

**Consolidated Statement of Financial Performance**

	Half year ended		Year ended
	1 Feb	31 Jan	31 Jul
	<b>04</b>	<b>03</b>	<b>03</b>
	\$ 000	\$ 000	\$ 000
<b>Sales revenue</b>	1,243,329	1,097,548	2,034,917
Other revenue	7,082	8,179	16,311
<b>Operating revenue</b>	1,250,411	1,105,727	2,051,228
Operating expenses	(1,167,796)	(1,016,925)	(1,934,328)
<b>Operating surplus before income tax</b>	82,615	88,802	116,900
Income tax	(27,138)	(30,581)	(41,310)
<b>Net surplus</b>	55,477	58,221	75,590
Net surplus attributable to minority interest	(21)	(15)	(191)
<b>Net surplus attributable to parent shareholders</b>	55,456	58,206	75,399
Earnings per share	18.2 cents	19.1 cents	24.7 cents

**Notes to the Financial Statements**

**Accounting policies**

The Financial Statements for the half year ended 1 February 2004 have been prepared in accordance with FRS 24 Interim Financial Statements and should be read in conjunction with the previous annual report.

The accounting policies used are consistent with those used in the previous interim financial statements and annual report. A copy of the previous interim and annual report are available on the company's website.

The financial statements for the half year ended 1 February 2004 have not been audited. They have been the subject of a review by the auditors pursuant to ICANZ Review Engagement Standards RS-1 for the purpose of fulfilling the Australian Stock Exchange (ASX) listing requirements. A copy of the review report is available on the ASX website.

**Commitments, contingencies and funding lines**

The group has no material contingent liabilities other than those arising in the normal course of business, being primarily letters of credit issued to secure future purchasing requirements and store lease commitments. Capital commitments not provided for at balance date amount to \$6,370,000 for the completion of store development. As at 1 February 2004 the Group had unused bank facilities of \$122,776,000.

**Trading period**

The current half year period is 1 August 2003 to 1 February 2004. Prior half year comparative figures are for 1 August 2002 to 31 January 2003. The previous full year comparatives are for 1 August 2002 to 31 July 2003.

**Events occurring after balance date**

On 26 February 2004 the directors declared a fully imputed interim dividend of 10.5 cents per share on issue at 16 April 2004, in respect of the half year ended 1 February 2004.

**Consolidated Statement of Movements in Equity**

	Half year ended		Year ended
	1 Feb	31 Jan	31 Jul
	<b>04</b>	<b>03</b>	<b>03</b>
	\$ 000	\$ 000	\$ 000
<b>Net surplus comprising</b>			
Parent shareholders' interest	55,456	58,206	75,399
Minority interest	21	15	191
	55,477	58,221	75,590
Foreign currency translation movement	(752)	1,677	596
<b>Total recognised revenues and expenses</b>	54,725	59,898	76,186
Shares issued under the ESOP	-	-	2,860
Dividends paid to parent shareholders	(12,219)	(12,199)	(44,276)
Movement in minority interest	(14)	(264)	(411)
Movement in treasury stock	(510)	(400)	(3,092)
<b>Movement in equity for the year</b>	41,982	47,035	31,267
<b>Equity at beginning of period, comprising</b>			
Parent shareholders' interest	346,556	315,069	315,069
Minority interest	184	404	404
	346,740	315,473	315,473
<b>Equity at end of period, comprising</b>			
Parent shareholders' interest	388,531	362,353	346,556
Minority interest	191	155	184
	388,722	362,508	346,740
<b>Geographical Segments</b>			
The Warehouse New Zealand	814,137	741,745	1,352,219
Warehouse Stationery	100,890	73,234	164,518
Other group operations	7,743	6,538	11,371
<b>New Zealand</b>	922,770	821,517	1,528,108
The Warehouse Australia	327,950	282,651	519,419
Inter-segment eliminations	(7,391)	(6,620)	(12,610)
<b>Sales revenue</b>	1,243,329	1,097,548	2,034,917
The Warehouse New Zealand	102,713	97,974	150,883
Warehouse Stationery	3,817	3,804	9,403
Other group operations	473	(1,272)	(4,244)
<b>New Zealand</b>	107,003	100,506	156,042
The Warehouse Australia	(12,951)	5,116	(13,370)
<b>Operating profit</b>	94,052	105,622	142,672
Gain on property disposals	-	268	195
Gain on sale of Gold Mobile business	-	-	635
Logistics re-engineering costs	-	(7,544)	(7,544)
Goodwill amortisation	(3,628)	(3,579)	(7,096)
<b>Earnings before interest and taxation</b>	90,424	94,767	128,862
Net Interest	(7,809)	(5,965)	(11,962)
<b>Net surplus before taxation</b>	82,615	88,802	116,900

The accompanying notes form part of these financial statements.

**Consolidated Statement of Financial Position**

	1 Feb	As at 31 Jan	31 July
	<b>04</b>	<b>03</b>	<b>03</b>
	\$ 000	\$ 000	\$ 000
Cash balances	23,106	7,211	20,473
Cash deposits	-	36,175	-
Receivables	27,781	22,654	34,059
Inventories	398,660	308,765	319,232
Goods in transit	44,895	40,568	47,944
Income tax	4,265	-	15,531
<b>Current assets</b>	498,707	415,373	437,239
Receivables	1,932	3,577	3,115
Income tax	7,853	3,213	3,090
Investments	8,547	8,629	7,047
Property, plant and equipment	300,590	244,486	266,418
Deferred taxation	13,656	11,799	14,007
Intangible assets	45,330	51,172	48,277
<b>Non-current assets</b>	377,908	322,876	341,954
<b>Total assets</b>	876,615	738,249	779,193
Bank overdraft	-	1,823	3,304
Payables and accruals	173,604	133,945	140,661
Goods in transit creditors	25,486	19,333	25,124
Income tax	-	12,116	-
Borrowings	41,518	-	16,811
<b>Current liabilities</b>	240,608	167,217	185,900
<b>Non-current liabilities</b>			
Borrowings	247,285	208,524	246,553
<b>Total liabilities</b>	487,893	375,741	432,453
Share capital	218,976	216,116	218,976
Treasury stock	(5,942)	(2,740)	(5,432)
Foreign currency translation reserve	1,232	3,065	1,984
Retained earnings	174,265	145,912	131,028
<b>Parent shareholders' interest</b>	388,531	362,353	346,556
Minority interest	191	155	184
<b>Equity</b>	388,722	362,508	346,740
<b>Total equity and liabilities</b>	876,615	738,249	779,193

The accompanying notes form part of these financial statements.

**Consolidated Statement of Cash Flows**

	Half year ended		Year ended
	1 Feb	31 Jan	31 July
	<b>04</b>	<b>03</b>	<b>03</b>
	\$ 000	\$ 000	\$ 000
Receipts from customers	1,254,068	1,102,899	2,043,541
Interest received	468	647	1,494
Payments to suppliers and staff	(1,177,706)	(1,009,216)	(1,894,719)
Interest paid	(9,042)	(7,192)	(12,740)
Taxation paid	(18,623)	(17,898)	(54,431)
<b>Cash flow from operating activities</b>	49,165	69,240	83,145
Proceeds from the sale of property, plant and equipment	12,264	11,579	13,570
Proceeds from the disposal of investments	-	1,475	2,266
Advances repaid	5,159	881	8,269
Purchase of property, plant and equipment	(69,208)	(51,501)	(115,416)
Distribution from associate company	-	-	2,450
Advances and ESOP refunds	(392)	(34)	(229)
Cash consideration paid to acquire subsidiary	-	(340)	(340)
<b>Cash flow from investing activities</b>	(52,177)	(37,940)	(89,430)
Increase/(decrease) in short term borrowings	24,463	(40,065)	12,920
(Decrease)/increase in term borrowings	(2,965)	22,792	52,163
Dividends paid	(12,583)	(12,744)	(45,753)
<b>Net cash flow from financing activities</b>	8,915	(30,017)	19,330
Net increase in cash held	5,903	1,283	13,045
Effect of exchange rate movements	34	(37)	(18)
<b>Total movement in cash position</b>	5,937	1,246	13,027
<b>Cash position at beginning of period, comprising</b>			
Cash, bank in funds and deposits	20,473	4,654	4,654
Bank overdrafts	(3,304)	(512)	(512)
	17,169	4,142	4,142
<b>Cash position at end of period, comprising</b>			
Cash, bank in funds and deposits	23,106	7,211	20,473
Bank overdrafts	-	(1,823)	(3,304)
	23,106	5,388	17,169

The accompanying notes form part of these financial statements.

**Consolidated Reconciliation of Operating Cash Flow**

	Half year ended		Year ended
	1 Feb	31 Jan	31 July
	<b>04</b>	<b>03</b>	<b>03</b>
	\$ 000	\$ 000	\$ 000
<b>Net surplus after taxation</b>	55,477	58,221	75,590
Depreciation	28,484	24,618	50,881
Intangible amortisation	3,628	4,979	9,388
Movement in deferred tax	391	(3,335)	(5,608)
Share of surplus retained by associate company	(1,499)	(849)	(1,717)
Other non-cash adjustments	-	-	18
<b>Non-cash items</b>	31,004	25,413	52,962
Net gain on sale of property, plant and equipment	(125)	(335)	(6)
Telephone handset capitalisation	-	(435)	(602)
Gain on sale of Gold Mobile business	-	-	(635)
Other investing and financing activities	349	640	1,171
<b>Investing and financing adjustments</b>	224	(130)	(72)
Payables and accruals	36,550	15,900	26,303
Income tax	6,503	21,741	(5,783)
Receivables	(5,550)	(2,262)	(1,675)
Inventories	(76,378)	(43,566)	(61,409)
Effect of exchange rate movements	1,335	(6,077)	(2,771)
<b>Changes in assets and liabilities</b>	(37,540)	(14,264)	(45,335)
<b>Cash flows from operating activities</b>	49,165	69,240	83,145

The accompanying notes form part of these financial statements.



Interim Report 2004



- Group sales up **13.3%** to **\$1.243** billion
- Operating profit down **11.0%** to **\$94.1** million
- Net profit after tax down **4.7%** to **\$55.5** million
- Interim dividend of **10.5** cents per share

Note: All references to dollars are NZ Dollars unless otherwise stated.

# Dear Shareholders

The Warehouse Group Limited ('The Warehouse') achieved an unaudited tax-paid profit for the half year ended 1 February 2004 of \$55.5 million. This profit result is 4.7 percent below the \$58.2 million achieved for the corresponding period ended 31 January 2003.

The decline in operating earnings has arisen from poor trading results in Australia. Weaker than expected sales growth in Australia together with margin deterioration has resulted in an operating loss of \$13.0 million, compared with an operating profit of \$5.1 million in the prior comparable period. The primary contributing factor has been executional difficulties in merchandising and marketing. The change over of IT systems and a new distribution centre were also contributing factors to the result. While these changes created some short term disruption to the Australian business, we expect the benefits from new systems and distribution assets will be realised in improved sales and margins over the next eighteen months.

Both The Warehouse New Zealand and Warehouse Stationery performed to expectations in the first half.

### Group operating performance

#### Sales

Group sales for the half year ended 1 February 2004 were \$1,243 million comprising \$814 million from The Warehouse New Zealand stores, \$101 million from Warehouse Stationery and \$328 million from The Warehouse Australia. Total Group sales were up 13.3 percent from a year ago.

### Operating earnings

Total Group operating earnings before interest, unusual items and taxation for the period were \$94.1 million. This is \$11.5 million or 11.0 percent below that achieved for the corresponding period last year.

### Tax-paid profit and operating cashflows

Reported tax-paid profit for the period under review was \$55.5 million before minority interests. This represents a 4.7 percent decline from the previous comparable period. The Group tax-paid profit margin was 4.5 percent compared with 5.3 percent a year earlier.

### Segmental results

#### The Warehouse New Zealand

The Warehouse New Zealand ('Red Shed') retail stores recorded a 9.8 percent increase in sales in the half year ended 1 February 2004. Operating earnings before interest, taxation and unusual items rose 4.8 percent to \$102.7 million.

Our stated intention has been to return much of the benefit of the strong New Zealand dollar back to customers in the form of lower prices. Consumers responded positively and we have seen an increase in both market share and gross profit dollars during the period under review.

Operating margins, however, declined from 13.2 percent to 12.6 percent due to the higher cost of doing business. In particular, increased logistics and store labour costs associated with managing higher unit volumes moved in the first half together with an increased expenditure in marketing. Gross margins were at levels similar to that achieved in 2003.

During the period under review, category growth was achieved across most of the range with significant improvement in entertainment and electrical. New product ranges such as computers, gaming hardware, pet care products and jewellery all performed well.

The Warehouse New Zealand	Half-year ended		
	1 February 2004	31 January 2003	Change
Sales (\$m)	814.137	741.745	9.8%
Operating profit (\$m)	102.713	97.974	4.8%
Operating margin %	12.6%	13.2%	
Stores	80	79	
Retail Space (m <sup>2</sup> )	380,150	352,961	7.7%

Between August 2003 and January 2004, The Warehouse New Zealand opened four replacement stores in Hawera, Masterton, Matamata and the company's largest ever store at 12,800 square metres in Whangarei. The Rotorua store was also extended during the period.

The Warehouse New Zealand retail chain consisted of 80 stores, representing 380,150 square metres of retail space, an increase of 7.7 percent over January 2003.

The Warehouse intends to extend two stores (Greymouth and Napier) and open five new stores at Dargaville, Snells Beach, Te Kuiti and Waipapa (near Kerikeri), including a replacement store at Henderson before the end of July 2004.

### Warehouse Stationery

Warehouse Stationery sales were 37.8 percent ahead of the same period last year.

The Stationery business recorded an operating margin of 3.8 percent compared with 5.2 percent a year earlier. This decline is attributed to increased sales of personal computers at lower margins, higher operating costs associated with the move to a new support office, investment in B2B ('business to business') telemarketing infrastructure and costs associated with the development and opening of the new Whangarei mega-store.

Market share growth in general stationery, computer accessories, business machines and furniture continued during 2003/4.

The B2B sales channel continues to be well received in the market and is on track to break even in 2004.

In late 2003, Warehouse Stationery opened its first mega-store. The trialling of the mega-store concept in Whangarei is the most important development in Warehouse Stationery since the launch of the B2B channel. This concept includes an expansion of current ranges, as well as exciting new ranges such as children's early learning, health and safety, specialty papers, books and magazines and a range of technology products.

Warehouse Stationery	Half-year ended		
	1 February 2004	31 January 2003	Change
Sales (\$m)	100.890	73.234	37.8%
Operating profit (\$m)	3.817	3.804	0.3%
Operating margin %	3.8%	5.2%	
Stores	41	39	
Retail Space (m <sup>2</sup> )	54,145	45,918	17.9%

Warehouse Stationery opened five new stores during the period under review, two stores in new locations (Papanui and Thames) and three replacement stores (Wanganui, Masterton and the introduction of the new mega-store format in Whangarei).

As at 1 February 2004 the Warehouse Stationery retail chain consisted of 41 stores representing 54,145 square metres of retail space, an increase of 17.9 percent over January 2003.

### The Warehouse Australia

Expressed in Australian dollars, The Warehouse Australia achieved a 15.4 percent increase in sales or an increase of A\$38.4 million over the corresponding period last year. An operating loss of A\$11.4 million was incurred compared with an operating profit of A\$4.5 million a year ago.

Ian Tsicalas was appointed as CEO The Warehouse Australia in late 2003. Ian and his team are systematically working through a process to strengthen merchandising and buying. Range and margin reviews currently underway are expected to deliver a significant improvement to our product mix. We would expect this to result in improved sales growth and margin performance. The nature of the merchandise "pipeline" means that improvements made now will, however, take time to yield results.

The company remains committed to the Australian market, with an expectation that The Warehouse Australia can at least break even by July 2006.

The Warehouse Australia	Half-year ended		
	1 February 2004	31 January 2003	Change
Sales (A\$m)	288.1	249.7	15.4%
Operating profit (A\$m)	(11.4)	4.5	n.m.
Operating margin %	(3.9%)	1.8%	
Stores	127	128	
Retail Space (m <sup>2</sup> )	246,530	216,300	14.0%

During the period under review, our state-of-the-art Queensland distribution centre was fully commissioned. Oracle financials, the merchandising system (TUI) and the inventory management system (TOLAS) all went live during August 2003 adding significantly to our information systems infrastructure.

Between August 2003 and January 2004, The Warehouse Australia opened eight new format stores (Hollywood Plaza and Greenacres in South Australia, Hervey Bay and Kallangur in Queensland, Newcastle and Castle Hill in NSW, Footscray and Roxburgh Park in Victoria) and closed eleven small old format stores.

As at 1 February 2004, The Warehouse Australia operated 127 stores representing 246,530 square metres of retail space, an increase of 14.0 percent over January 2003.

The Warehouse Australia plans to open up to six large format stores before the end of July 2004.

### Financial position

#### Assets employed

Total assets rose \$138 million to \$877 million. Total inventories including goods in transit were \$94 million higher than the same period last year.

#### Borrowings

Total debt, less cash on hand, at 1 February 2004 was \$266 million, \$99 million higher than the prior comparable period and reflects increased capital expenditure and investment in inventory. Debt to debt plus equity increased to 40.6 percent from 31.5 percent a year earlier. Net interest cover remains strong at 12.0 times (17.7 times in January 2003).

#### Dividend

The Directors have declared a fully imputed interim dividend of 10.5 cents per share, unchanged from a year earlier.

Books close for entitlement to the interim dividend on 16 April 2004 with the payment to be made on 26 April 2004.

#### Outlook

Based on the present economic conditions remaining unchanged, the reported earnings (NPAT) for the year ended 1 August 2004 is projected to be between \$60 million and \$70 million compared with \$75.4 million in the prior comparable period. This projection assumes The Warehouse Australia will incur an operating loss of between A\$30 million and A\$40 million.



Keith R Smith  
Chairman



Stephen R Tindall  
Acting Managing Director

27 February 2004

# Directory

#### Directors

Keith R Smith  
*Chairman*  
John R Avery  
Robert L Challinor  
John C Dahlsen  
Graham F Evans  
P Glen Inger  
*Property Director*  
Neil R Plummer  
Stephen R Tindall  
*Founder / Acting Managing Director*  
Ian Tsicalas  
*CEO The Warehouse Australia*  
Joan Withers

#### Secretary to the Board

Mark Fennell

#### Group executive

Luke N Bunt  
*Chief Financial Officer*  
John W Journee  
*GM, Merchandise*  
Hamish O McKenzie  
*GM, People*  
Owen S McCall  
*Chief Information Officer*  
Mark D Powell  
*GM, Supply Chain*  
Robert W Smith  
*GM, Warehouse Stationery*  
David G Wilson  
*GM, The Warehouse New Zealand*

#### Registered office Australia

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#### New Zealand share registrar

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#### Australian share registrar

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Freephone 1800-269-981  
Fax 61-2-8234 5450

#### Shareholder register enquiries and details

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

#### Place of business

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#### Website:

www.thewarehouse.co.nz

#### Stock exchange listings

New Zealand and Australia (WHS)

#### Company numbers

A.R.B.N. 094 719 089  
NZ Incorporation AK/611207