

BLUE SHEDS BRAND REPORT



Warehouse Stationery	2004	2003
Sales (\$m)	199.1	164.5
Operating profit (\$m)	7.0	9.4
Operating margin (%)	3.5%	5.7%
Stores	42	39
Retail space (m ²)	56,145	45,918
Operating assets (\$m)	75.5	55.3

SUMMARY

Warehouse Stationery focuses on general retail and both the domestic small-office/home-office (“SOHO”) and small-to-medium size enterprise (“SME”) markets.

The company recorded a 21.0 percent increase in sales, to \$199.1 million, during the year. However, operating profit fell a disappointing 25.7 percent to \$7.0 million.

The margin pressure in Blue Sheds was due partly to the difficult trading environment as well as an over-reliance on computer sales. The 2.2 percentage point fall in operating margins, to 3.5 percent, was the consequence of a changing sales mix resulting in higher sales of lower margin business machines and the cost of developing the new MEGA store format. Blue Sheds is currently re-balancing its merchandise mix to reduce reliance on computers and other business machines.

Six stores were opened in the year with new stores in Thames, Papanui and Upper Hutt while three stores were replaced. Total retail footprint increased 22.3 percent to 56,145 square metres.

A key enabler to future growth was the commissioning of a new Warehouse Stationery distribution centre. This facility, located in South Auckland, will provide specialist supply chain processes for the retail and business to business (“B2B”) marketing channels. Improved supply chain processes will enable more efficient purchasing procedures while improved retail stock turns are expected in the medium term.



B2B (BUSINESS TO BUSINESS)

Warehouse Stationery launched the B2B strategy in October 2001. The B2B offer now extends from Northland to Wellington and has enabled the company to access the SOHO and SME market via the internet, a call centre or a Warehouse Stationery sales representative.

B2B sales rose by nearly 45 percent during the financial year reaching a breakeven position by the end of that period. Meanwhile competitor activity during the year was more intense with higher than normal levels of discounting and promotion in both the SOHO and SME sectors.

2005 will be a year of consolidation for B2B - as it will be for its Warehouse Stationery retail counterpart - as it seeks to leverage opportunities between B2B and retail, capitalising on the synergies presented by its unique multi-channel format. Accordingly it will focus on maximising performance from its existing customer base as well as continuing to acquire customers in the North Island.

MEGA STORE FORMAT

During the year Blue Sheds successfully developed the new MEGA store format with the inaugural MEGA store opening in Whangarei in December 2003. This store is already showing positive indicators with sales per capita 82.0 percent ahead of the same period last year while the average spend per customer was 21.8 percent higher.

The MEGA store format includes an expansion of existing categories and some new categories. The expanded departments include art and craft, paper, furniture, luggage, training and presentation, while new categories introduced include children’s early learning, health and safety, specialty papers, books and magazines, storage and technology enhancements. The format also has destination departments such as a copy centre, business machines, an art and craft demonstration area and office furniture.

Five new MEGA stores are due to be operating by Christmas 2004.

Pictured (top) is the Warehouse Stationery store in Wairau Park.

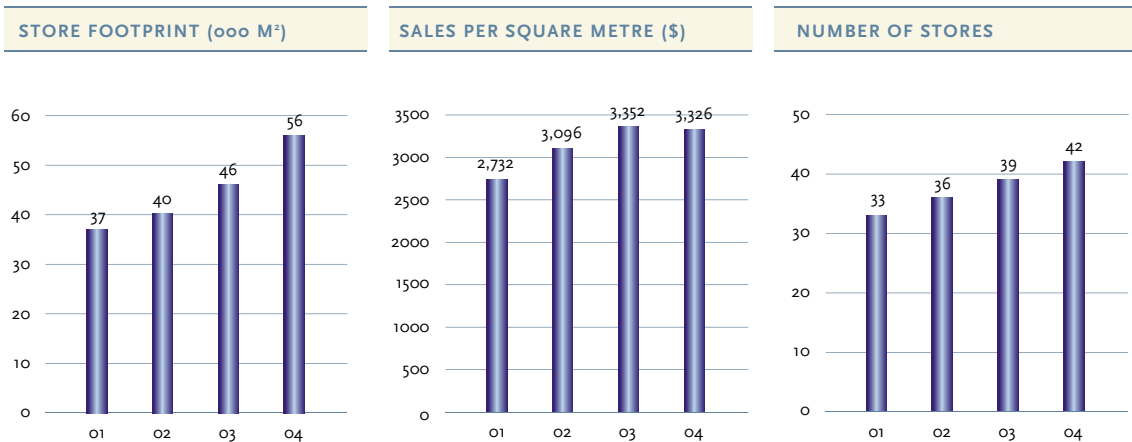


Warehouse Stationery has every reason to be proud of its new MEGA format which provides for the expansion of existing and proven categories and the introduction of new categories. This first MEGA store, in Whangarei, opened in December 2003 and is already showing dramatic increases in key indicators. Five MEGA stores will be operating by the end of 2004.

KEY ISSUES FOR 2005

After recording nine years of double-digit sales growth the focus for Blue Sheds in 2005 will be for a period of consolidation to support long-term objectives. The key issues for the year include proving and refining the MEGA store format while the retail business will look to re-balance its merchandise portfolio and enhance gross margins.

Blue Sheds will also invest in new systems' infrastructure to support future growth and lowering the cost of doing business. The B2B channel will continue its solution-based proposition to the SME and SOHO markets while providing an integrated offering to other definable markets such as the education sector.



The three team members pictured (above right) are from the Warehouse Stationery's support office in Birkenhead. They are, left to right, Ineke Rogers and Colin Leader, optimal stock placement coordinators, and James Willoughby, sustainable development manager. Tessie Ford (following page), checkout operator at the Warehouse Stationery MEGA store in Whangarei.

GROWTH DRIVERS	Fo4	Fo3	CHANGE	STRATEGY	PROGRESS IN Fo4
Same store sales growth	9.6%	18.0%	(840bp)	<ul style="list-style-type: none"> • Grow same store sales through increased marketing and merchandise category development. • Adopt a customer-centric model to improve market penetration and long term growth opportunities. 	<ul style="list-style-type: none"> • Same store sales grew by a modest 9.6% due to over reliance on the business machines (including computer) market.
Sales per square metre (\$)	3,326	3,352	(0.8%)	<ul style="list-style-type: none"> • Strengthen relationships with key brand owners. • Increase emphasis on marketing the current merchandise range. 	<ul style="list-style-type: none"> • Sales intensity remained static due to the difficult trading environment for business machines. • Several new brands were added to the merchandise range.
Store footprint (m ²)	56,145	45,918	+22.3%	<ul style="list-style-type: none"> • Ensure the store format is appropriate to future category development. 	<ul style="list-style-type: none"> • The development and trial introduction of the MEGA store concept represented a significant advancement in store format and shopping experience. • Opened six new stores in Fo4, three in new locations (Thames, Papanui and Upper Hutt) and three replacement stores (Wanganui, Whangarei and Masterton). • Store numbers rose from 39 to 42. • Continued improvements and standardisation of store layout.

