

Notes to and Forming Part of the

# Financial Statements

## 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 and joint venture investments. Subsidiaries have been consolidated using the purchase method. All significant intercompany transactions are eliminated on consolidation.

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

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

#### (b) Joint ventures

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

#### (c) Associates

Associates have been recorded in the consolidated financial statements on an equity accounting basis which 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.

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

#### (d) Statement of cash flows

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

- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments.
- Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and borrowings not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.

- Cash comprises cash on hand and in transit, bank in funds and short term deposits offset by bank overdrafts.

Cash flows relating to 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) Revenue

##### Goods and services

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

##### Investment income

Dividend income is recognised in the period the dividend is declared. Interest and rental income are accounted for as earned.

#### (f) Property, plant and equipment

##### Cost

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project, and costs of obtaining regulatory consents that are directly attributable to the project. Financing costs are not included in the cost of the capitalised asset and are expensed as incurred.

##### Depreciation and disposal

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

##### Estimated useful life of property, plant and equipment:

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

#### (g) Income tax

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

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

The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are

stated net of GST with the exception of receivables and payables which include GST invoiced.

**(i) Inventories**

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

**(j) Receivables**

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

**(k) Employee entitlements**

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

**(l) Investments**

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

**(m) Leases**

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

**(n) Goodwill**

Goodwill arising on the acquisition of a group company represents the excess of the purchase price paid over the fair value of identifiable net assets acquired. Goodwill is stated at cost and amortised on a straight line basis over five to ten years based on the expected benefits to be derived.

**(o) Impairment of long life assets**

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

**(p) Share options**

**Fixed price share option plan**

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

**Outperform the market share option plan**

The 'outperform the market' share option plan was replaced by the fixed price share option plan in 2001. The share options granted under this plan were accounted for based on the fair value of share options at grant date and recognised in share capital and as an intangible asset. The intangible asset was amortised on a straight line basis from the grant date until the earliest exercise date, and was fully amortised during the 2002 year.

**(q) Mobile telephone handsets**

The group sold the Gold Mobile telephone business in July 2003. Prior to the sale of the business the group sold mobile telephone handsets below cost as an inducement to attract customers. The net unrecovered cost from the sale of the mobile telephone handsets was recognised as an asset and amortised on a straight line basis over the period during which benefits were expected to be received. The maximum amortisation period was two years, subject to

adjustment for churn. Following the sale of the business the group sells telephone handsets on behalf of the new purchaser on a commission only basis.

**(r) Financial instruments**

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

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

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

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

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

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

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

**(s) Foreign currencies**

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

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

**(t) Translation of foreign operations**

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

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

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

Australian dollar exchange rates	03	02
Closing rate	0.8923	0.8600
Average rate	0.8920	0.8285

**Changes in accounting policies**

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

Notes to and forming part of the Financial Statements – continued

		New Zealand		Australia		Group	
		03	02	03	02	03	02
	Note	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
<b>2. Segment analysis</b>							
<b>Sales revenue</b>							
The Warehouse		1,350,980	1,261,629	519,419	476,047	1,870,399	1,737,676
Warehouse Stationery		164,518	124,355	–	–	164,518	124,355
<b>Total sales revenue</b>		<b>1,515,498</b>	<b>1,385,984</b>	<b>519,419</b>	<b>476,047</b>	<b>2,034,917</b>	<b>1,862,031</b>
<b>Operating profit</b>							
The Warehouse		146,639	140,144	(13,370)	2,624	133,269	142,768
Warehouse Stationery		9,403	4,241	–	–	9,403	4,241
<b>Total operating profit</b>		<b>156,042</b>	<b>144,385</b>	<b>(13,370)</b>	<b>2,624</b>	<b>142,672</b>	<b>147,009</b>
<b>Operating margin %</b>							
		10.3%	10.4%	(2.6)%	0.6%	7.0%	7.9%
Gain on property disposals	3					195	1,115
Gain on sale of the Gold Mobile business	21					635	–
Logistics re-engineering costs	15					(7,544)	(1,094)
Employee compensation						–	(253)
Goodwill amortisation	19					(7,096)	(7,554)
<b>Earnings before interest</b>						<b>128,862</b>	<b>139,223</b>
Net interest expense						(11,962)	(12,250)
<b>Operating surplus before income tax</b>						<b>116,900</b>	<b>126,973</b>
<b>Operating assets</b>							
The Warehouse		448,212	403,699	193,500	138,825	641,712	542,524
Warehouse Stationery		56,576	36,725	–	–	56,576	36,725
<b>Total operating assets</b>		<b>504,788</b>	<b>440,424</b>	<b>193,500</b>	<b>138,825</b>	<b>698,288</b>	<b>579,249</b>
<b>Operating profit/operating assets %</b>							
		30.9%	32.8%	(6.9)%	1.9%	20.4%	25.4%
Taxation						32,628	21,301
Goodwill	19					48,277	57,109
<b>Total assets</b>						<b>779,193</b>	<b>657,659</b>

The group operates predominantly in the retail sector.

		Group	Group
		03	02
	Note	\$ 000	\$ 000
<b>3. Other revenue</b>			
Interest income		1,493	1,164
Rental income		2,354	3,091
Income from the sale of mobile telephone handsets	20	1,673	4,411
Rebates from the sale of mobile telephone airtime		593	1,553
Gain on sale of the Gold Mobile business	21	635	–
Gain on sale of property		195	1,115
Gain on sale of plant and equipment		–	284
Share of surplus of associate	11	1,717	432
Other income		7,651	3,713
<b>Total other revenue</b>		<b>16,311</b>	<b>15,763</b>

During the year the parent company received dividends from subsidiaries of \$44.276 million (2002: \$28.956 million).

		Group <b>03</b>	Group <b>02</b>
	Note	\$ 000	\$ 000
<b>4. Operating expenses</b>			
<b>Operating expenses include</b>			
Bad debts written off		237	222
Provision for doubtful debts		187	(158)
Loss on liquidation of investment	11	44	–
Loss on sale of plant and equipment		189	–
Donations		187	414
Interest on borrowings		13,455	13,414
Leasing costs		73,341	64,551
Net foreign currency exchange loss		26	22
<b>Amortisation</b>			
Goodwill	19	7,096	7,554
Telephone handsets	20	2,292	5,734
Option plan		–	242
<b>Total</b>		<b>9,388</b>	<b>13,530</b>
<b>Depreciation</b>			
Freehold buildings		1,210	1,233
Store fittings and equipment		31,831	26,467
Computer equipment		16,263	15,011
Vehicles		1,577	2,283
<b>Total</b>	16	<b>50,881</b>	<b>44,994</b>
<b>5. Directors' remuneration</b>			
<b>Executive directors:</b>			
S R Tindall		200	200
P G Inger		547	483
N R Plummer (non-executive from 1 January 2002)		–	142
D Rickards (resigned 11 February 2002)		–	129
		<b>747</b>	<b>954</b>

Executive directors do not receive director's fees. The stated remuneration of executive directors relates to their capacities as team members.

**Non-executive directors:**

K R Smith	75	65
J R Avery	50	40
R L Challinor	40	30
J C Dahlsen	74	53
G F Evans	50	40
N R Plummer (non-executive from 1 January 2002)	50	23
J Withers	40	30
	<b>379</b>	<b>281</b>

**Share options**

In addition to the directors' remuneration stated above, R L Challinor, J Withers and P G Inger were granted options on 16 April 2003 as part of their annual remuneration. The options were independently valued at \$0.91 per option and were granted in accordance with the share option plan approved by shareholders in March 2003 (note 30).

Directors' share options outstanding at 31 July 2003	Options granted 16 April 2003	Options granted 18 March 2002	Options granted 16 July 2001	Total Options
	000s	000s	000s	000s
P G Inger	225	–	170	395
R L Challinor	11	20	19	50
G F Evans	–	–	19	19
J Withers	11	20	19	50

## Notes to and forming part of the Financial Statements – continued

	Group <b>03</b>	Group <b>02</b>
	\$ 000	\$ 000
<b>6. Auditor's remuneration</b>		
Auditing the group financial statements	350	332
Reviewing the half year financial statements	100	–
Internal auditing services	242	210
Other services	265	306
	<b>957</b>	<b>848</b>

### Other services

Consultancy fees incurred in both 2003 and 2002 primarily relate to transfer pricing tax advice. Agreement on the tax treatment of intercompany transactions between Australia and New Zealand was reached with the Inland Revenue and the Australian Tax office in July 2003. The agreement covers the six year period from August 2000 to July 2006.

		Group <b>03</b>	Group <b>02</b>	Parent <b>03</b>	Parent <b>02</b>
	Note	\$ 000	\$ 000	\$ 000	\$ 000
<b>7. Income tax expense</b>					
<b>Operating surplus before income tax</b>		116,900	126,973	44,268	28,949
Taxation calculated at 33%		38,577	41,901	14,608	9,553
Adjustment for Australian taxation rates		805	400	–	–
<b>Prima facie income tax</b>		39,382	42,301	14,608	9,553
<b>Adjusted for the tax effect of:</b>					
Non taxable dividends		(55)	(48)	(14,611)	(9,555)
Goodwill amortisation		2,141	2,277	–	–
Option plan amortisation		–	80	–	–
Other non deductible expenditure		230	191	–	–
Share of associates tax paid earnings		(567)	(143)	–	–
Section DF7 notional interest on staff share purchase plan		(173)	(146)	–	–
<b>Income tax expense on operating surplus</b>		40,958	44,512	(3)	(2)
Income tax under/(over) provided in prior year		352	(143)	–	–
<b>Total income tax expense</b>		41,310	44,369	(3)	(2)
<b>Total income tax expense comprises</b>					
Current year income tax payable	10	46,918	47,013	(3)	(2)
Deferred taxation	13	(5,608)	(2,644)	–	–
		<b>41,310</b>	<b>44,369</b>	<b>(3)</b>	<b>(2)</b>

		Group <b>03</b>	Group <b>02</b>	Ordinary Shares <b>03</b>	Ordinary Shares <b>02</b>
		\$ 000	\$ 000	000s	000s
<b>8. Earnings per share</b>					
Group net surplus/weighted average number of shares on issue		75,399	82,206	305,119	304,630
Net surplus per share (cents per share, cps)				24.7 cps	27.0 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.

		Group <b>03</b>	Parent <b>02</b>	Group <b>03</b>	Parent <b>02</b>
	Note	\$ 000	\$ 000	\$ 000	\$ 000
<b>9. Receivables</b>					
<b>Current</b>					
Trade receivables		10,088	9,812	–	–
Provision for doubtful debts		(339)	(152)	–	–
<b>Net trade receivables</b>					
Prepaid expenses and interest		9,749	9,660	–	–
Foreign-currency swap	26	8,186	6,759	–	–
Property advances receivable		2,488	1,022	–	–
Employee share purchase plan advances	31	11,999	–	–	–
Advance to subsidiary company		1,637	1,680	–	–
Income tax	10	–	–	172,430	170,941
		15,531	9,841	4,764	3,625
		49,590	28,962	177,194	174,566
<b>Non-current</b>					
Employee share purchase plan advances	31	3,115	4,782		
Income tax	10	3,090	2,997		
		6,205	7,779		
<b>10. Income tax</b>					
<b>Taxation receivable at beginning of year</b>					
Current year income tax payable	7	12,838	20,065	3,625	2,398
Net taxation paid/(received)		(46,918)	(47,013)	3	2
Supplementary dividend tax credit		54,431	39,535	–	(38)
Other adjustments		1,136	1,263	1,136	1,263
Tax effect of the movements in the financial instrument hedging translation risk	26	–	808	–	–
Effect of exchange rate movements		(2,488)	(1,022)	–	–
		(378)	(798)	–	–
<b>Taxation receivable at end of year</b>					
Less future income taxation benefits receivable after more than one year	9	18,621	12,838	4,764	3,625
		3,090	2,997	–	–
<b>Taxation receivable within one year</b>					
	9	15,531	9,841	4,764	3,625
<b>Income tax losses</b>					
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.					
<b>Imputation credit account</b>					
<b>Memorandum account</b>					
Imputation credit at beginning of year		44,878	23,314	99	99
Taxation payments made		53,972	39,500	–	–
Credits attached to dividends paid		(20,671)	(18,994)	(20,671)	(18,994)
Credits attached to dividends received		683	250	20,671	18,994
Other adjustments		(231)	808	(38)	–
<b>Imputation credit at end of year</b>					
		78,631	44,878	61	99

**New Zealand tax group**

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

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

## Notes to and forming part of the Financial Statements – continued

		Group <b>03</b>	Group <b>02</b>
	Note	\$ 000	\$ 000
<b>11. Investments</b>			
<b>Current</b>			
e-Ventures Limited (cost)		–	3,000
Impairment Provision		–	(1,230)
		–	1,770

In September 2002 e-Ventures Limited was placed in voluntary liquidation. The group received proceeds of \$1.726 million from the liquidation resulting in a loss of \$44,000.

### Non-current

#### Equity earnings of associate

Share of associates surplus before taxation		2,656	613
Less taxation		(939)	(181)

#### Operating surplus

3

#### Balance at beginning of year

Capital contribution		–	6,858
Equity earnings of associate		1,717	432
Distributions received		(2,450)	–
<b>Balance at end of year</b>		<b>7,047</b>	<b>7,780</b>

### The Warehouse Financial Services Limited

The group has a 49% interest, and Westpac Holdings-NZ-Limited a 51% interest in The Warehouse Financial Services Limited. There has been no change in the shareholders or the percentage shareholdings in the associate since formation in July 2001. 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 in New Zealand as well as by direct mail and over the telephone.

The balance date of The Warehouse Financial Services Limited is 30 September. The share of associate earnings is based on both audited financial statements for the year ended 30 September 2002 and unaudited management accounts for the ten month period ended 31 July 2003. The parent company has an investment in subsidiaries of \$42.0 million (2002: \$42.0 million).

Significant subsidiaries comprise:	Principal activity	Country of incorporation	Shareholding	
			<b>03</b>	<b>02</b>
			%	%
<b>Guaranteeing subsidiaries</b>				
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	Retail	New Zealand	100	50
Waikato Valley Chocolates Limited	Chocolate factory	New Zealand	50	50
The Warehouse Management Trustee Company Limited	Share plan trustee	New Zealand	100	100
<b>Non guaranteeing subsidiary</b>				
The Warehouse Investments Limited	Administration	New Zealand	100	100
<b>Non guaranteeing joint venture</b>				
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 wholly-owned subsidiary of the group, when the group acquired the 50% minority interest for a consideration of \$340,000 (refer note 19).

		Group <b>03</b>	Group <b>02</b>
	Note	\$ 000	\$ 000
<b>12. Inventory</b>			
Retail stock		319,232	256,048
Goods in transit from overseas		47,944	49,719
		<b>367,176</b>	<b>305,767</b>

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

#### **Goods in transit**

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

#### **13. Deferred tax**

##### **Deferred tax at beginning of year**

Recognised in the statement of financial performance	7	8,463	5,810
Effect of exchange rate movements		5,608	2,644
		(64)	9

##### **Deferred tax at end of year**

##### **Deferred tax asset comprises:**

Depreciation differences		14,007	8,463
Inventory differences		3,272	530
Holiday pay and other payroll related accruals		3,791	2,266
Provisions and other timing differences		5,999	5,731
		945	(64)
<b>Total deferred tax</b>		<b>14,007</b>	<b>8,463</b>

#### **14. Payables and accruals**

Trade creditors		104,983	83,951
Goods in transit creditors		25,124	20,169
Accrued staff entitlements		30,622	31,635
Provision for logistics restructuring in Australia	15	1,660	-
Property development payables		3,396	285
<b>Total creditors and accruals</b>		<b>165,785</b>	<b>136,040</b>

Trade creditor terms are between 7-90 days.

#### **15. Logistics restructuring provision**

Restructuring provision made		7,544	1,094
Restructuring expenses incurred	2	(6,054)	(1,094)
Effect of exchange rate movements		170	-
<b>Balance at end of year</b>		<b>1,660</b>	<b>-</b>

#### **Project Leapfrog**

In 2002 a multi-year project to restructure the logistics operations of The Warehouse Australia was commenced. The first part of the project, which was completed during 2002 involved consolidating the southern region logistics operations from a number of sites at Footscray (Vic) into a single site at Somerton in Melbourne.

The second phase of the project involved the closure of the Blacktown (NSW) distribution centre in February 2003 and the commissioning of a new distribution centre at the port of Brisbane. This resulted in staff redundancies and costs arising from relocating the business activity to Brisbane. It is expected that the restructuring provision will be fully utilised in August 2003 when the new distribution centre in Brisbane is fully commissioned.

## Notes to and forming part of the Financial Statements – continued

	Freehold land	Freehold buildings	Store fittings and equipment	Computer equipment	Vehicles	Work in progress	Total
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
<b>16. Property, plant and equipment</b>							
Additions	3,850	8,879	56,851	18,473	881	11,084	100,018
Disposals	(3,111)	(6,350)	(2,850)	(393)	(1,222)	–	(13,926)
Depreciation	–	(1,210)	(31,831)	(16,263)	(1,577)	–	(50,881)
Effect of exchange rate movements	–	(32)	(1,224)	(248)	(116)	(308)	(1,928)
<b>Movement for the year</b>	<b>739</b>	<b>1,287</b>	<b>20,946</b>	<b>1,569</b>	<b>(2,034)</b>	<b>10,776</b>	<b>33,283</b>
<b>Carrying amount at beginning of year, comprising</b>							
Cost	24,651	66,353	180,855	74,338	12,459	28,415	387,071
Accumulated depreciation	–	(5,786)	(91,938)	(47,894)	(8,318)	–	(153,936)
	24,651	60,567	88,917	26,444	4,141	28,415	233,135
<b>Carrying amount at end of year, comprising</b>							
Cost	25,390	68,766	230,850	84,553	7,153	39,191	455,903
Accumulated depreciation	–	(6,912)	(120,987)	(56,540)	(5,046)	–	(189,485)
	25,390	61,854	109,863	28,013	2,107	39,191	266,418

### Property valuation

The directors, having taken into consideration purchase offers, independent and government valuations and other known factors, have assessed the fair value of freehold land and buildings to be \$118.092 million (2002: \$117.508 million). The directors' valuation was approved by the Board on 4 September 2003.

### Property titles

Title was held by the group at balance date for all property, except for the Alexandra (NZ), Balclutha (NZ) and Queenstown (NZ) stores. Passing of title for these properties has been delayed until certain works regarding the subdivision and amalgamation of the properties has been completed.

The carrying amount of the three properties at balance date was \$8.199 million.

### Work in progress

Significant items included in work in progress at balance date comprise:

- (a) Queensland distribution centre (\$13.557 million) and associated capital expenditure relating to the leapfrog project (refer note 15)
- (b) Whangarei (NZ) store development (\$9.176 million).

	Group <b>03</b>	Group <b>02</b>
	\$ 000	\$ 000
<b>17. Commitments</b>		
<b>Capital commitments</b>		
Contracts entered into for capital expenditure within the next twelve months which have not been provided for in the statement of financial position	33,539	10,614

The contractual commitments at balance date relate to:

- (a) completion of new stores (\$11.403 million) in both New Zealand (Whangarei and Snells Beach) and Australia (Rockhampton South (Qld) and Hollywood Plaza (SA))
- (b) completion of two distribution centres (\$10.301 million); the Apparel distribution centre in Wiri (NZ) and the Queensland distribution centre at the port of Brisbane
- (c) the purchase of land (\$11.835 million) in Manukau (NZ).

The group is also committed to complete a store development (\$3.581 million) in Masterton (NZ) on behalf of a landlord who will lease the building back to the group once the project is completed.

		Group <b>03</b>	Group <b>02</b>
		\$ 000	\$ 000
<b>17. Commitments – continued</b>			
<b>Lease commitments</b>			
The group has the following non-cancellable operating lease commitments which relate to leases of store premises:			
Due within one year		80,915	65,940
Due within one to two years		69,265	56,984
Due within two to five years		166,149	123,946
Due after five years		131,346	84,992
<b>Total lease commitment</b>		<b>447,675</b>	<b>331,862</b>
The parent company had no capital or lease commitments (2002: nil).			
<b>18. Intangible assets</b>			
Goodwill	19	48,277	57,109
Telephone handsets	20	–	2,240
<b>Total intangible assets</b>		<b>48,277</b>	<b>59,349</b>
<b>19. Goodwill</b>			
Cash consideration		340	–
Minority interest acquired	29	(70)	–
Goodwill arising from the acquisition of Gallery Prints Limited minority		270	–
Amortisation	4	(7,096)	(7,554)
Effect of exchange rate movements		(2,006)	(3,110)
<b>Movement for the year</b>		<b>(8,832)</b>	<b>(10,664)</b>
<b>Carrying amount at beginning of year, comprising</b>			
Cost		72,904	76,653
Accumulated amortisation		(15,795)	(8,880)
		57,109	67,773
<b>Carrying amount at end of year, comprising</b>			
Cost		70,663	72,904
Accumulated amortisation		(22,386)	(15,795)
		48,277	57,109
<b>Impairment review</b>			
The directors have reviewed the carrying value of goodwill for impairment and are satisfied that expected future economic benefits exceed the carrying value. Goodwill is reviewed for impairment every six months, prior to reporting the annual and half annual results.			
<b>20. Mobile telephone handsets</b>			
<b>Balance at beginning of year</b>			
		2,240	4,694
<b>Handsets capitalised</b>			
Income from the sale of handsets	3	(1,673)	(4,411)
Cost of handsets sold		2,275	7,691
<b>Net handsets capitalised</b>		<b>602</b>	<b>3,280</b>
Handset amortisation including allowance for churn	4	(2,292)	(5,734)
Sale of Gold Mobile business	21	(550)	–
<b>Balance at end of year</b>		<b>–</b>	<b>2,240</b>
<b>21. Sale of Gold Mobile business</b>			
Sale proceeds		540	
Plant and equipment		362	
Mobile telephone handsets	20	550	
Airtime liability		(1,007)	
<b>Net liabilities sold</b>		<b>(95)</b>	
<b>Gain on sale of the Gold Mobile business</b>	3	<b>635</b>	

The group ceased operating the Gold Mobile telephone network in July 2003, when it sold the Gold Mobile business, and transferred the customer base of approximately 260,000 customers to Telecom Mobile Limited. The group continues to sell mobile telephone handsets and telephone cards on a commission only basis on behalf of the purchaser.

Notes to and forming part of the Financial Statements – continued

	Group <b>03</b>	Group <b>02</b>	Parent <b>03</b>	Parent <b>02</b>
	\$ 000	\$ 000	\$ 000	\$ 000
<b>22. Cash balances</b>				
Cash on hand and at bank	7,748	4,654	485	258
Deposits at call (interest rate: 5.0%)	12,725	–	–	–
	20,473	4,654	485	258

	Group <b>03</b>	Group <b>02</b>	Unused Facility <b>03</b>	Unused Facility <b>02</b>	Facility Limit <b>03</b>	Facility Limit <b>02</b>
	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000	\$ 000
<b>23. Borrowings</b>						
<b>Borrowings</b>						
Repayable within one year	16,811	3,890	78,189	91,110	95,000	95,000
<b>Current borrowings</b>	16,811	3,890	78,189	91,110	95,000	95,000
Repayable within one to two years	67,241	–	37,759	–	105,000	–
Repayable within two to five years	179,312	201,744	–	89,302	179,312	291,046
<b>Non-current borrowings</b>	246,553	201,744	37,759	89,302	284,312	291,046
<b>Total borrowings</b>	263,364	205,634	115,948	180,412	379,312	386,046
Bank overdraft	3,304	512	2,299	4,139	5,603	4,651
Letters of credit			24,577	21,649	56,724	56,977
<b>Total facility</b>			142,824	206,200	441,639	447,674

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

**Bank overdrafts**

The average interest rate incurred for the year was 7.85% (2002: 7.12%) on New Zealand dollar denominated overdrafts and 8.45% (2002: 8.08%) on Australian dollar denominated overdrafts.

**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 11) will comply with certain debt ratios and restrictive covenants.

The principal covenants of the negative pledge were:

- (a) the group gearing ratio will not exceed 62.5% (2002: 65.0%) in the October quarter and 50% for the remainder of the year
- (b) the interest cover ratio for the group will not be less than 2 times
- (c) the total tangible assets of the guaranteeing group will constitute at least 90% of the total tangible assets of the group.

	Group <b>03</b>	Group <b>02</b>	Notional principal of interest rate swaps <b>03</b>	Notional principal of interest rate swaps <b>02</b>	Weighted average interest rate <b>03</b>	Weighted average interest rate <b>02</b>
	\$ 000	\$ 000	\$ 000	\$ 000	%	%
<b>Interest rate repricing periods</b>						
<b>Borrowings</b>						
Reprices within six months	162,501	89,355	11,207	–	5.04	5.29
Reprices within six to twelve months	22,414	34,884	22,414	34,884	5.63	5.72
Reprices within one to two years	22,414	46,512	22,414	46,512	6.00	5.60
Reprices within two to five years	33,621	34,883	33,621	34,883	5.43	5.65
Reprices within five to ten years	22,414	–	22,414	–	5.49	–
<b>Total borrowings</b>	263,364	205,634	112,070	116,279	5.26	5.49
<b>Currency denomination at end of year</b>						
New Zealand dollars	–	3,890	–	–	–	6.00
Australian dollars	263,364	201,744	112,070	116,279	5.26	5.48
<b>Total borrowings</b>	263,364	205,634	112,070	116,279	5.26	5.49

**Interest rates**

Certain borrowings have been paired with interest rate swaps to hedge interest rate risk. The effect of the interest rate swaps are included in the calculation of the effective interest rate and repricing periods.

		Group & Parent <b>03</b>	Group & Parent <b>02</b>	Ordinary shares <b>03</b>	Ordinary shares <b>02</b>
	Note	\$ 000	\$ 000	000s	000s
<b>24. Share capital</b>					
<b>Share capital at beginning of year</b>					
Shares issued at \$ 5.72 (2002: \$ 7.31) per ordinary share	25	2,860	1,828	500	250
Share options exercised		–	–	16	395
<b>Share capital at end of year</b>					
		218,976	216,116	305,489	304,973

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

#### Share issue

In accordance with the resolution passed at the November 2002 annual meeting of shareholders 500,000 ordinary shares were issued to treasury stock. The shares are held on behalf of the group's Australian team members for issue to Australian team members under the terms of the Australian share purchase plan (refer note 31). The shares were issued in March 2003 at \$5.72 per share. The issue price was calculated based on the weighted average market price of the group's share price over the ten trading days prior to issue.

#### Share restrictions

The share plan trustee holds 1,734,000 shares (2002: 1,876,000 shares) allocated to team members purchasing shares in accordance with the group's share purchase plans. The trading restrictions placed on these shares are detailed in note 31.

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

		Group <b>03</b>	Group <b>02</b>	Ordinary shares <b>03</b>	Ordinary shares <b>02</b>
	Note	\$ 000	\$ 000	000s	000s
<b>25. Treasury stock</b>					
<b>Treasury stock at beginning of year</b>					
Ordinary shares issued to the trustee of the share purchase scheme	24	2,860	1,828	500	250
Staff share purchase plan forfeited		957	565	218	131
Allocated to staff share purchase plan		(715)	(2,545)	(157)	(716)
Shares issued to staff in lieu of cash remuneration		(10)	(25)	(3)	(8)
<b>Treasury stock at end of year</b>					
		5,432	2,340	1,216	658
<b>Ordinary shares held by the trustee of the share purchase plan</b>					
Unallocated treasury stock				1,216	658
Allocated to staff share purchase plan	31			1,734	1,876
				2,950	2,534
<b>Percentage of share capital</b>					
				0.97%	0.83%

#### The Warehouse Management Trustee Company Limited

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.

		Group <b>03</b>	Group <b>02</b>
	Note	\$ 000	\$ 000
<b>26. Foreign currency translation reserve</b>			
<b>Foreign currency translation reserve at beginning of year</b>			
Hedge of net investment in the Australian business		1,388	369
Taxation thereon	10	(2,488)	(1,022)
		5,051	2,075
Net exchange difference on translation of the Australian business		(4,455)	(1,056)
<b>Foreign currency translation reserve at end of year</b>			
		1,984	1,388

*Notes to and forming part of the Financial Statements – continued*

		Group <b>03</b>	Group <b>02</b>	Parent <b>03</b>	Parent <b>02</b>
	Note	\$ 000	\$ 000	000s	000s
<b>27. Retained earnings</b>					
Retained earnings at beginning of year		99,905	46,655	708	713
Net surplus attributable to parent shareholders		75,399	82,206	44,271	28,951
Dividends paid to parent shareholders	28	(44,276)	(28,956)	(44,276)	(28,956)
Retained earnings at end of year		131,028	99,905	703	708

		Group & Parent <b>03</b>	Group & Parent <b>02</b>	Cents per share <b>03</b>	Cents per share <b>02</b>
		\$ 000	\$ 000	cents	cents
<b>28. Dividends</b>					
First half year		32,077	28,948	10.5	9.5
Second half year		12,199	–	4.0	–
Adjustment to previous year's final dividend payment		–	8	–	–
Total dividends paid		44,276	28,956	14.5	9.5

All dividends paid were fully imputed. Supplementary dividends of \$1.136 million (2002: \$1.263 million) were paid.

**Dividend policy**

The group has a policy of paying 50% of the net surplus attributable to shareholders back to shareholders in the form of ordinary dividends. The board declares two dividends annually in respect of the two six month periods ending 31 January and 31 July. The dividends declared in respect of the net surplus relating to the second half of the year, are accounted for in the year they are declared. The declared dividend payout ratio for the year is 58.7% (2002: 50.1%).

		Group & Parent <b>03</b>	Group & Parent <b>02</b>	Cents per share <b>03</b>	Cents per share <b>02</b>
		\$ 000	\$ 000	cents	cents
<b>Dividends declared, in respect of:</b>					
First half year		32,077	28,948	10.5	9.5
Second half year		12,205	12,199	4.0	4.0
<b>Total dividends declared</b>		44,282	41,147	14.5	13.5

**Subsequent event**

On 4 September 2003 the directors declared a second half dividend of 4 cents per ordinary share. The dividend will be paid on 24 November 2003 to all shareholders on the group's share register at the close of business on 14 November 2003.

		Group <b>03</b>	Group <b>02</b>
		\$ 000	\$ 000
<b>29. Minority interest</b>			
<b>Minority interest at beginning of year</b>			
Net surplus attributable to minority interest		404	447
Dividends paid to minority shareholders		(341)	(441)
Gallery Prints minority interest acquired		(70)	–
<b>Minority interest at end of year</b>		184	404

Grant date	Exercise period	Exercise price	Number of options	Options issued	Options exercised	Options lapsed	Number of options
			<b>02</b>				<b>03</b>
			000s	000s	000s	000s	000s
<b>30. Option plans</b>							
<b>2001 Fixed price share option plan</b>							
16/07/2001	16/03/2004 – 31/05/2004	\$ 7.15	6,915	–	–	(1,841)	5,074
18/03/2002	18/03/2005 – 31/05/2005	\$ 8.64	7,365	–	–	(1,138)	6,227
			14,280	–	–	(2,979)	11,301
<b>2003 Fixed price share option plan</b>							
16/04/2003	16/03/2006 – 16/03/2008 (target price \$6.52)	\$ 5.36	–	5,500	–	(29)	5,471
<b>Outperform the market option plan</b>							
16/12/1999	15/10/2001 – 15/10/2002	–	30	–	(30)	–	–
16/07/1999	22/03/2002 – 21/03/2003	–	15	–	(15)	–	–
			45	–	(45)	–	–
<b>Total options</b>			14,325	5,500	(45)	(3,008)	16,772

**2001 Fixed price share option plan**

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

The exercise price for this plan is calculated using the weighted average market price of the group's share price over the ten trading days prior to grant date, increased by the group's estimated cost of equity (after adjusting for dividends) between the grant date and earliest exercise date. The estimated cost of equity is independently determined by external advisors and approved by the directors prior to the share options being granted.

**2003 Fixed price share option plan**

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

The main difference between the two plans is the 2003 plan will result in a smaller share dilution if all options were exercised. The reduction in the share dilution is achieved by granting fewer share options, with a higher ascribed fair value at grant date. The higher fair value per option is achieved by setting the exercise price 'at the money' on grant date and including a target price based on the groups cost of equity. The share price must exceed the target price before the share option can be exercised.

The 'exercise price' for the 2001 plan and the 'target price' for the 2003 plan have been calculated using the same method.

**Accounting treatment**

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

**Fair value**

The fair value of the share options at grant date have been independently estimated using the Black-Scholes option pricing model and used to assess the number of share options allocated to individual team members. The 2003 share options were valued at \$0.91 per option (2002: \$0.50, 2001: \$0.52) at grant date. The share options granted to team members are intended to retain staff and bring the salaries for senior managers up to market rates for Australian and New Zealand companies. At year end 477 team members held share options.

Grant date	Exercise period	Issue price	Number of shares	Shares allocated	Shares redeemed	Shares forfeited	Number of shares
			<b>02</b>				<b>03</b>
			000s	000s	000s	000s	000s
<b>31. Share purchase plans</b>							
<b>New Zealand staff share purchase plan</b>							
31/05/1999	31/05/2002 – 31/05/2004	\$ 4.89	364	–	(78)	(2)	284
18/05/2001	18/05/2004 – 18/05/2006	\$ 4.04	798	–	–	(118)	680
24/05/2002	24/05/2005 – 24/05/2007	\$ 4.90	714	–	–	(98)	616
			1,876	–	(78)	(218)	1,580
<b>Australian staff share purchase plan</b>							
17/04/2003	17/04/2006 – 17/04/2008	\$ 4.55	–	157	(3)	–	154
<b>Total shares</b>			1,876	157	(81)	(218)	1,734

## Notes to and forming part of the Financial Statements – continued

### 31. Share purchase plans – continued

#### Staff share purchase plans

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

#### New Zealand plan

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

#### Australian plan

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

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

### 32. Financial instruments

#### Interest rate risk

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

#### Currency risk

The group maintains an off-balance sheet portfolio of forward exchange contracts and currency options to reduce the currency risks associated with purchasing goods in foreign currencies. The group's overseas purchases are principally denominated in US dollars, and the group policy is to cover between 35% and 85% 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.

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

	Group <b>03</b>	Group <b>02</b>
	\$ 000	\$ 000
Foreign currency portfolio		
Contract amounts	157,618	227,282
Valuation at balance date	148,019	210,897

#### International financial reporting standards

The Accounting Standards Review Board confirmed in December 2002 that New Zealand issuers will be required to prepare their financial statements under international financial reporting standards (IFRS) commencing 2007, with large issuers encouraged to adopt earlier commencing 2005.

The group's foreign currency portfolio hedge, while compliant with the hedge criteria required by New Zealand financial reporting standards, would probably not meet the more restrictive definition currently required by IFRS. Under IFRS the group would need to mark to market the foreign currency portfolio with resulting gains and losses being recognised through earnings in the period of change.

The group will be using the change from New Zealand financial reporting standards to IFRS as a catalyst to reassess its foreign currency hedging strategy.

#### Translation risk

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

	Group <b>03</b>	Group <b>02</b>
	\$ 000	\$ 000
Australia/New Zealand dollar currency swap		
Notional principal	68,726	69,748
Valuation at balance date	66,238	68,726

The difference between the notional principal of the currency swap and the valuation at balance date is recognised as a current receivable (refer note 9).

### 32. Financial instruments – continued

#### Commodity price risk

The group has hedged part of its North Island (NZ) electricity requirements in the form of 'contracts for difference' which establishes a fixed price and/or restricted band of prices. The hedge contract for 28.8 GWH is effective from February 2003 to December 2004.

The group has also entered into a fixed price/variable electricity volume contract which commenced May 2003 and terminates April 2006 in respect of the group's South Island (NZ) electricity requirements. Contracts in place at balance date hedge between 50% to 60% of the group's current New Zealand electricity needs.

#### Credit risk

Financial instruments that potentially subject the group to credit risk consist principally of bank balances, off-balance sheet financial instruments, foreign-currency exchange swaps, 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. There were no other concentrations of credit risk at balance date.

#### The Warehouse Financial Services Limited

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

	Group <b>03</b>	Group <b>02</b>	Parent <b>03</b>	Parent <b>02</b>
	\$ 000	\$ 000	\$ 000	\$ 000
Maximum exposures to credit risk at balance date are:				
Cash, bank in funds and deposits	20,473	4,654	485	258
Trade receivables and advances	14,501	16,122	172,430	170,941
Foreign-currency exchange swap	2,488	1,022	–	–
Property settlements receivable	11,999	–	–	–
Investment in associate	7,047	7,780	–	–
Total exposure to credit risk	56,508	29,578	172,915	171,199

#### Fair values

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

	Carrying amount <b>03</b>	Carrying amount <b>02</b>	Fair value <b>03</b>	Fair value <b>02</b>
	\$ 000	\$ 000	\$ 000	\$ 000
Off-balance sheet financial instruments				
Forward exchange contracts and currency options	–	–	(9,599)	(16,385)
Interest rate swaps	(72)	(48)	175	(4)

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.

We have been unable to reliably estimate the fair value of the fixed price electricity contracts in place at year end in the absence of comparable financial instruments or quoted market prices for these products. It was also not practicable to estimate the fair value of the staff share purchase plan advances as there is no market for the advances and the timing of repayment is uncertain.

The parent has no off-balance sheet financial instruments.

## Notes to and forming part of the Financial Statements – continued

	Group <b>03</b>	Group <b>02</b>
	\$ 000	\$ 000
<b>33. Contingent liabilities</b>		
Bank letters of credit issued to secure future purchasing requirements	25,966	29,347
Occupational Health and Safety claim	1,121	–
Bank guarantees provided to landlords and the New Zealand Exchange	1,422	75
<b>Total contingent liabilities</b>	<b>28,509</b>	<b>29,422</b>

### **Pending Occupational Health and Safety claim**

The group has two outstanding claims under the Australian Occupational Health and Safety Act 1985 for failing to provide a safe working environment. The maximum potential liability is A\$500,000 (Australian dollars) for each breach of the regulations, however it is expected that settlement maybe be less than the maximum fine.

### **Money back guarantee**

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

The parent company had no contingent liabilities (2002: nil).

	Group <b>03</b>	Group <b>02</b>
	\$ 000	\$ 000
<b>34. Related parties</b>		
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)	134	130
Hesketh Henry (J R Avery, partner)	315	395
CLM Marketing Limited (N R Plummer, shareholder)	654	581
Fusion Electronics Limited (N R Plummer, shareholder)	1,844	2,349
McDonald Vadco Limited (N R Plummer, director)	7,685	5,849
<b>Total fees and commissions paid to related parties</b>	<b>10,632</b>	<b>9,304</b>
The group has paid store rents to the following property companies in which a director has an interest:		
Kyber Investments Limited (N R Plummer, shareholder/director)	602	464
Pukeko Creek Limited (P G Inger, shareholder/director)	84	82
<b>Rent paid to related parties</b>	<b>686</b>	<b>546</b>

Directors are entitled to purchase goods at normal staff discount. Other specific director's disclosures are made in note 5.