

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 and Australian stock exchanges. 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 New Zealand Financial Reporting Act 1993.

Measurement base

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

Specific accounting policies

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

(a) Basis of consolidation

The consolidated financial statements include the parent company and its subsidiaries, 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) Investments in associate companies

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

(d) 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 and long term borrowings are presented as net cash flows, as gross cash inflows and outflows include day to day cash management.

(e) Property, plant, equipment and capital work in progress

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

Estimated useful life of property, plant and equipment:

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

(f) 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.

(g) Inventories

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

(h) Investments in listed companies

Investments in listed companies are stated at cost, except where the directors believe there has been a permanent impairment in the value of the investment. Where the directors believe there has been a permanent impairment, the investments are written down to the expected net realisable value.

(i) 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 net surplus in equal instalments over the lease term.

(j) Goodwill

Goodwill arising on the acquisition of a group company 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 five to ten years based on the expected benefits to be derived.

(k) Share options

Outperform the market share option plan

The fair value of the share 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 receiving the options. This asset is amortised on a straight line basis from the grant date until the earliest exercise date.

Fixed price new share option plan

An employee compensation cost is recognised to the extent that the market price of the shares, when the share option is granted, exceeds the price paid for the shares by the team member upon exercising.

(l) 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 two years, subject to adjustment for churn.

(m) 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.

(n) 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.

(o) Translation

The assets and liabilities of independent foreign operations are translated at the closing exchange rate. Revenue and expense items are translated using an average exchange rate for the period. Foreign currency exchange differences are taken to the foreign currency translation reserve.

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

	Australian dollar exchange rates	
	2002	2001
Closing rate	0.8600	0.8159
Average rate	0.8285	0.7912
Acquisition rate	-	0.7790

Changes in accounting policies

The directors have elected to adopt the requirements of Financial Reporting Standard No. 38 Accounting for Investments in Associates prior to the application date specified in the standard.

Under the new policy the group's share of the net surpluses of the group's associate is recognised as part of the operating surplus before taxation. Previously, the group would have been required to recognise dividends received from the associate in the operating surplus before taxation and recognise the group's share of retained surpluses in the associate in net surplus. The application of this standard does not result in other changes in the amounts recognised in these financial statements.

Except for the early adoption of Financial Reporting Standard No. 38 there have been no other material changes in accounting policies. All policies have been applied on bases consistent with those used in previous periods.

	Note	Group	
		2002	2001
		\$000	\$000
2. Other revenue			
Interest income		1,164	488
Rental income		3,091	2,889
Income from the sale of mobile telephone handsets	21	4,411	5,847
Rebates from the sale of mobile telephone airtime		1,553	6,629
Gain on sale of property		1,115	2,749
Gain on sale of plant and equipment		284	-
Net foreign currency exchange gain		-	25
Share of surplus of associate	17	432	-
Other income		3,713	2,677
Total other revenue		15,763	21,304
During the year the parent company received dividends from subsidiaries of \$28,956,000 (2001: \$38,550,000).			
3. Net surplus before taxation			
After charging			
Bad debts written off		222	1,523
Provision for doubtful debts		(158)	(378)
Investment impairment loss	18	-	1,230
Employee compensation	10	253	2,304
Loss on sale of plant and equipment		-	323
Donations		414	240
Interest on borrowings		13,414	15,415
Leasing costs		64,551	60,642
Net foreign currency exchange loss		22	-
Amortisation			
Goodwill	20	7,554	8,726
Option plan		242	1,896
Telephone handsets	21	5,734	9,732
Depreciation			
Freehold buildings		1,233	1,115
Store fittings and equipment		26,467	21,503
Computer equipment		15,011	11,529
Vehicles		2,283	2,599
Total		44,994	36,746
4. Auditors' remuneration			
Auditing financial statements of the group		332	315
Internal auditing services		210	220
Other services		306	142

	Group	
	2002	2001
	\$000	\$000
5. Directors' remuneration		
Executive directors		
S R Tindall	200	339
P G Inger	483	391
N R Plummer (1 August 2001 to 31 December 2001)	142	390
D Rickards (appointed 24 November 2000 / resigned 11 February 2002)	129	275
	954	1,395
Executive directors do not receive directors' fees. The stated remuneration of executive directors relates to their capacities as team members.		
N R Plummer ceased his duties as an executive director on 31 December 2001, and has continued his role within the group as a non-executive director.		
Non-executive directors:		
K R Smith	65	65
J R Avery	40	40
P Brass (retired 24 November 2000)	-	10
R L Challinor	30	30
J C Dahlsen (appointed 6 September 2001)	53	-
G F Evans	40	30
N R Plummer (1 January 2002 to 31 July 2002)	23	-
J Withers	30	30
	281	205

On 18 March 2002, R L Challinor and J Withers were granted options in lieu of a portion of their annual directors' fees. The options independently valued at \$0.50 per option were granted in accordance with the share option plan approved by shareholders on 21 June 2001 (refer note 26). The maximum amount of directors fees, including options issued to non-executive directors, is set at \$315,000 per year.

Directors' share options outstanding at 31 July 2002	Options	Options	Total options
	granted	granted	
	18/03/2002	16/07/2001	
	000s	000s	000s
P G Inger	-	170	170
R L Challinor	20	19	39
G F Evans	-	19	19
J Withers	20	19	39

During March 2002 and April 2002 the following directors exercised options granted in accordance with the outperform the market option plan (refer note 26).

	Options	Ordinary	Taxable
	exercised	shares	value
	000s	000s	\$000
J R Avery	8	2	25
R L Challinor	8	2	29
G F Evans	8	2	25
J Withers	8	2	29

	Note	Group		Parent	
		2002	2001	2002	2001
		\$000	\$000	\$000	\$000
6. Taxation					
Net surplus before taxation		126,973	95,815	28,949	38,544
Taxation calculated at 33%		41,901	31,619	9,553	12,720
Adjustment for Australian taxation rates		400	439		
Prima facie income taxation		42,301	32,058	9,553	12,720
Adjusted for the tax effect of					
Non-taxable dividends		(48)	(77)	(9,555)	(12,722)
Goodwill amortisation		2,277	2,654	-	-
Option plan amortisation		80	617	-	-
Other non-deductible expenditure		191	554	-	-
Share of associate tax paid earnings		(143)	-	-	-
Section DF7 notional interest on staff share purchase plan		(146)	(76)	-	-
Income tax expense on surplus		44,512	35,730	(2)	(2)
Income tax over provided in prior year		(143)	(668)	-	-
Total income tax expense		44,369	35,062	(2)	(2)
Deferred taxation	13	2,644	2,109	-	-
Current year taxation payable		47,013	37,171	(2)	(2)
Taxation receivable at beginning of year		(20,065)	(4,298)	(2,398)	(1,248)
Taxation balances acquired		-	(7,659)	-	-
Net taxation (paid) / received		(39,535)	(44,752)	38	-
Supplementary dividends		(1,263)	(1,146)	(1,263)	(1,146)
Use of money interest and other adjustments		(808)	-	-	(2)
Tax effect of the movements in the financial instruments hedged against the translation risk	12	1,022	-	-	-
Effect of exchange rate movements		798	619	-	-
Taxation receivable at end of year		(12,838)	(20,065)	(3,625)	(2,398)
Less future income taxation benefits receivable after more than one year		(2,997)	(8,579)	-	-
Taxation receivable within one year		(9,841)	(11,486)	(3,625)	(2,398)
An income tax loss incurred in Australia has been recognised as a taxation benefit. The future realisation of this taxation benefit is subject to the continuance of meeting the requirements of the Australian income tax legislation. There are no unrecognised timing differences or unrecognised income tax losses carried forward.					

	NZ Tax Group		Parent	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
Imputation credit account				
Memorandum account				
Imputation credit at beginning of year	23,314	13,330	99	99
Taxation payments made	39,500	27,400	-	-
Credits attached to dividends paid	(18,994)	(17,526)	(18,994)	(17,526)
Credits attached to dividends received	250	148	18,994	17,526
Adjustments to previous years	808	(38)	-	-
Imputation credit at end of year	44,878	23,314	99	99

The parent company, together with its New Zealand guaranteeing subsidiary companies, form a consolidated group for income tax purposes.

Accordingly the group imputation credit account movements reported above are only for the New Zealand tax group, and are available to shareholders through their shareholding in the parent company.

	Group & Parent		Ordinary Shares	
	2002	2001	2002	2001
	\$000	\$000	000s	000s
7. Earnings per share				
Group net surplus / Weighted average number of shares on issue	82,206	60,405	304,630	298,255
Net surplus per share (cents per share - cps)			27.0 cps	20.3 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.				
8. Dividends				
Interim dividend - fully imputed	28,948	25,864	9.5 cps	8.5 cps
Final dividend - fully imputed	-	12,173	-	4.0 cps
Adjustment to previous year's final dividend payment	8	513	-	-
Total dividends paid and provided in cash (cents per share - cps)	28,956	38,550	9.5 cps	12.5 cps

On 5 September 2002 the directors declared a final dividend of 4 cents per ordinary share. The dividend will be paid on 25 November 2002 to all shareholders on the company's register at the close of business on 15 November 2002.

In accordance with Financial Reporting Standard No. 5 Events after balance date, the 2002 final dividend declared on 5 September 2002 is not provided for at balance date. In comparison the 2001 final dividend declared prior to the 2001 balance date was fully provided.

	Note	New Zealand		Australia		Group	
		2002	2001	2002	2001	2002	2001
		\$000	\$000	\$000	\$000	\$000	\$000
9. Segment analysis							
Sales revenue							
		1,261,629	1,166,728	476,047	404,496	1,737,676	1,571,224
		124,355	93,525	-	-	124,355	93,525
		1,385,984	1,260,253	476,047	404,496	1,862,031	1,664,749
Operating profit							
		140,144	117,127	2,624	(1,537)	142,768	115,590
		4,241	6,505	-	-	4,241	6,505
		144,385	123,632	2,624	(1,537)	147,009	122,095
		10.4%	9.8%	0.6%	(0.4)%	7.9%	7.3%
	2					1,115	2,749
						(1,094)	-
						-	(1,842)
						-	(1,230)
	10					(253)	(2,304)
	20					(7,554)	(8,726)
						139,223	110,742
						(12,250)	(14,927)
						126,973	95,815
Operating assets							
		403,699	395,101	138,825	113,320	542,524	508,421
		36,725	30,176	-	-	36,725	30,176
		440,424	425,277	138,825	113,320	579,249	538,597
		32.8%	29.1%	1.9%	(1.4)%	25.4%	22.7%
						21,301	25,875
	20					57,109	67,773
						657,659	632,245
The group operates predominantly in the retail sector.							

	Note	Group & Parent		Ordinary Shares	
		2002	2001	2002	2001
		\$000	\$000	000s	000s
10. Share capital					
Share capital at beginning of year		214,288	155,738	304,328	287,857
Shares issued at NZ\$7.31 per ordinary share	11	1,828	-	250	-
Shares issued at NZ\$4.55 per ordinary share		-	58,067	-	12,762
Shares issued at NZ\$5.83 per ordinary share		-	1,165	-	200
Share options exercised	27	-	-	395	4,066
Share options forfeited		-	(287)	-	-
Shares repurchased		-	(395)	-	(557)
Share capital at end of year		216,116	214,288	304,973	304,328

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

Share restrictions

The share plan trustee holds 1,876,000 shares (2001: 1,524,000 shares) allocated to team members purchasing shares in accordance with the group's share purchase plan. The trading restrictions placed on these shares are detailed in note 27.

Team members of The Warehouse Group (Australia) Pty Limited were issued 1,781,000 shares as part of the acquisition of the Australian business in November 2000 and March 2001. These shares cannot be sold before 10 November 2003.

Share options exercised

During the year a total of 1,154,000 options (2001: 8,292,000 options) granted in accordance with the outperform the market share option plan were exercised resulting in the issue of 395,000 shares (2001: 4,066,000 shares).

As a consequence of the options being exercised the company incurred an employee compensation expense. This expense arises on the difference in taxation rates between PAYE paid on behalf of the team members and the taxation credit available to the group. The payment of PAYE on behalf of the team members and available as a taxation credit has been treated as a taxation payment in the statement of financial position and statement of cash flows.

	Group	
	2002	2001
	\$000	\$000
Total taxable value of options exercised by team members	4,224	38,458
Taxation credit available to the group calculated at 33% thereon	(1,394)	(12,691)
PAYE paid on behalf of team members	1,647	14,995
Employee compensation expense	253	2,304

	Note	Group		Ordinary Shares	
		2002	2001	2002	2001
		000s	000s	000s	000s
11. Treasury stock					
Treasury stock at beginning of year					
Ordinary shares issued to the trustee of the staff share purchase plan	10	2,517	4,477	1,001	1,869
Staff share purchase plan shares forfeited		1,828	-	250	-
Allocated to staff share purchase plan		565	392	131	81
Shares issued to staff in lieu of cash remuneration		(2,545)	(2,217)	(716)	(893)
Treasury stock at end of year		2,340	2,517	658	1,001
Ordinary shares held by the trustee of the staff share purchase plan					
Unallocated treasury stock				658	1,001
Allocated to staff share purchase plan	27			1,876	1,524
				2,534	2,525
Percentage of share capital				0.83%	0.83%

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.

	Note	Group	
		2002	2001
		\$000	\$000
12. Foreign currency translation reserve			
Foreign currency translation reserve at beginning of year			
Hedge of net investment in the Australian business		369	-
Taxation thereon	6	3,097	-
		(1,022)	-
		2,075	-
Net exchange difference on translation of the Australian business		(1,056)	369
Foreign currency translation reserve at end of year		1,388	369
13. Deferred taxation			
Balance at beginning of year			
Taxation balances acquired		5,810	2,205
Recognised in the statement of financial performance	6	-	1,488
Effect of exchange rate movements		2,644	2,109
		9	8
Balance at end of year		8,463	5,810
Deferred taxation asset consists of:			
Depreciation differences		530	(563)
Differences arising from capitalising telephone handsets		(739)	(1,549)
Holiday pay and other payroll related accruals		5,731	5,103
Provisions and other timing differences		2,941	2,819
Total deferred taxation		8,463	5,810

	Group					
	Cost		Accum Depn		Book Value	
	2002	2001	2002	2001	2002	2001
	\$000	\$000	\$000	\$000	\$000	\$000
14. Property, plant, equipment and capital work in progress						
Freehold land	24,651	25,906	-	-	24,651	25,906
Freehold buildings	66,353	70,755	5,786	4,777	60,567	65,978
Store fittings and equipment	180,855	155,266	91,938	69,194	88,917	86,072
Computer equipment	74,338	60,181	47,894	33,538	26,444	26,643
Vehicles	12,459	13,462	8,318	7,078	4,141	6,384
Work in progress	28,415	13,366	-	-	28,415	13,366
Total property, plant, equipment and capital work in progress	387,071	338,936	153,936	114,587	233,135	224,349

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 \$117,508,000 (2001: \$117,697,000). The directors' valuation was approved by the board on 5 September 2002.

15. Commitments**Capital commitments**

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

In addition to the stated capital commitments the group is also committed to three store extensions and the construction of a new Distribution Centre in the South Island of New Zealand. These projects will be undertaken on behalf of landlords who are contractually obliged to buy and lease back the buildings to the group when the projects are completed. The cost of these projects is estimated to be \$13,940,000.

Lease commitments

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

Due within one year

Due within one to two years

Due within two to five years

Due after five years

Total lease commitment

The parent company had no capital or lease commitments (2001: nil).

Group	
2002	2001
\$000	\$000
10,614	3,376
65,940	67,045
56,984	57,544
123,946	107,969
84,992	113,832
331,862	346,390

16. Investment in subsidiaries	Principal Activity	Country of Incorporation	Shareholding	
			2002	2001
			%	%
Significant subsidiaries comprise:				
Guaranteeing subsidiaries				
The Warehouse Limited	Retail	New Zealand	100%	100%
The Warehouse Group (Australia) Pty Limited	Retail	Australia	100%	100%
Warehouse Stationery Limited	Retail	New Zealand	100%	100%
Eldamos Investments Limited	Store property owner	New Zealand	100%	100%
Gallery Prints Limited	Print framing	New Zealand	50%	50%
Waikato Valley Chocolates Limited	Chocolate factory	New Zealand	50%	50%
The Warehouse Management Trustee Company Limited	Share plan trustee	New Zealand	100%	100%
Non-guaranteeing subsidiary				
The Warehouse Investments Limited	Administration	New Zealand	100%	100%
Non-guaranteeing joint venture				
Lincoln West Limited	Store property owner	New Zealand	50%	50%

All subsidiaries have a balance date of 31 July.

On 1 August 2002 Gallery Prints Limited became a 100% owned subsidiary of the group. The 50% minority interest in Gallery Prints Limited was acquired for a consideration of \$340,000.

17. Investment in associate company

	Group	
	2002	2001
	\$000	\$000
Balance at beginning of year	490	-
Purchase of shares	-	490
Investment in convertible debentures	6,858	-
Investment at cost	7,348	490
Share of associates surplus before taxation	613	-
Less taxation	(181)	-
Share of associates operating surplus	432	-
Balance at end of year	7,780	490

The Warehouse Financial Services Limited

In July 2001 the group subscribed for 49% of the formation share capital of The Warehouse Financial Services Limited. The remaining 51% of the capital was purchased by the group's partner in this venture, Westpac Holdings NZ Limited. Since the company's formation both partners have increased their investment in the company's equity by way of convertible debentures in proportion to their respective shareholdings. There has been no change in either the partners nor the percentage shareholdings in the associate since formation.

The Warehouse Financial Services Limited offers consumer credit and risk related products that include credit cards and basic insurance cover.

The products and services are sold through The Warehouse stores, by direct mail and over the phone.

The balance date of The Warehouse Financial Services Limited is 30 September. The share of associate profits is based on the unaudited management accounts for the twelve month period ended 31 July 2002.

	Note	Group	
		2002	2001
		\$000	\$000
18. Investment in listed company			
eVentures Limited (cost)		3,000	3,000
Impairment provision		(1,230)	(1,230)
Net investment		1,770	1,770
eVentures Limited			
On 2 September 2002 a share trading halt was placed on eVentures Limited when the company was put into voluntary liquidation. The fair value of the group's investment in eVentures Limited at balance date based on estimated net tangible assets is \$1,781,000.			
19. Intangible assets			
Goodwill	20	57,109	67,773
Telephone handsets	21	2,240	4,694
Outperform the market share option plan	27	-	242
Total intangible assets		59,349	72,709
20. Goodwill			
Balance at beginning of year		67,773	1,397
Acquisitions			
The Warehouse Group (Australia) Pty Limited	26	-	77,843
The Warehouse Investments Limited		-	498
Goodwill arising from acquisitions		-	78,341
Amortisation		(7,554)	(8,726)
Effect of exchange rate movements		(3,110)	(3,239)
Balance at end of year		57,109	67,773
21. Mobile telephone handsets			
Balance at beginning of year		4,694	7,898
Handsets capitalised			
Income from the sale of handsets		(4,411)	(5,847)
Cost of handsets sold		7,691	12,375
Net handsets capitalised		3,280	6,528
Handset amortisation including allowance for churn		(5,734)	(9,732)
Balance at end of year		2,240	4,694
22. Advances receivable			
Advances on shares allocated to staff under the staff share purchase plan	27	6,462	4,765
Other advances		-	322
Total advances		6,462	5,087
Less advances receivable within one year		(1,680)	(1,545)
Total advances receivable after more than one year		4,782	3,542

	Group	
	2002	2001
	\$000	\$000
23. Receivables and prepayments		
Trade receivables	9,812	10,416
Provision for doubtful debts	(152)	(310)
Net trade receivables	9,660	10,106
Prepaid expenses and interest	6,759	2,813
Foreign currency swap	1,022	-
Property settlements and advances receivable	-	8,238
Total receivables and prepayments	17,441	21,157
Trade credit sales are on 30 day terms.		
24. Creditors and accruals		
Trade creditors	83,951	81,879
Goods in transit creditors	20,169	17,899
Accrued staff entitlements	31,635	26,948
Property development payables	285	3,819
Total creditors and accruals	136,040	130,545
Trade creditor terms are between 7-90 days.		
25. 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.		
26. Acquisition of subsidiary		
On 1 August 2000 the group acquired all of the shares of The Warehouse Group (Australia) Pty Limited, a discount retail chain operating in Australia. Details of the acquisition are as follows:		
Consideration		
Shares issued	-	59,232
Tax credit receivable	-	(5,463)
Cash paid	-	60,287
Effect of exchange rate movements	-	(35)
	-	114,021
Net assets acquired		
Property, plant and equipment	-	35,682
Deferred tax	-	1,488
Current assets	-	73,971
Current liabilities	-	(40,245)
Borrowings	-	(34,718)
	-	36,178
Goodwill arising on acquisition	-	77,843

27. Option and share purchase plans

Grant date	Exercise period	Exercise price	Number on issue	Issued during the year	Exercised during the year	Lapsed during the year	Number on issue
		\$	2001 000s	000s	000s	000s	2002 000s
Fixed price share option plan							
16/07/2001	16/03/2004 - 31/05/2004	\$7.15	6,989	398	-	(472)	6,915
18/03/2002	18/03/2005 - 31/05/2005	\$8.64	-	7,494	-	(129)	7,365
Outperform the market share option plan							
16/12/1998	16/03/2001 - 15/03/2002	-	162	-	(162)	-	-
16/07/1999	15/10/2001 - 15/10/2002	-	450	-	(420)	-	30
22/12/1999	22/03/2002 - 21/03/2003	-	587	-	(572)	-	15
Total options			8,188	7,892	(1,154)	(601)	14,325
Staff share purchase plan (under Section DF7 Income Tax Act 1994)							
31/01/1997	31/01/2000 - 31/01/2002	\$2.00	122	-	(119)	(3)	-
31/01/1997	31/01/2000 - 31/01/2002	\$1.30	4	-	(2)	(2)	-
31/07/1997	31/07/2000 - 31/07/2002	\$3.00	44	-	(44)	-	-
31/05/1999	31/05/2002 - 31/05/2004	\$4.79	465	-	(60)	(41)	364
18/05/2001	18/05/2004 - 18/05/2006	\$4.04	889	-	(1)	(90)	798
24/05/2002	24/05/2005 - 24/05/2007	\$4.90	-	715	-	(1)	714
Total shares			1,524	715	(226)	(137)	1,876

Fixed price share option plan

In accordance with the share option plan approved by shareholders at the special general meeting held on 28 June 2001, a second tranche of share options were granted to team members on 18 March 2002. The plan allows for two further tranches of share options to be granted to team members selected at the discretion of the directors over the next two years. The options granted to team members are intended to retain staff and bring the salaries for senior managers up to market rates for Australasian companies. The plan limits the number of share options that can be granted to a maximum of 7,500,000 share options per tranche.

The share options have a fixed exercise price which is set 'out of the money' at grant date. The exercise price is calculated based on the weighted average market price of the group's share price over the ten trading days prior to grant date, increased by the group's estimated cost of equity (after adjusting for dividends) between the grant date and earliest exercise date. The estimated cost of equity is independently determined by external advisors and approved by the board of directors prior to the share options being granted.

The fixed price share options are accounted for under the terms of APB25, an accounting standard issued in the United States. The standard requires the group to recognise as a cost the difference between the market price of the shares when the options are granted and the exercise price. The group has accordingly not recognised any cost for the share options granted.

Outperform the market share option plan

The outperform the market share option plan was replaced by the fixed price share option plan. Share options were granted to team members under the outperform the market share option plan during 1998 and 1999. At balance date three team members held share options granted under the plan which remained unexercised.

The outperform the market share options convert to shares based on the gain in the group's share price relative to the New Zealand Stock Exchange 40 Gross Index over the period following grant date until the exercise date. The share options have no nominal value and were granted to team members for no cash consideration.

Staff share purchase plan

The Warehouse Management Trustee Company Limited acts as trustee for the team members' share purchase plan. At regular intervals the trustee offers shares to permanent team members of the group resident in New Zealand with service in excess of 750 hours per year. Shares are offered at a price set by the trustee and issued from treasury stock under Section DF7 of the Income Tax Act 1994 to a maximum consideration of \$2,340 per team member in any three year period. Team members accepting the share offer are provided financial assistance on an interest-free basis, payable over five years in regular instalments.

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

		Group		
		2002	2001	
		\$000	\$000	
28. Borrowings - secured				
Bank overdrafts				
The interest rate at 31 July 2002 was 9.35% (2001: 7.85%) on New Zealand dollar overdrafts and 8.45% (2001: 8.70%) on Australian dollar overdrafts.		512	395	
Borrowings				
Over night borrowings		3,890	10,105	
90 day borrowings		-	40,000	
Repayable within one year		3,890	50,105	
Repayable within two to five years		201,744	179,785	
Total borrowings		205,634	229,890	
Interest rate repricing periods				
		Weighted average effective interest rate		
		2002	2001	
Borrowings				
Reprices within six months	5.29%	5.38%	89,355	116,352
Reprices within six to twelve months	5.72%	5.78%	34,884	22,256
Reprices within one to two years	5.60%	6.19%	46,512	44,513
Reprices within two to five years	5.65%	5.94%	34,883	46,769
Total borrowings	5.49%	5.69%	205,634	229,890
The weighted average effective interest rate includes the effect of hedging transactions (refer note 29).				
Negative pledge deed				
Bank borrowings are subject to a negative pledge deed. The negative pledge deed provides a guarantee to the group's banking institutions that the parent and its guaranteeing group companies (refer note 16) will comply with certain debt ratios and restrictive covenants.				
29. Financial instruments				
Off-balance sheet financial instruments				
Forward exchange contracts and currency options				
Contract amounts		227,282	237,638	
Valuation at balance date		210,897	238,648	
Notional principal of interest rate derivatives				
Matched to borrowings		116,279	113,538	
The parent has no off-balance sheet financial instruments.				
Interest rate risk				
Borrowings are hedged by a combination of interest rate swaps and forward rate agreements. The directors regularly review the amount, and the mix of interest rate derivatives used for hedging purposes. The calculation of the effective interest rates and repricing periods of the group borrowings are disclosed in note 28.				
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 group's policy is to cover between 35% and 65% of the forecasted US dollar commitments on a rolling twelve month basis.				
Where other specific currency exposures are known, the group hedges these risks as they arise.				

Translation risk

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

Credit risk

Financial instruments that potentially subject the group to credit risk principally consist of bank balances, off-balance sheet financial instruments, foreign currency exchange swaps, trade receivables and advances.

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

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

There were no other concentrations of credit risk at balance date.

Maximum exposures to credit risk at balance date are:

Cash, bank in funds and deposits
Trade receivables and advances
Foreign currency swap
Property settlements receivable on unconditional sale agreements
Investment in associate

Total exposure to credit risk

	Group		Parent	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
Cash, bank in funds and deposits	4,654	4,417	258	123
Trade receivables and advances	16,122	15,193	170,941	170,480
Foreign currency swap	1,022	-	-	-
Property settlements receivable on unconditional sale agreements	-	8,238	-	-
Investment in associate	7,780	490	-	-
Total exposure to credit risk	29,578	28,338	171,199	170,603

Credit facilities

The group had bank funding facilities (including letters of credit, but excluding seasonal facilities) of \$447,674,000 available at 31 July 2002 (2001: \$408,554,000). The amount undrawn after borrowings and outstanding letters of credit was \$206,200,000 (2001: \$135,019,000).

Fair values

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

Off-balance sheet financial instruments

Forward exchange contracts and currency options
Interest rate swaps and forward rate agreements
Bank letters of credit issued to secure future purchasing requirements

	Carrying amount		Fair value	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
Forward exchange contracts and currency options	-	-	(16,385)	1,010
Interest rate swaps and forward rate agreements	(48)	(48)	(4)	698
Bank letters of credit issued to secure future purchasing requirements	-	-	(29,347)	(43,250)

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 and foreign exchange derivatives are based on the quoted market price of the financial instrument or comparable financial instruments. The carrying value of interest rate derivatives represents the accrued interest on these instruments.

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

	Group	
	2002	2001
	\$000	\$000
30. Contingent liabilities		
Bank letters of credit issued to secure future purchasing requirements	29,347	43,250
New Zealand Stock Exchange bond	75	75
Total contingent liabilities	29,422	43,325
The parent company had no contingent liabilities (2001: nil).		
The group has a contingent liability for guarantees, which cannot be reliably estimated. The group offers a money back guarantee on goods sold, and any cost of making good a customer's purchase is accounted for when incurred.		
31. Related parties		
The group has paid for services at normal commercial rates from the following firms in which a director has an interest.		
BDO Spicers (K R Smith - Partner)	130	86
Hesketh Henry (J R Avery - Partner)	395	514
L.E.K Consulting Pty Limited (R L Challinor and J C Dahlsen - Advisory Board members)	15	125
MacDonald Vadco Limited (N R Plummer - Director)	3,648	2,147
Total fees and commissions paid to related parties	4,188	2,872
The group has paid store and distribution centre rents to the following property companies in which a director has an interest.		
Volandu Pty Limited (D Rickards - Shareholder/Director)	2,061	2,022
O'Neill & Rickards Partnership (D Rickards - Partner)	1,688	1,837
Kyber Investments Limited (N R Plummer - Shareholder/Director)	407	404
Pukeko Creek Limited (P G Inger - Shareholder/Director)	82	-
Rent paid to related parties	4,238	4,263
Directors are entitled to purchase goods at normal staff discount. Other specific directors' disclosures are made in note 5.		