inger	4,000,000	1.39%
AMP Superannuation Tracker Fund Limited ¹	3,834,162	1.33%
S R Tindall & K R Smith & J R Avery (as trustees)	3,389,844	1.18%
R G Tindall & G M Tindall & J R Avery & K R Smith & S R Tindall (as trustees)	3,000,000	1.04%
The Warehouse Management Trustee Company Limited	2,680,608	0.93%
AMP Life Limited ¹	2,533,840	0.88%
Premier Nominees Limited ¹	2,530,627	0.88%
Accident Rehabilitation and Compensation Insurance Corporation ¹	2,473,000	0.86%
Sheath Holdings ¹	2,415,048	0.84%
National Mutual Life Assurance of Australasia Limited ¹	2,143,392	0.74%
P G Inger & J A Inger & J R Avery (as trustees)	1,400,000	0.49%
NZ Guardian Trust Company Limited	1,190,549	0.41%
NR Plummer & J M Plummer & K R Smith (as trustees)	1,032,220	0.36%
	234,546,550	81.48%

¹ Shareholdings held in New Zealand Central Securities Depository Limited (NZCSD). Total holdings in New Zealand Central Security Depository Limited were 76,811,919 (26.68%).

Distribution of Ordinary Shares as at 26 September, 2000

SIZE OF SHAREHOLDING	NUMBERS OF SHAREHOLDERS		SHARES HELD	
1 – 999	3,459	32.50%	1,634,768	0.57%
1,000 – 4,999	5,759	54.10%	12,213,025	4.24%
5,000 – 9,999	750	7.05%	4,877,035	1.69%
10,000 – 499,999	661	6.20%	18,946,205	6.59%
500,000 – 999,999	5	0.05%	2,887,488	1.00%
Over – 1,000,000 ²	11	0.10%	247,298,157	85.91%
	10,645	100.00%	287,856,678	100.00%
Registered Address of Shareholders				
Auckland and Northland	3,468	32.58%	189,464,364	65.82%
Waikato and Central North Island	3,041	28.57%	7,210,263	2.50%
Lower North Island and Wellington ²	1,843	17.31%	82,455,554	28.64%
Canterbury, Marlborough and Westland	1,361	12.79%	5,553,376	1.93%
Otago and Southland	774	7.27%	2,262,059	0.79%
Overseas	158	1.48%	911,062	0.32%
	10,645	100.00%	287,856,678	100.00%

² Shareholdings in NZCSD have been aggregated.

----- OTHER STATUTORY INFORMATION-----

Employees receiving remuneration and other benefits exceeding \$100,000 per annum

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

	NUMBER OF EMPLOYEES	
	00	99
\$100,000 – \$110,000	6	7
\$110,000 – \$120,000	12	7
\$120,000 – \$130,000	6	10
\$130,000 – \$140,000	5	1
\$140,000 – \$150,000	4	6
\$150,000 – \$160,000	1	4
\$160,000 – \$170,000	7	4
\$170,000 – \$180,000	1	1
\$180,000 – \$190,000	6	1
\$190,000 – \$200,000	1	3
\$210,000 – \$220,000	1	–
\$220,000 – \$230,000	3	–
\$230,000 – \$240,000	3	4
\$240,000 – \$250,000	1	1
\$280,000 – \$290,000	2	–
\$290,000 – \$300,000	1	1
\$300,000 – \$310,000	–	1
\$310,000 – \$320,000	1	1
\$320,000 – \$330,000	1	–
\$370,000 – \$380,000	2	–
\$380,000 – \$390,000	1	–
\$420,000 – \$430,000	1	–
\$520,000 – \$530,000	1	–

Motor vehicles are provided to 16 employees (1999 – 10 employees) included above.

In addition to remuneration and benefits from employment included above the gross before tax value of options exercised under The Outperform The Market Share Option Scheme valued at or exceeding \$100,000 during the period under review are stated below:

\$190,000 – \$200,000	1	–
\$420,000 – \$430,000	1	–

Dividend

A final dividend of 4 cents per share, payable on 27 November, 2000, has been approved by the directors. The transfer books and Register of Shareholders of the company will close at 5.00 p.m. on Friday, 10 November, 2000.

Auditor

In accordance with Section 200 of the Companies Act, 1993, the group auditor, Ernst & Young, will continue in office.

Annual Report

The July, 2000 Annual report contained in this publication is signed for and on behalf of the board of directors on 31 August, 2000.



K R Smith – Chairman



S R Tindall – Managing Director

Senior Management



NEVILLE BROWN



GREG FORAN



GRAHAM CHAD



ROBERT SMITH



DAVE RICKARDS



NEIL COWIE

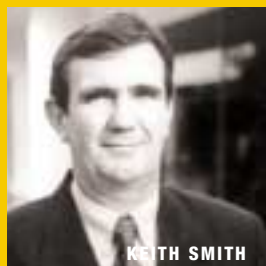


GREG MUIR



BRENT WALDRON

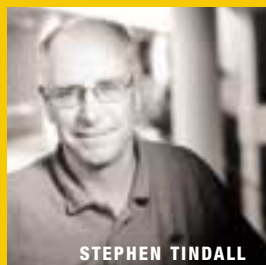
Directors



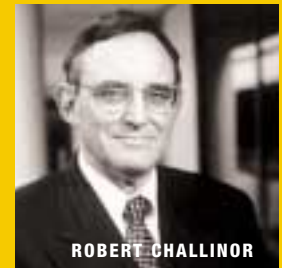
KEITH SMITH



PHILIP BRASS



STEPHEN TINDALL



ROBERT CHALLINOR



JOHN AVERY



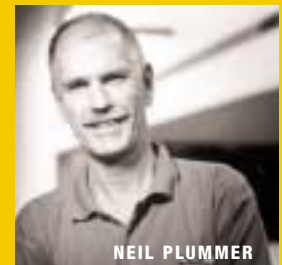
GRAHAM EVANS



JOAN WITHERS



GLEN INGER



NEIL PLUMMER

Who, What, How...

Directors

Keith R Smith – BCom, FCA

Chairman

John R Avery – LLB

Philip Brass – BCom

Robert L Challinor – BCom, FCA,

FCCM, CMA

Graham F Evans

Joan Withers – MBA

Stephen R Tindall – OMNZ, FNZIM,

Dip Mgt

Managing Director

P Glen Inger

Property Director

Neil R Plummer

Merchandise and Operations Director

Secretary to the Board

David J Gabriel – BCom, CA

Chief Accountant

Executive

Neville C Brown – BCA

Information Services

Graham L Chad

Logistics

Neil R Cowie

Operations

Greg J Muir – BA, MBA

Chief Operating Officer

Robert W Smith

GM Warehouse Stationery

Brent D Waldron – MCom (Hons),

CA, CTP

Chief Financial Officer

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 Office

C/- Spicer & Oppenheim

Level 8, Westpac Tower

120 Albert Street

PO Box 2219, Auckland

New Zealand

Share Registrar

Computershare Registry Services

Limited

Private Bag 92119

Newmarket, Auckland 1030

New Zealand

Tel 64-9-522 0022

Fax 64-9-522 0058

Shareholder Register Enquiries and Details

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

Direct Banking of Dividends

Direct banking of ordinary share dividends enables investors to have dividends paid directly to New Zealand trading banks.

Further information can be obtained from the Share Registrar.

Investor Relations

For investor relations enquiries please contact at the above place of business:

Mark Fennell

Investor Relations Manager

Website: www.thewarehouse.co.nz

Email: investor@twl.co.nz

Regional Offices

HAMILTON

Cnr Anglesea & Ward Streets

Tel 64-7-838 2088

Fax 64-7-834 0109

Private Bag 3121

Waikato Mail Centre

HASTINGS

203 Market Street

Tel 64-6-876 6682

Fax 64-6-876 2299

PO Box 1464, Hastings

PALMERSTON NORTH

1st Floor, 279 Cuba Street

Tel 64-6-353 7160

Fax 64-6-353 7170

PO Box 3045, Princes Street

Palmerston North

CHRISTCHURCH

265 Blenheim Road

Tel 64-3-348 1234

Fax 64-3-348 2870

PO Box 9013, Addington

DUNEDIN

39 MacLaggan Street

Tel 64-3-479 2227

Fax 64-3-479 2234

Distribution Centres

AUCKLAND

92 Langley Road, Wiri

Manukau City

Tel 64-9-278 2001

Fax 64-9-278 8181

CHRISTCHURCH

265 Blenheim Road

Tel 64-3-348 8686

Fax 64-3-343 2439

PO Box 9013, Addington

This annual report is dated 31 August 2000 and is signed on behalf of the Board by:

K R Smith – Chairman

S R Tindall – Managing Director

Where...

North Island

Auckland

- Albany
- Balmoral
- Birkenhead
- Botany Downs
- Clendon
- Downtown
- East Tamaki
- Glenfield
- Henderson
- Lincoln Centre
- Manukau
- Milford
- Mt Albert
- Mt Wellington
- New Lynn

- Newmarket

- Pakuranga
- Papakura
- Silverdale
- Westgate

Wellington

- Johnsonville
- Kilbirnie
- Lower Hutt
- Paraparaumu
- Petone
- Porirua
- Upper Hutt
- Wellington

Rest of North Island

- Cambridge
- Fielding
- Gisborne
- Hamilton
- Hastings
- Hawera
- Kaitiaki
- Kaikohe
- Levin
- Masterton
- Matamata
- Morrinsville
- Napier
- New Plymouth
- Palmerston North

- Papamoa
- Pukehohe
- Rotorua
- Taupo
- Tauranga
- Te Awamutu
- Te Rapa
- Thames
- Tokoroa
- Wanganui
- Whakatane
- Whangarei

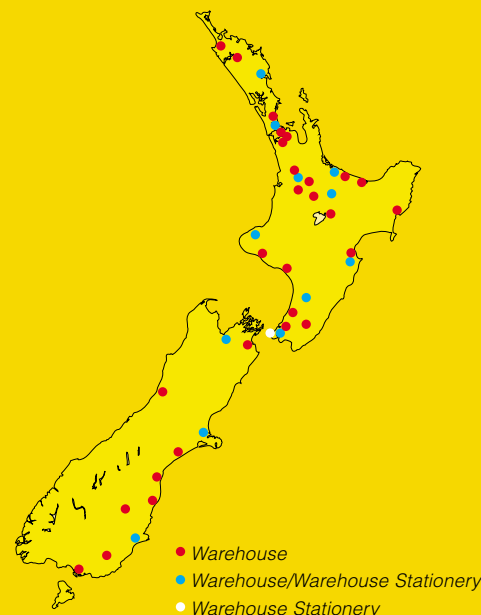
South Island

- Christchurch
- Barrington
- Bush Inn

- Hornby
- Linwood
- Papanui
- South City

Rest of South Island

- Alexandra
- Ashburton
- Blenheim
- Dunedin
- Gore
- Greymouth
- Invercargill
- Nelson
- Oamaru
- Timaru





People – our greatest asset