THE WAREHOUSE GROUP LIMITED

INTERIM REPORT 2014

GROUP SALES

$1,420M

GROUP OPERATING PROFIT

$70.1M

GROUP ADJUSTED NET PROFIT*

$46.2M

GROUP OPERATING MARGIN

4.9%

"What we've achieved in the first half of the year."

* A reconciliation of adjusted net profit to reported net profit is detailed in note 14 of the condensed interim financial statements. Certain transactions such as the sale of properties and the release of warranty provisions can make the comparison of profits between periods difficult. The Group monitors adjusted net profit as a key indicator of performance and uses it as the basis for determining dividends and believes it helps investors to understand what is happening in the business.

thewarehouse

where everyone gets a bargain

SALES UP

6.2%

FROM $866.6M to $920.0M

- 12 consecutive quarters of positive same store sales
- Same store sales increased by 4.1%
- Operating profit of $60.6 million
- 'House of Bargains', 'Home of Essentials'

SALES UP

8.6%

FROM $111.9M to $121.5M

- 18 quarters of positive same store sales
- Same store sales increased by 4.9%
- Operating profit of $4.7 million increased by 28%
- 'Work, Study, Create, Connect'

warehouse stationery

Noel Leeming

SALES

$328.8M

- Same store sales increased by 9.3%
- Operating profit of $6.8 million increased by 20%
- Leading home, entertainment and technology retailer

SALES

$47.9M

- Acquired and integrated No.1 Fitness, Shotgun Supplements, R&R Sport
- Investing to create a leading multichannel outdoor and adventure sport retailer

torpedo7

CHAIRMAN AND CEO'S REPORT

Mark Powell, Group Chief Executive Officer and Ted van Arkel, Chairman

Your Directors take pleasure in presenting the unaudited results for the six months ended 26 January 2014.

- **The Warehouse Group has actively taken steps to reshape itself over the past two years**
- **We have a clear growth strategy in all of our retail brands**
- **We have made good progress with a focus on four Group Strategic Priorities:**
  - **Keep the 'Red' core strong**
  - **Grow 'Non-Red' to be as large as Red**
  - **Be the leading multichannel retailer in New Zealand**
  - **Leverage Group competencies and scale**
- **As part of leveraging Group competencies and scale, we have identified an opportunity which is expected to provide material earnings to the Group in the medium term. Therefore, we have added 'Be a leading New Zealand retail Financial Services company' as a fifth Group Strategic Priority.**

We are pleased to have been able to declare a dividend of 13 cents per share.

Dear Shareholders

The Board of The Warehouse Group announced an adjusted[1] net profit after tax of $46.2 million in line with recent sharemarket guidance but down 12.5% compared to $52.8 million last year. Reported net profit after tax for the period was $58.8 million compared to $106.4 million last year when significant one-off gains were made on the disposal of properties.

Sales in all retail brands were up year over year, resulting in Group sales for the half year of $1,420.4 million, up 29.5% compared to the first half of last year. Group Trading Profit (the profit from our retail brands) for the half was down 3.1% versus that of last year as a result of the Q1 margin pressures in the 'Red Sheds', with all other retail brands increasing their trading profit.

GROUP FINANCIAL POSITION

Assets Employed

Total assets increased to $1,117.2 million compared to $958.7 million in January 2013, with assets of $94.2 million associated with the Torpedo7 acquisition representing most of the increase.

Operating Capital Expenditure for the Half Year

There was an operating cash inflow of $143.9 million, which compared to an inflow of $88.0 million for the same period last year. The increase was primarily due to working capital and the timing of creditor payments over balance date.

The Warehouse (Red Sheds)

The Red Sheds reported sales for the first half of $920.1 million, an increase of 6.2% or $53.5 million when compared to the same period last year. Same store sales increased by 4.1% in the half. The Red Sheds have now recorded 12 quarters of positive same store sales growth. The major drivers of sales growth in the half were the continuing sales growth in the Auckland market and double-digit sales growth in Womenswear, Menswear, Health & Beauty, Jewellery, Consumer Electronics, Gaming, Small Appliances and Whiteware categories.

Strong Christmas trading in the Red Sheds delivered a solid Q2 result, with 3.4% same store sales and gross margins above last year. This solid Q2 result did not fully offset the Q1 margin impact resulting in gross margins for the half down 40 basis points when compared to last year. Operating profit for the half was $60.6 million, a decrease of 7.8% when compared with last year.

It has been at least a decade since the Red Sheds grew same store sales more than 4% in a half and had 12 quarters of consecutive growth. It is still early days but we are pleased with the progress to date. We believe the actions we are taking to improve our products, prices, promotions and store environment, and the investment we are making in our team members, have started to bring customers back to The Warehouse, as New Zealand's 'House of Bargains' and 'Home of Essentials'.

Warehouse Stationery (Blue Sheds)

Warehouse Stationery (Blue Sheds) reported sales for the first half of $121.5 million, an increase of 8.6% or $9.6 million over the same period last year. Same store sales increased by 4.9% in the half with the Blue Sheds now recording 18 consecutive quarters of positive same store sales growth. Operating profit of $4.7 million increased 28.1% over last year, with a 60 basis point improvement in operating profit margins.

The major driver of sales growth in H1 has been the double-digit sales growth in Communications, Computers, Consumables and Copy Centres and the four new stores opened in the past year. Warehouse Stationery continues to grow in a market where a number of the traditional categories are flat or even in a state of decline. Eighteen quarters of positive same store sales growth and close to double-digit sales growth in the half reflect the recent rebranding and the 'Work, Study, Create, Connect' strategy, showing that our customers appreciate the actions we are taking.

Borrowings

Net debt of $142.3 million compared to $151.5 million at January 2013. The Group's net debt gearing[2] improved slightly from 27.3% at January 2013 to 24.0% at January 2014.

Dividend and Dividend Policy

On 5 March 2014, the Board approved a change to the Group's dividend policy. The Group's new dividend policy is to pay a dividend to shareholders of between 75% and 85% of adjusted net profit. The Group's previous dividend policy was to pay a dividend equal to 90% of adjusted net profit. To provide shareholders with certainty around the level of dividends which are expected to be paid during the current financial year and the following 2015 financial year, the Group has indicated it will target paying a minimum annual dividend of at least 19.0 cents per share (subject to no significant change in trading and market conditions). The 2014 dividend would comprise the current half year dividend of 13.0 cents per share and a final dividend of 6.0 cents per share expected to be declared when the Group's full year result is announced.

Capital Raising

The Group is raising $115 million through the issue of new shares which will be used in part to fund the recently announced acquisition of DCNZ[3] and the future growth of the Group's Financial Services business. The capital raising comprises a $100 million equity placement and a $15 million share purchase plan. The capital raising is underwritten by Deutsche Craigs Limited and is expected to be completed by 14 April 2014.

Board of Directors

The Warehouse Group Annual Meeting on 22 November 2013 saw two Board members retire – Graham Evans and Janine Smith. Graham Evans had 15 years' service and was Chairman for the last two years and eight months in addition to many years of service on both the Audit and the People and Remuneration Committees. Janine Smith was the Chair of the Governance and the People and Remuneration Committees, with seven years' service as a Director. At the Annual Meeting, Sir Stephen Tindall thanked both for their contributions to the Group over the years. Ted van Arkel replaced Graham Evans as Chairman of the Board and, on 17 October 2013, we appointed two new Directors – Vanessa Stoddart and John Journee – further strengthening the Board with a mix of qualifications, skills and experience appropriate to the company's existing operations and strategic direction.

THE WAREHOUSE GROUP OUTLOOK AND FOCUS AHEAD

Over the past 12 months, we have seen quarterly retail sales showing improving trends and believe we will see gradual ongoing improvements in consumer confidence. The disruption in the retail market, as seen by the rapid growth of online sales and digital trends will continue.

The Warehouse Group has been reshaped over the last two years with four clear Strategic Priorities: first, to 'Keep the Red core strong'; second, 'Grow Non-Red to be as large as Red'; third, to 'Be the leading multichannel retailer in New Zealand'; and fourth, to 'Leverage Group competencies and scale'. The Warehouse Group has announced its intention to add a fifth distinct Strategic Priority: to 'Be a leading New Zealand retail Financial Services company'. The Warehouse Group has outlined a number of actions it will undertake with respect to this important complementary fifth Strategic Priority.

We are in an ongoing process of reshaping The Warehouse Group, with each business at a different stage in its journey. Opportunities such as Financial Services, which has arisen because of our strategy, are exciting and will provide material earnings to the Group in the medium term.

We aim to continue delivering a high return to shareholders and thank all our team members, suppliers, customers and shareholders for their ongoing support and strong interest in The Warehouse Group.

Ted van Arkel
Chairman

Mark Powell
Group Chief Executive Officer

Noel Leeming

Noel Leeming Group reported sales for the first quarter of $328.8 million, an increase of 14.0% compared to the same period last year[4]. Same store sales increased by 9.3%[4] and gross margins improved by 30 basis points[4]. This strong performance was a result of the merging of Bond & Bond with Noel Leeming, double-digit sales growth in all major product categories and improved gross margins. Noel Leeming Group's operating profit of $6.8 million increased by 20% over last year, although last year's result was for a non-comparable two-month period versus a full six months this year.

Across a range of areas, Noel Leeming is contributing the strategic benefits we expected it would as a result of the acquisition. It is still early days and we will be investing in our store environment, the 'passionate experts' in our stores and the range of services we offer our customers to ensure that we remain New Zealand's leading home entertainment, appliance and technology retailer.

Torpedo7 and Multichannel

Torpedo7 Group reported sales for the first half of $47.9 million, with sales increasing by 30% and gross margins growing by more than 400 basis points over the same period last year[5]. We have made a significant investment in fulfilment centre infrastructure and capacity along with television and digital advertising to increase brand recognition in support of our multi-year growth plans. Operating profit in the half year was $0.7 million.

In line with our strategic plan for Torpedo7 to be a leading multichannel outdoor and adventure sport retailer, we acquired and integrated No1 Fitness and Shotgun Supplements. We also acquired R&R Sport in December and started the process of range integration planning and strategy development. In March, the Group entered into an agreement to increase its ownership of Torpedo7 Group from 51% to 80%. The Torpedo7 strategic emphasis in FY14 is to integrate its acquisitions and to build the brand for future growth. We are investing to create a leading multichannel outdoor and adventure sport retailer. We continue to be excited by the growth opportunities we see in this area of our business.

1 A reconciliation of adjusted net profit to reported net profit is detailed in note 14 of the condensed interim financial statements. Certain transactions such as the sale of properties and the release of warranty provisions can make the comparison of profits between periods difficult. The Group monitors adjusted net profit as a key indicator of performance and uses it as the basis for determining dividends and believes it helps investors to understand what is happening in the business.

2 Gearing is calculated by dividing the Group's net debt by net debt plus total equity.

3 DCNZ – Diners Club (NZ) Limited.

4 Sales for Noel Leeming relate to continuing stores. Same store sales and prior year sales comparisons are based on pre-acquisition pro-forma sales information. The Warehouse Group acquired Noel Leeming in December 2012.

5 Sales and gross margins for Torpedo7 Group are based on pre-acquisition pro-forma information. The Warehouse Group acquired Torpedo7 Group in April 2013.

THE WAREHOUSE GROUP LIMITED

INTERIM FINANCIAL STATEMENTS

FOR THE 26 WEEKS ENDED 26 JANUARY 2014

CONTENTS:

Consolidated Income Statements

	NOTE	UNAUDITED 26 WEEKS ENDED 26 JANUARY 2014	UNAUDITED 26 WEEKS ENDED 27 JANUARY 2013	AUDITED 52 WEEKS ENDED 28 JULY 2013
		$000	$000	$000
Continuing operations				
Revenue	3	**1,420,409**	1,097,152	2,239,532
Cost of sales		**(959,027)**	(712,881)	(1,473,253)
Gross profit		**461,382**	384,271	766,279
Other income		**7,336**	4,464	10,301
Employee expenses		**(213,514)**	(168,340)	(355,625)
Lease and occupancy expenses		**(65,590)**	(51,469)	(113,503)
Depreciation and amortisation expenses	3	**(25,404)**	(21,083)	(44,017)
Other operating expenses		**(94,153)**	(70,983)	(152,197)
Operating profit	3	**70,057**	76,860	111,238
Gain on disposal of property	4	**9,230**	62,399	77,368
Contingent consideration	19	**5,359**	–	–
Direct costs relating to acquisitions	17, 18	**(1,106)**	(1,112)	(2,356)
Equity earnings of associate	6	**1,527**	1,816	3,464
Earnings before interest and tax		**85,067**	139,963	189,714
Net interest expense		**(7,277)**	(4,971)	(11,675)
Profit before tax		**77,790**	134,992	178,039
Income tax expense		**(19,023)**	(28,575)	(28,423)
Net profit for the period from continuing operations		**58,767**	106,417	149,616
Discontinued operations				
(Loss)/Profit from discontinued operations (net of tax)	20	**(378)**	81	(4,288)
Net profit for the period		**58,389**	106,498	145,328
Attributable to:				
Shareholders of the Parent		**58,684**	106,319	144,748
Minority interests		**(295)**	179	580
		58,389	106,498	145,328
Basic earnings per share				
From continuing operations		**19.1 cents**	34.3 cents	48.1 cents
From discontinued operations		**(0.1) cents**	–	(1.4) cents
From net profit for the period		**19.0 cents**	34.3 cents	46.7 cents
Diluted earnings per share				
From continuing operations		**18.9 cents**	34.2 cents	47.9 cents
From discontinued operations		**(0.1) cents**	–	(1.4) cents
From net profit for the period		**18.8 cents**	34.2 cents	46.5 cents

The above Interim Financial Statements should be read in conjunction with the accompanying notes.

Consolidated Statements of Comprehensive Income

	UNAUDITED 26 WEEKS ENDED 26 JANUARY 2014	UNAUDITED 26 WEEKS ENDED 27 JANUARY 2013	AUDITED 52 WEEKS ENDED 28 JULY 2013
	$000	$000	$000
Net profit for the period	**58,389**	106,498	145,328
Items that may be reclassified subsequently to the Income Statements			
Movement in cash flow hedge reserve net of tax	**(2,902)**	(317)	6,651
Total comprehensive income for the period	**55,487**	106,181	151,979
Attributable to:			
Shareholders of the Parent	**55,782**	106,002	151,399
Minority interest	**(295)**	179	580
Comprehensive income	**55,487**	106,181	151,979
Total comprehensive income attributable to shareholders of the Parent arise from:			
Continuing operations	**56,160**	105,921	155,687
Discontinued operations	**(378)**	81	(4,288)
Comprehensive income	**55,782**	106,002	151,399

Consolidated Statements of Changes in Equity

	UNAUDITED 26 WEEKS ENDED 26 JANUARY 2014	UNAUDITED 26 WEEKS ENDED 27 JANUARY 2013	AUDITED 52 WEEKS ENDED 28 JULY 2013
	$000	$000	$000
Equity at the beginning of the period	**411,765**	317,367	317,367
Total comprehensive income for the period	**55,487**	106,181	151,979
Share rights charged to the income statement	**1,415**	1,542	2,545
Dividends paid to shareholders of the company	**(17,116)**	(20,228)	(68,463)
Dividends paid to minority interest	**(156)**	(109)	(370)
Treasury stock dividends received	**73**	77	353
Purchase of treasury stock	**(42)**	(638)	(2,939)
Minority interest arising on acquisition of subsidiaries	**–**	–	11,293
Equity at the end of the period	**451,426**	404,192	411,765
Equity consists of:			
Share capital	**251,445**	251,445	251,445
Treasury stock	**(5,521)**	(5,061)	(7,361)
Cash flow hedge reserve	**(3,466)**	(7,532)	(564)
Employee share benefits reserve	**2,939**	2,279	3,281
Retained earnings	**194,744**	162,758	153,228
Total equity attributable to shareholders	**440,141**	403,889	400,029
Minority interest	**11,285**	303	11,736
Total equity	**451,426**	404,192	411,765

The above Interim Financial Statements should be read in conjunction with the accompanying notes.

Consolidated Balance Sheets

	NOTE	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
		$000	$000	$000
ASSETS				
Current assets				
Cash and cash equivalents	9	**42,625**	23,228	22,763
Trade and other receivables	7	**80,730**	52,886	66,513
Inventories		**519,957**	454,831	458,109
Derivative financial instruments	10	**613**	–	2,487
Total current assets		**643,925**	530,945	549,872
Non-current assets				
Trade and other receivables	7	**187**	637	3,374
Property, plant and equipment	4	**315,632**	333,936	305,602
Intangible assets	5	**124,861**	63,766	108,479
Investments	6	**4,062**	4,023	5,671
Derivative financial instruments	10	**965**	2,036	1,315
Deferred taxation		**27,520**	23,322	21,425
Total non-current assets		**473,227**	427,720	445,866
Total assets		**1,117,152**	958,665	995,738
LIABILITIES				
Current liabilities				
Borrowings	9	**31,330**	23,117	85,336
Trade and other payables	12	**408,656**	283,507	257,917
Derivative financial instruments	10	**3,893**	7,904	1,566
Taxation payable		**1,006**	21,954	3,466
Provisions	8	**43,239**	40,906	45,449
Total current liabilities		**488,124**	377,388	393,734
Non-current liabilities				
Borrowings	9	**153,546**	151,603	154,301
Derivative financial instruments	10	**1,774**	3,086	1,866
Trade and other payables	12	**5,200**	5,000	15,809
Provisions	8	**17,082**	17,396	18,263
Total non-current liabilities		**177,602**	177,085	190,239
Total liabilities		**665,726**	554,473	583,973
Net assets		**451,426**	404,192	411,765
EQUITY				
Contributed equity		**245,924**	246,384	244,084
Reserves		**(527)**	(5,253)	2,717
Retained earnings		**194,744**	162,758	153,228
Total equity attributable to shareholders		**440,141**	403,889	400,029
Minority interest		**11,285**	303	11,736
Total equity	16	**451,426**	404,192	411,765
Net assets per share		**145.7 cents**	130.4 cents	133.1 cents

The above Interim Financial Statements should be read in conjunction with the accompanying notes.

Condensed Consolidated Statements of Cash Flows

	NOTE	UNAUDITED 26 WEEKS ENDED 26 JANUARY 2014	UNAUDITED 26 WEEKS ENDED 27 JANUARY 2013	AUDITED 52 WEEKS ENDED 28 JULY 2013
		$000	$000	$000
Cash flows from operating activities				
Cash received from customers		1,420,203	1,106,705	2,264,573
Interest income		12	174	136
Payments to suppliers and employees		(1,243,444)	(988,265)	(2,117,935)
Income tax paid		(25,807)	(24,718)	(40,803)
Interest paid		(7,104)	(5,876)	(12,270)
Net cash flows from operating activities		143,860	88,020	93,701
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		19,195	117,643	195,572
Landlord and share purchase scheme advances repaid		16,058	254	545
Dividend received from associate	6	3,136	4,165	4,165
Purchase of property, plant, equipment and software		(45,659)	(46,057)	(93,315)
Related-party advances		–	–	(3,000)
Landlord advances		(16,920)	–	(9,071)
Acquisition of subsidiaries, net of cash acquired	17, 18	(23,786)	(73,773)	(108,715)
Contingent consideration	19	(4,000)	–	—
Other items		(29)	(52)	(78)
Net cash flows from investing activities		(52,005)	2,180	(13,897)
Cash flows from financing activities				
Repayment of short-term borrowings		(53,900)	(62,113)	(573)
Repayment of finance leases		(743)	(200)	(902)
Purchase of treasury stock		–	(515)	(2,777)
Treasury stock dividends received		73	77	353
Dividends paid to Parent shareholders		(17,267)	(20,398)	(69,058)
Dividends paid to minority shareholders		(156)	(109)	(370)
Net cash flows from financing activities		(71,993)	(83,258)	(73,327)
Net cash flow		19,862	6,942	6,477
Opening cash position		22,763	16,286	16,286
Closing cash position		42,625	23,228	22,763

The above Interim Financial Statements should be read in conjunction with the accompanying notes.

Reconciliation of Operating Cash Flows

	NOTE	UNAUDITED 26 WEEKS ENDED 26 JANUARY 2014	UNAUDITED 26 WEEKS ENDED 27 JANUARY 2013	AUDITED 52 WEEKS ENDED 28 JULY 2013
		$000	$000	$000
Profit after tax		**58,389**	106,498	145,328
Non-cash items				
Depreciation and amortisation expenses		**25,421**	21,131	44,225
Share-based payment expense		**1,415**	1,542	2,545
Interest capitalisation		**251**	(637)	(322)
Unrecovered lease incentives on property sales		**–**	–	(1,237)
Movement in deferred tax		**(4,622)**	(13,794)	(13,640)
Share of surplus retained by associate		**(1,527)**	(1,816)	(3,464)
Total non-cash items		**20,938**	6,426	28,107
Items classified as investing or financing activities				
Net gain on sale of property, plant and equipment		**(9,302)**	(61,627)	(73,403)
Direct costs relating to acquisitions		**1,106**	1,112	2,356
Reassessment of contingent consideration payable	19	**(5,359)**	–	–
Supplementary dividend tax credit		**151**	170	595
Total investing and financing adjustments		**(13,404)**	(60,345)	(70,452)
Changes in assets and liabilities				
Trade and other receivables		**(9,142)**	(9,923)	(14,134)
Inventories		**(48,101)**	(39,508)	(25,303)
Trade and other payables		**141,511**	68,104	28,946
Provisions		**(3,870)**	(746)	2,212
Income tax		**(2,461)**	17,514	(1,003)
Total changes in assets and liabilities		**77,937**	35,441	(9,282)
Net cash flows from operating activities		**143,860**	88,020	93,701

The above Interim Financial Statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. GENERAL INFORMATION

The Warehouse Group Limited and its subsidiaries (together the ‘Group’) is a multi-business general merchandise retailer that operates through four retail brands: The Warehouse, Warehouse Stationery, Noel Leeming and Torpedo7.

The Warehouse Group Limited is a limited liability company incorporated and domiciled in New Zealand and registered under the New Zealand Companies Act 1993. The address of its registered office is Level 8, 120 Albert Street, PO Box 2219, Auckland. The Group is an issuer for the purposes of the New Zealand Financial Reporting Act 1993 and listed on the New Zealand Stock Exchange (NZX).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements for the reporting period ended 26 January 2014 have been prepared in accordance with generally accepted accounting practice in New Zealand, International Accounting Standard 34 and NZ IAS 34 Interim Financial Reporting.

These financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments (including derivative instruments). The Group is designated as a profit-oriented entity for financial reporting purposes. The reporting currency used in the preparation of the financial statements is New Zealand dollars, rounded to the nearest thousand unless otherwise stated.

The accounting policies that materially affect the measurement of the interim financial statements have been applied on a consistent basis with those used in the audited financial statements for the 52 weeks ended 28 July 2013 and the unaudited interim financial statements for the 26 weeks ended 27 January 2013.

The interim financial statements do not include all of the information normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual financial statements and related notes in the Group’s Annual Report for the 52 weeks ended 28 July 2013.

(a) Changes in accounting policies

The following new accounting standards and amendments to existing standards have been adopted by the Group in the period ended 26 January 2014:

NZ IFRS 10, ‘Consolidated Financial Statements’, redefines the concept of control to determine when an entity should be included within the consolidated financial statements and provides additional guidance to determine control where this is difficult to assess. The application of this standard has had no material impact on the Group.

NZ IFRS 13, ‘Fair Value Measurement’, defines fair value and provides a single IFRS framework for measuring fair value and disclosure of fair value measurements. NZ IFRS 13 does not determine when an item is measured at fair value and applies only when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The application of this standard has had no material impact on the Group except for additional disclosure requirements which are set out in Note 11.

(b) Seasonality

The Group’s revenue and profitability follow a seasonal pattern with higher sales and operating profits typically achieved in the first half of the financial year as a result of additional sales generated during the Christmas trading period.

Approval of Financial Statements

These consolidated interim financial statements were approved for issue by the Board of Directors on 5 March 2014. Unless as otherwise stated, the financial statements have been reviewed by our Auditors, but are not audited.

3. SEGMENT INFORMATION

(a) Operating segments

The Group has four primary operating segments operating in the New Zealand retail sector. The operating segments are managed separately with their own management, stores and infrastructure. These segments form the basis of internal reporting used by Management and the Board of Directors to monitor and assess performance and assist with strategy decisions.

The Warehouse

The Warehouse is predominantly a general merchandise and apparel retailer, with 92 stores located throughout New Zealand.

Warehouse Stationery

Warehouse Stationery is a stationery retailer, with 63 stores located throughout New Zealand.

Noel Leeming

Noel Leeming is a consumer electronics and home appliances retailer, with 76 stores located throughout New Zealand. The Group acquired Noel Leeming in December 2012.

Torpedo7

Torpedo7 is an online retailer operating through the Torpedo7 and several other websites in New Zealand and Australia. The Group acquired a 51% interest in Torpedo7 in April 2013. In the current year, Torpedo7 expanded its New Zealand operations with three acquisitions. No.1 Fitness (an online retailer of fitness equipment) was acquired in September 2013. Shotgun Supplements (a sports nutrition online retailer) and R&R Sport (a sporting, outdoor and adventure retail chain) were both acquired in December 2013.

Other Group operations

This segment includes the Group’s property operations, which owns a number of stores and distribution centres occupied by the other business segments. This segment also includes the Group’s corporate function and a chocolate factory, which supplies product to The Warehouse.

3. SEGMENT INFORMATION continued

	REVENUE			OPERATING PROFIT		
	UNAUDITED 26 WEEKS ENDED 26 JAN 2014	UNAUDITED 26 WEEKS ENDED 27 JAN 2013	AUDITED 52 WEEKS ENDED 28 JUL 2013	UNAUDITED 26 WEEKS ENDED 26 JAN 2014	UNAUDITED 26 WEEKS ENDED 27 JAN 2013	AUDITED 52 WEEKS ENDED 28 JUL 2013
	$000	$000	$000	$000	$000	$000
SEGMENT PERFORMANCE						
The Warehouse	**920,097**	866,618	1,591,088	**60,621**	65,714	85,186
Warehouse Stationery	**121,535**	111,905	231,838	**4,681**	3,653	10,321
Noel Leeming	**328,754**	117,288	390,667	**6,786**	5,671	11,011
Torpedo7	**47,870**	–	24,193	**742**	–	656
Other Group operations	**7,388**	5,995	9,688	**(2,773)**	1,822	4,064
Inter-segment eliminations	**(5,235)**	(4,654)	(7,942)	**–**	–	–
	1,420,409	1,097,152	2,239,532	**70,057**	76,860	111,238
Unallocated (expenses)/revenue						
Gain on disposal of property				**9,230**	62,399	77,368
Contingent consideration				**5,359**	–	–
Direct costs relating to acquisitions				**(1,106)**	(1,112)	(2,356)
Equity earnings of associate				**1,527**	1,816	3,464
Earnings before interest and tax				**85,067**	139,963	189,714
Net interest expense				**(7,277)**	(4,971)	(11,675)
Income tax expense				**(19,023)**	(28,575)	(28,423)
Net profit for the period from continuing operations				**58,767**	106,417	149,616
Profit/(loss) from discontinued operations (net of tax)				**(378)**	81	(4,288)
Net profit for the period				**58,389**	106,498	145,328
Operating margin						
The Warehouse (%)				**6.6**	7.6	5.4
Warehouse Stationery (%)				**3.9**	3.3	4.5
Noel Leeming (%)				**2.1**	4.8	2.8
Torpedo7 (%)				**1.6**	–	2.7
Total Group (%)				**4.9**	7.0	5.0

		DEPRECIATION & AMORTISATION			CAPITAL EXPENDITURE		
	NOTE	UNAUDITED 26 WEEKS ENDED 26 JAN 2014	UNAUDITED 26 WEEKS ENDED 27 JAN 2013	AUDITED 52 WEEKS ENDED 28 JUL 2013	UNAUDITED 26 WEEKS ENDED 26 JAN 2014	UNAUDITED 26 WEEKS ENDED 27 JAN 2013	AUDITED 52 WEEKS ENDED 28 JUL 2013
		$000	$000	$000	$000	$000	$000
The Warehouse		**18,187**	16,704	33,207	**29,117**	24,470	59,090
Warehouse Stationery		**3,036**	2,735	5,455	**4,495**	3,281	12,628
Noel Leeming		**2,604**	801	3,040	**5,513**	706	4,341
Torpedo7		**567**	–	321	**271**	–	2,751
Other Group operations		**1,010**	843	1,994	**3,958**	12,135	17,996
Continuing operations	4	**25,404**	21,083	44,017	**43,354**	40,592	96,806
Discontinued operations	20	**17**	48	208	**–**	–	–
		25,421	21,131	44,225	**43,354**	40,592	96,806

Notes to the Financial Statements continued

3. SEGMENT INFORMATION continued

	NOTE	TOTAL ASSETS UNAUDITED AS AT 26 JAN 2014	TOTAL ASSETS UNAUDITED AS AT 27 JAN 2013	TOTAL ASSETS AUDITED AS AT 28 JUL 2013	TOTAL LIABILITIES UNAUDITED AS AT 26 JAN 2014	TOTAL LIABILITIES UNAUDITED AS AT 27 JAN 2013	TOTAL LIABILITIES AUDITED AS AT 28 JUL 2013
		$000	$000	$000	$000	$000	$000
The Warehouse		**514,679**	455,680	485,569	**248,140**	186,775	171,023
Warehouse Stationery		**86,058**	74,880	76,695	**44,847**	27,484	26,588
Noel Leeming		**127,735**	104,476	107,326	**145,858**	111,236	109,292
Torpedo7		**43,923**	–	21,957	**21,973**	–	18,182
Other Group operations		**156,107**	209,158	154,409	**5,858**	4,534	5,297
Operating assets/liabilities		**928,502**	844,194	845,956	**466,676**	330,029	330,382
Unallocated assets/liabilities							
Discontinued operations	20	**990**	10,063	693	**7,501**	16,780	7,056
Cash and borrowings	9	**42,625**	23,228	22,763	**184,876**	174,720	239,637
Derivative financial instruments	10	**1,578**	2,036	3,802	**5,667**	10,990	3,432
Investments	6	**4,062**	4,023	5,671	**–**	–	–
Intangible Goodwill and Brands	5	**111,875**	51,799	95,428	**–**	–	–
Taxation		**27,520**	23,322	21,425	**1,006**	21,954	3,466
Total		**1,117,152**	958,665	995,738	**665,726**	554,473	583,973

4. PROPERTY, PLANT, EQUIPMENT AND COMPUTER SOFTWARE

	NOTE	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
		$000	$000	$000
Property, plant and equipment		**315,632**	333,936	305,602
Computer software	5	**12,986**	11,967	13,051
Net book value		**328,618**	345,903	318,653
Movement in property, plant, equipment and software				
Balance at the beginning of the period		**318,653**	368,606	368,606
Acquisition of businesses	17, 18	**1,924**	12,125	16,671
Capital expenditure	3	**43,354**	40,592	96,806
Depreciation and amortisation	3	**(25,421)**	(21,131)	(44,225)
Disposals		**(9,892)**	(54,289)	(119,205)
Balance at the end of the period		**328,618**	345,903	318,653

During the current half year, the Group sold two store properties for a combined consideration of $18.805 million, realising a pre-tax gain of $9.230 million.

In the first half year of 2013, the Group sold a Distribution Centre located in Wiri, Auckland and three store properties. In the second half of the same year, the Group also sold a Retail Centre in Silverdale. The combined property disposals generated net sale proceeds of $194.182 million and realised pre-tax profits of $77.368 million (including disposal related costs).

5. INTANGIBLE ASSETS

	NOTE	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
		$000	$000	$000
Computer software	4	**12,986**	11,967	13,051
Brands	18	**23,523**	15,500	23,523
Goodwill		**88,352**	36,299	71,905
Net book value		**124,861**	63,766	108,479
Movement in Goodwill and Brands				
Balance at the beginning of the period		**95,428**	–	–
Acquisition of businesses – Brands	18	**–**	15,500	23,523
Acquisition of businesses – Goodwill	17, 18	**16,447**	36,299	71,905
Balance at the end of the period		**111,875**	51,799	95,428

6. INVESTMENT

	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
	$000	$000	$000
Investment at the beginning of the year	5,671	6,372	6,372
Share of associate's profit before taxation	2,122	2,524	4,812
Less taxation	(595)	(708)	(1,348)
Equity earnings of associate	1,527	1,816	3,464
Dividend received from associate	(3,136)	(4,165)	(4,165)
Investment at the end of the period	4,062	4,023	5,671

The Warehouse Financial Services Limited

The Group has a 49% (2013: 49%) interest, and Westpac a 51% (2013: 51%) interest, in The Warehouse Financial Services Limited.

7. TRADE AND OTHER RECEIVABLES

	NOTE	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
		$000	$000	$000
Trade receivables		48,206	37,914	42,865
Allowance for impairment		(1,138)	(1,169)	(1,078)
		47,068	36,745	41,787
Other debtors and prepayments		19,975	15,678	15,159
Landlord advances		10,215	–	9,071
Advances to related parties	22	3,039	–	3,010
Employee share purchase plan loans		620	1,100	860
		80,917	53,523	69,887
Less: Non-current		(187)	(637)	(3,374)
Current trade and other receivables		80,730	52,886	66,513

8. PROVISIONS

	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
	$000	$000	$000
Current liabilities	43,239	40,906	45,449
Non-current liabilities	17,082	17,396	18,263
	60,321	58,302	63,712
Provisions consist of:			
Annual performance-based compensation	4,966	4,505	9,024
Annual leave	27,149	23,816	25,244
Long-service leave	7,273	7,112	7,178
Other employee benefits	5,531	5,890	5,735
Employee benefits	44,919	41,323	47,181
Make-good provision	6,180	6,221	6,152
Sales returns provision	3,786	3,217	3,229
Onerous lease	5,436	7,541	7,150
	60,321	58,302	63,712

	MAKE GOOD			ONEROUS LEASE		
Provision movements:	UNAUDITED 26 WEEKS ENDED 26 JAN 2014	UNAUDITED 26 WEEKS ENDED 27 JAN 2013	AUDITED 52 WEEKS ENDED 28 JUL 2013	UNAUDITED 26 WEEKS ENDED 26 JAN 2014	UNAUDITED 26 WEEKS ENDED 27 JAN 2013	AUDITED 52 WEEKS ENDED 28 JUL 2013
	$000	$000	$000	$000	$000	$000
Opening balance	6,152	2,990	2,990	7,150	2,507	2,507
Acquisition of businesses	84	1,416	1,435	–	5,696	7,573
Arising during the period	664	2,281	2,950	499	306	19
Net settlements	(720)	(466)	(1,223)	(2,213)	(968)	(2,949)
Closing balance	6,180	6,221	6,152	5,436	7,541	7,150

Notes to the Financial Statements continued

9. DEBT

	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
	$000	$000	$000
Cash on hand and at bank	**42,625**	23,228	22,763
Bank borrowings	**29,930**	22,290	83,830
Lease liabilities	**1,400**	827	1,506
Current borrowings	**31,330**	23,117	85,336
Bank borrowings	**50,000**	50,000	50,000
Lease liabilities	**3,225**	719	3,681
Fixed rate senior bond (coupon: 7.37%)	**100,000**	100,000	100,000
Fair value adjustment relating to effective interest	**751**	1,627	1,206
Unamortised capitalised costs on senior bond	**(430)**	(743)	(586)
Non-current borrowings	**153,546**	151,603	154,301
Total borrowings	**184,876**	174,720	239,637
Net debt	**142,251**	151,492	216,874
Committed bank credit facilities at balance date are:			
Bank debt facilities	**280,000**	200,000	260,000
Bank facilities used	**(79,930)**	(72,290)	(133,830)
Unused bank debt facilities	**200,070**	127,710	126,170
Letter of credit facilities	**28,000**	28,000	28,000
Letters of credit	**(4,039)**	(11,335)	(14,853)
Unused letter of credit facilities	**23,961**	16,665	13,147
Total unused bank facilities	**224,031**	144,375	139,317

10. DERIVATIVE FINANCIAL INSTRUMENTS

	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
	$000	$000	$000
Current assets	**613**	–	2,487
Non-current assets	**965**	2,036	1,315
Current liabilities	**(3,893)**	(7,904)	(1,566)
Non-current liabilities	**(1,774)**	(3,086)	(1,866)
	(4,089)	(8,954)	370
Derivative financial instruments consist of:			
Current assets	**613**	–	2,487
Current liabilities	**(3,893)**	(6,368)	(987)
Foreign exchange contracts	**(3,280)**	(6,368)	1,500
Non-current assets	**965**	2,036	1,315
Current liabilities	**–**	(1,536)	(579)
Non-current liabilities	**(1,774)**	(3,086)	(1,866)
Interest rate swaps	**(809)**	(2,586)	(1,130)
	(4,089)	(8,954)	370

The Group continues to manage its foreign exchange and interest rate risks in accordance with the policies and parameters detailed in the 2013 Annual Report.

The Group's foreign exchange contracts hedge forecast inventory purchases priced in US dollars over the next 12 months. The following table lists the key inputs used to determine the fair value of the Group's foreign exchange contracts at balance date.

US Dollar forward contracts – cash flow hedges			
Notional amount (NZ$000)	**226,504**	171,202	200,688
Average contract rate ($)	**0.8021**	0.7977	0.8072
Spot rate used to determine fair value ($)	**0.8252**	0.8372	0.8087

10. DERIVATIVE FINANCIAL INSTRUMENTS continued

	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
	$000	$000	$000
Cash flow hedges	**(1,664)**	(4,227)	(2,445)
Fair value hedges	**855**	1,641	1,315
Interest rate swaps	**(809)**	(2,586)	(1,130)

Interest rate swaps – cash flow hedge

In order to protect against interest rate volatility, the Group has interest rate swap contracts which have a right to receive interest at variable rates and to pay interest at fixed rates. The interest rate swaps currently have terms of up to four years and provide a hedge against a notional principal of $50.000 million of the Group's core variable interest bank borrowings.

Interest rate swaps – fair value hedge

At balance date, the Group held interest rate swaps where it receives a fixed rate of interest and pays a variable rate on a notional amount of $40.000 million. The interest rate swaps are designated as fair value hedges and transform a series of known future fixed interest cash flows on the fixed rate senior bond to variable interest cash flows.

11. FAIR VALUE MEASUREMENT

The following table sets out the Group's financial instruments that are measured subsequent to initial recognition at fair values and are grouped into levels based on the degree to which the fair value is observable:

Level 1 – fair value measurements derived from quoted prices in active markets for identical assets.

Level 2 – fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

ASSET/(LIABILITY)		NOTE	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
			$000	$000	$000
Derivatives used for hedging					
Foreign exchange contracts	(Level 2)	10	**(3,280)**	(6,368)	1,500
Interest rate swaps	(Level 2)	10	**(809)**	(2,586)	(1,130)
Senior bond fair value adjustment relating to effective interest	(Level 2)	9	**(751)**	(1,627)	(1,206)

There have been no transfers between levels or changes in the valuation methods used to determine the fair value of the Group's financial instruments during the current and comparative periods. Sensitivities to reasonably possible changes in non-market observable valuation inputs would not have a material impact on the Group's financial results.

Specific valuation techniques used to value financial instruments are:

- Forward exchange contracts determined using forward exchange market rates at the balance date (refer note 10).
- Interest rate swaps calculated as the present value of the estimated future cash flows based on the applicable market interest yield rates at balance date.

Except for the Group's fixed rate senior bond (refer note 9) and derivatives (detailed above), the carrying value of the Group's financial assets and liabilities approximate fair value. The fixed rate senior bond is listed on the NZX and measured at amortised cost. As at 26 January 2014, the closing price was $1.04274 per $1.00 bond.

12. TRADE AND OTHER PAYABLES

	NOTE	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
		$000	$000	$000
Trade creditors		**321,999**	214,089	196,888
Goods in transit creditors		**13,691**	17,670	18,423
Goods and services tax		**35,511**	25,122	12,471
Unearned income (includes laybys, gift vouchers and Christmas club deposits)		**12,167**	10,894	11,262
Contingent consideration	19	**17,437**	7,500	21,759
Interest accruals		**1,115**	1,224	1,180
Payroll accruals		**11,936**	12,008	11,743
		413,856	288,507	273,726
Less: Non-current contingent consideration		**(5,200)**	(5,000)	(15,809)
Current trade and other payables		**408,656**	283,507	257,917

Notes to the Financial Statements continued

13. COMMITMENTS

	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
	$000	$000	$000
(a) Capital commitments			
Capital expenditure contracted for at balance date but not recognised as liabilities is set out below:			
Within one year	**41,735**	11,989	8,505

Capital commitments include development works on the Group's Auckland support office ($11.700 million) and a property purchase in Newmarket ($22.300 million).

(b) Operating lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases at balance date are as follows:

Future minimum rentals payable			
0–1 year	**99,501**	91,612	92,297
1–2 years	**76,493**	73,631	70,924
2–5 years	**160,595**	116,702	123,272
5+ years	**240,029**	167,222	178,513
	576,618	449,167	465,006

14. ADJUSTED NET PROFIT RECONCILIATION

	NOTE	UNAUDITED 26 WEEKS ENDED 26 JANUARY 2014	UNAUDITED 26 WEEKS ENDED 27 JANUARY 2013	AUDITED 52 WEEKS ENDED 28 JULY 2013
		$000	$000	$000
Net profit attributable to shareholders of the Parent		**58,684**	106,319	144,748
Less: Unusual items				
Direct costs relating to acquisitions	17, 18	**(1,106)**	(1,112)	(2,356)
Contingent consideration	19	**5,359**	–	–
Gain on disposal of property	4	**9,230**	62,399	77,368
		13,483	61,287	75,012
Income tax relating to unusual items		**(2,584)**	(17,955)	(9,800)
Income tax expense related to depreciation recovered on building disposals		**1,956**	10,125	10,127
		12,855	53,457	75,339
Add back (loss)/profit from discontinued operations		**(378)**	81	(4,288)
Adjusted net profit		**46,207**	52,781	73,697

Certain transactions can make the comparisons of profits between years difficult. The Group monitors adjusted net profit as a key indicator of performance and uses it as the basis for determining dividends and believes it helps improve the understanding of underlying business performance.

Adjusted net profit makes allowance for discontinued operations and the after tax effect of unusual items. Unusual items include profits from the disposal of properties, direct costs relating to the acquisition of subsidiaries and changes in the value of contingent consideration recognised in the income statement.

15. DIVIDENDS

	CENTS PER SHARE			DIVIDENDS PAID		
Provision movements:	UNAUDITED 26 WEEKS ENDED 26 JAN 2014	UNAUDITED 26 WEEKS ENDED 27 JAN 2013	AUDITED 52 WEEKS ENDED 28 JUL 2013	UNAUDITED 26 WEEKS ENDED 26 JAN 2014	UNAUDITED 26 WEEKS ENDED 27 JAN 2013	AUDITED 52 WEEKS ENDED 28 JUL 2013
				$000	$000	$000
Prior year final dividend	**5.5**	6.5	6.5	**17,116**	20,228	20,228
Interim dividend	**–**	–	15.5	**–**	–	48,235
Total dividends paid	**5.5**	6.5	22.0	**17,116**	20,228	68,463

On 5 March 2014, the Board declared a fully imputed interim dividend of 13.0 cents per ordinary share to be paid on 19 March 2014 to all shareholders on the Group's share register at the close of business on 12 March 2014.

16. EQUITY

Unaudited	SHARE CAPITAL	TREASURY STOCK	CASH FLOW HEDGE RESERVE	EMPLOYEE SHARE BENEFITS RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
	$000	$000	$000	$000	$000	$000	$000
For the 26 weeks ended 26 January 2014							
Balance at the beginning of the period	251,445	(7,361)	(564)	3,281	153,228	11,736	411,765
Profit for the half year	–	–	–	–	58,684	(295)	58,389
Net change in fair value of cash flow hedges	–	–	(2,902)	–	–	–	(2,902)
	–	–	(2,902)	–	58,684	(295)	55,487
Share rights charged to the income statement	–	–	–	1,415	–	–	1,415
Share rights exercised	–	1,882	–	(1,757)	(125)	–	–
Dividends paid	–	–	–	–	(17,116)	(156)	(17,272)
Treasury stock dividends received	–	–	–	–	73	–	73
Purchase of treasury stock	–	(42)	–	–	–	–	(42)
Balance at the end of the period	251,445	(5,521)	(3,466)	2,939	194,744	11,285	451,426

Unaudited	SHARE CAPITAL	TREASURY STOCK	CASH FLOW HEDGE RESERVE	EMPLOYEE SHARE BENEFITS RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
	$000	$000	$000	$000	$000	$000	$000
For the 26 weeks ended 27 January 2013							
Balance at the beginning of the period	251,445	(5,739)	(7,215)	2,209	76,434	233	317,367
Profit for the half year	–	–	–	–	106,319	179	106,498
Net change in fair value of cash flow hedges	–	–	(317)	–	–	–	(317)
Total comprehensive income	–	–	(317)	–	106,319	179	106,181
Share rights charged to the income statement	–	–	–	1,542	–	–	1,542
Share rights exercised	–	1,316	–	(1,472)	156	–	–
Dividends paid	–	–	–	–	(20,228)	(109)	(20,337)
Treasury stock dividends received	–	–	–	–	77	–	77
Purchase of treasury stock	–	(638)	–	–	–	–	(638)
Balance at the end of the period	251,445	(5,061)	(7,532)	2,279	162,758	303	404,192

Audited	SHARE CAPITAL	TREASURY STOCK	CASH FLOW HEDGE RESERVE	EMPLOYEE SHARE BENEFITS RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
	$000	$000	$000	$000	$000	$000	$000
For the 52 weeks ended 28 July 2013							
Balance at the beginning of the period	251,445	(5,739)	(7,215)	2,209	76,434	233	317,367
Profit for the year	–	–	–	–	144,748	580	145,328
Net change in fair value of cash flow hedges	–	–	6,651	–	–	–	6,651
Total comprehensive income	–	–	6,651	–	144,748	580	151,979
Contributions by and distributions to owners:							
Share rights charged to the income statement	–	–	–	2,545	–	–	2,545
Share rights exercised	–	1,317	–	(1,473)	156	–	–
Dividends paid	–	–	–	–	(68,463)	(370)	(68,833)
Treasury stock dividends received	–	–	–	–	353	–	353
Purchase of treasury stock	–	(2,939)	–	–	–	–	(2,939)
Minority interest arising on acquisition	–	–	–	–	–	11,293	11,293
Balance at the end of the period	251,445	(7,361)	(564)	3,281	153,228	11,736	411,765

Notes to the Financial Statements continued

17. BUSINESS COMBINATIONS – 2014

During the current half year, the Group acquired four new businesses. Based on the best information available at the time the Group has provisionally recognised the following identifiable acquisition assets and liabilities for the businesses acquired.

FOR THE PERIOD ENDED 26 JANUARY 2014	NOTE	UNAUDITED TORPEDO7 ACQUISITIONS	UNAUDITED MACLEAN	UNAUDITED TOTAL
		$000	$000	$000
Cash and cash equivalents acquired		88	–	**88**
Trade and other receivables		433	21	**454**
Inventories		13,748	–	**13,748**
Property, plant, equipment and computer software	4	1,924	–	**1,924**
Deferred taxation		342	–	**342**
		16,535	21	**16,556**
Trade and other payables		(5,170)	–	**(5,170)**
Provisions		(479)	(49)	**(528)**
Provisional fair value of identifiable net assets		10,886	(28)	**10,858**
Goodwill arising on acquisition	5	14,900	1,547	**16,447**
		25,786	1,519	**27,305**
The acquisition consideration is as follows:				
Cash		21,186	1,082	**22,268**
Contingent consideration	19	4,600	437	**5,037**
		25,786	1,519	**27,305**
The cash outflow on acquisitions is as follows:				
Cash and cash equivalents acquired		(88)	–	**(88)**
Direct costs relating to the acquisition		552	34	**586**
Purchase consideration settled in cash		21,186	1,082	**22,268**
		21,650	1,116	**22,766**
Direct costs relating to post balance date acquisitions				**520**
Deposit paid on Diners Club NZ acquisition	21			**500**
Net consolidated cash outflow				**23,786**

(a) Torpedo7 acquisitions

As part of the Group's multichannel strategy to increase its online retail presence and strengthen the Group's multichannel capability the Group acquired three businesses through its Torpedo7 subsidiary. The goodwill arising from these acquisitions is largely attributable to the specialised knowledge acquired and the economies of scale from combining the operations within Torpedo7 and the wider Group.

The three businesses operate as trading divisions of Torpedo7 and are reported as part of the Torpedo7 segment for both management and external reporting (refer note 3).

(i) Number 1 Fitness

In September 2013, the Group acquired all the operations and business assets of Number 1 Fitness, an unlisted private company engaged in the online retail of fitness equipment with two show rooms located in Auckland and Christchurch.

(ii) Shotgun

In December 2013, the Group acquired all the operations and business assets of Shotgun Supplements, an unlisted private company engaged in the online retail of sports nutrition products.

(iii) R&R Sport

In December 2013, the Group also acquired the operations and business assets of R&R Sport, an unlisted private company. R&R Sport is a Sporting, Outdoor and Adventure retail chain with seven New Zealand stores as well as an online store.

In addition to the initial consideration of $21.186 million paid for the three acquisitions, a further maximum performance based contingent consideration of $5.600 million is payable over the next three years. The contingent consideration is subject to the achievement of specified earnings targets and completion of other specified deliverables. To the extent that the earnings targets are not achieved or the deliverables are not fully satisfied the contingent consideration is reduced based on an agreed sliding scale. It is the Group's expectation that these targets will not be met in full.

(b) Maclean acquisition

The Group's last asset based acquisition in December 2013 was Maclean Technology, an Information Technology company located in Auckland, servicing business customers across Auckland and the upper North Island. The business forms the basis of a new Commercial Services division within Noel Leeming and broadens its customers services proposition.

18. BUSINESS COMBINATIONS – 2013

During the previous year, the Group acquired five new businesses. Based on the best information available at that time, the Group provisionally recognised the following identifiable acquisition assets and liabilities for the businesses acquired.

		FOR THE PERIOD ENDED 27 JANUARY 2013			FOR THE YEAR ENDED 28 JULY 2013			
	NOTE	UNAUDITED NOEL LEEMING	UNAUDITED INSIGHT TRADERS	UNAUDITED TOTAL	AUDITED NOEL LEEMING	AUDITED TORPEDO7	AUDITED OTHER	AUDITED TOTAL
				$000		$000	$000	$000
Cash and cash equivalents		876	–	876	876	426	51	1,353
Trade and other receivables		15,433	–	15,433	15,433	142	170	15,745
Inventories		101,865	4,037	105,902	101,865	14,702	6,818	123,385
Property, plant and equipment		11,526	221	11,747	11,590	2,546	766	14,902
Computer software (included in intangibles)		349	29	378	285	901	583	1,769
Brands (included in intangibles)	5	15,500	–	15,500	15,500	8,023	–	23,523
Tax receivable		563	–	563	807	–	–	807
Deferred taxation		7,223	–	7,223	7,499	443	4	7,946
		153,335	4,287	157,622	153,855	27,183	8,392	189,430
Trade and other payables		(92,279)	–	(92,279)	(92,278)	(5,010)	(182)	(97,470)
Make good (included in provisions)	8	(1,416)	–	(1,416)	(1,400)	(608)	–	(2,008)
Onerous lease (included in provisions)	8	(5,696)	–	(5,696)	(7,574)	–	–	(7,574)
Other provisions		(5,560)	–	(5,560)	(5,558)	–	–	(5,558)
Taxation payable		–	–	–	–	(28)	–	(28)
Borrowings		(7,933)	–	(7,933)	(7,933)	–	–	(7,933)
Provisional fair value of identifiable net assets		40,451	4,287	44,738	39,112	21,537	8,210	68,859
Minority interests		–	–	–	–	(10,769)	(524)	(11,293)
Goodwill arising on acquisition	5	24,549	11,750	36,299	25,888	22,091	23,926	71,905
		65,000	16,037	81,037	65,000	32,859	31,612	129,471
The acquisition consideration is as follows:								
Cash		65,000	8,537	73,537	65,000	20,000	22,712	107,712
Contingent consideration	19	–	7,500	7,500	–	12,859	8,900	21,759
		65,000	16,037	81,037	65,000	32,859	31,612	129,471
The cash outflow on acquisitions is as follows:								
Cash and cash equivalents acquired		(876)	–	(876)	(876)	(426)	(51)	(1,353)
Direct costs relating to the acquisition		934	135	1,069	1,217	703	410	2,330
Purchase consideration settled in cash		65,000	8,537	73,537	65,000	20,000	22,712	107,712
		65,058	8,672	73,730	65,341	20,277	23,071	108,689
Direct costs relating to post balance date acquisitions				43				26
Net consolidated cash outflow				73,773				108,715

(a) Noel Leeming acquisition

In December 2012, the Group acquired 100% of the share capital of Noel Leeming Group, a private equity owned company with a chain of 92 retail stores specialising in Consumer Electronics and Home Appliances retailing.

The consideration for the share purchase was $65.0 million.

As a result of the acquisition, the Group expects to increase its presence in the Consumer Electronics and Home Appliances markets. The goodwill arising from the acquisition is attributable to trading profitability, increased access to retail brands and economies of scale from combining the operations within the Group.

The Noel Leeming Group operates as a separate trading division and is reported separately for both management and segment reporting (refer note 3).

(b) Torpedo7 acquisition

The Group acquired 51% of the shares of Torpedo7 Limited in April 2013, a leading New Zealand online retailer operating through the Torpedo7 and other websites in New Zealand and Australia. The acquisition was consistent with Group's multichannel strategy and provided another platform to increase the Group's online retail presence.

The remaining 49% of the shares of Torpedo7 Limited are held by the pre-acquisition shareholders. The Group has elected to measure the minority interests using the proportionate share of their interest in the identifiable assets and liabilities.

The Group acquired the 51% interest in Torpedo7 Limited for an initial consideration of $20.0 million, with a further maximum performance based contingent consideration of up to $13.0 million. The contingent consideration is payable at the end of each of the next three financial years commencing in August 2013, based on a sliding scale referenced to the achievement of specified earnings targets for each financial year.

Notes to the Financial Statements continued

18. BUSINESS COMBINATIONS – 2013 continued

The agreement also required a net asset adjustment to be paid where the net assets acquired exceeded a specified limit, subject to the completion and agreement of settlement accounts. The settlement accounts were agreed during the current half year resulting in the payment of $1.5 million. The net asset adjustment was fully provided at July 2013 and formed part of contingent consideration.

The Torpedo7 Group operates as a separate trading division and is reported separately for both management and segment reporting (refer note 3).

(c) Other acquisitions

Other acquisitions represent the combined result of the three acquisitions detailed below.

Insight Traders acquisition

On 28 September 2012, the Group acquired the operations and business assets of Insight Traders, an unlisted private company specialising in the retail and wholesale of perfumes, cosmetics and skincare products.

The acquisition increased the Group's sourcing and multichannel channel capability and extended the range of products available online and in The Warehouse stores. Insight Traders was a well established business with strong sourcing capability, the goodwill ($11.750 million) arising from the acquisition was largely attributable to the specialised knowledge acquired and economies of scale from combining the operations within the Group.

In addition to the initial consideration ($8.537 million), contingent consideration of $2.500 million was paid during the current half year on the first anniversary of the acquisition. Four further contingent consideration tranches of $1.250 million are payable at six monthly intervals thereafter conditional upon certain specified sales and gross profit targets being achieved.

For the purposes of segment reporting, Insight Traders is included within The Warehouse segment (refer note 3).

Complete Entertainment Services acquisition

The Group acquired the operations and business assets of Complete Entertainment Services Limited (CES) in February 2013, an unlisted private company specialising in the retail and wholesale of books.

The acquisition enhanced the Group's sourcing and multichannel channel capability and provided cost savings across the Group. CES has capability in sourcing, inventory management, distribution and online fulfilment in the books category that are transferable into other categories. The goodwill ($9.700 million) arising from the acquisition was largely attributable to the specialised knowledge acquired and economies of scale from combining the operations within the Group.

In addition to the initial consideration ($11.175 million), contingent consideration of $0.700 million was paid in February 2014 on the first anniversary of the acquisition and a final payment of $0.700 million is expected to be made on the second anniversary of the acquisition subject to CES completing a specified future expansion plan.

For the purposes of segment reporting, CES is included within The Warehouse segment (refer note 3).

Shop HQ acquisition

The Group acquired a controlling 50% interest in the shares of Shop HQ Limited in July 2013, a startup online pet store company. The consideration for the share purchase was $3.000 million. The goodwill ($2.476 million) arising from the acquisition is largely attributable to the specialised knowledge acquired and economies of scale from combining the operations within the Group.

For the purposes of segment reporting, Shop HQ is included within the 'Other Group operations' segment (refer note 3).

19. CONTINGENT CONSIDERATION

	NOTE	UNAUDITED AS AT 26 JANUARY 2014	UNAUDITED AS AT 27 JANUARY 2013	AUDITED AS AT 28 JULY 2013
		$000	$000	$000
Balance at the beginning of the period		21,759	–	–
Acquisition of businesses	17, 18	5,037	7,500	21,759
Reassessment of consideration payable		(5,359)	–	–
Cash settlements	18	(4,000)	–	–
Balance at the end of the period		17,437	7,500	21,759

Contingent consideration represents the portion of the purchase price for an acquisition withheld from a vendor effectively as insurance against future operating performance or completion of other post acquisition deliverables. Contingent consideration is payable once specified performance targets have been achieved or other deliverables satisfied. To the extent that the targets are not met in full, the contingent consideration is reduced based on various specified sliding scales.

The Group reassesses the amount of contingent consideration payable at each reporting date based on its assessment of the likelihood that the performance target outcomes will be achieved. In respect of Torpedo7 (acquired in April 2013), negotiations to fully settle the contingent consideration were largely complete at balance date. The settlement value of these negotiations indicated that the Group's initial estimate of contingent consideration payable on this acquisition was overstated ($5.359 million). The reduction in the Group's estimate of contingent consideration is treated as a gain in the income statement.

During the period, the Group also settled contingent consideration obligations arising from the Torpedo7 and Insight acquisitions (refer note 18).

20. DISCONTINUED OPERATIONS

(a) Bond & Bond

In March 2013, the Group merged the Bond & Bond retail chain acquired as part of the Noel Leeming acquisition into the Noel Leeming network, expanding the number of Noel Leeming stores at that time from 67 to 75 nationwide. As part of this plan, it was decided to close 15 stores. With the exception of two stores, which are expected to cease trading in the next few months, all the stores have been closed. A few ongoing residual costs arising from the settlement of vacant leases and costs associated with the closure of the final two stores still remain.

The income statement, comprehensive income statement and related notes distinguish discontinued operations from continuing operations. Comparative figures for the period ended 27 January 2013 have been restated to separately disclose discontinued operations. The results from discontinued operations were as follows:

	UNAUDITED 26 WEEKS ENDED 26 JANUARY 2014	UNAUDITED 26 WEEKS ENDED 27 JANUARY 2013	AUDITED 52 WEEKS ENDED 28 JULY 2013
	$000	$000	$000
Revenue	**2,482**	12,022	25,046
Cost of sales	**(2,212)**	(9,474)	(23,837)
Gross profit	**270**	2,548	1,209
Other income	**33**	74	316
Employee expense	**(299)**	(1,049)	(2,523)
Lease and occupancy expense	**(427)**	(584)	(1,919)
Depreciation and amortisation expense	**(17)**	(48)	(208)
Other operating expenses	**(85)**	(828)	(2,831)
Net profit before tax for the period	**(525)**	113	(5,956)
Income tax expense	**147**	(32)	1,668
Net profit after tax for the period	**(378)**	81	(4,288)
Operating cash flows	**(714)**	2,741	(4,551)
Total assets	**990**	10,063	693
Total liabilities	**(7,501)**	(16,780)	(7,056)

21. EVENTS AFTER BALANCE DATE

(a) Schooltex acquisition

On 28 February 2014, the Group acquired the operations and business assets of Schooltex from Postie Plus Group Limited. Schooltex is a school uniform business which supplies over 1,100 schools with their uniform and sportswear needs. This business will be integrated into The Warehouse to extend its existing school apparel and 'back to school' product ranges.

The consideration for the purchase was $9.000 million, subject to adjustment to the extent that the net assets acquired are more or less than $5.000 million. Detailed information regarding the identifiable acquisition assets and liabilities acquired were not available at the reporting date pending the completion and finalisation of acquisition accounts.

(b) Torpedo7 minority acquisition

On 5 March 2014, the Group increased its shareholding in the Torpedo7 Group initially acquired in April 2013 (refer note 18) from 51% to 80%. The consideration for the purchase of the minority shares was $15.180 million, payable in three instalments over the next 14 months. The carrying value of this minority interest at balance date was $6.659 million.

(c) Diners Club NZ acquisition

On 5 March 2014, the Group entered into an unconditional Sale and Purchase Agreement with Diners Club (Singapore) Pte Limited to acquire 100% of the share capital of Diners Club (NZ) Limited (DCNZ). DCNZ is a credit card company offering credit to its customers through its own branded credit card under a franchise agreement with Diners Club International. The consideration for the acquisition will be settled on 11 March 2014 and, at that same time, the Group will replace DCNZ's current funding arrangements.

Following the Group's previous acquisitions, the Group considers it has gained sufficient scale to be able to operate its own Financial Services business. In addition to the DCNZ receivables, this acquisition provides the Group with the infrastructure, core systems and people capability to operate and grow a Financial Services business.

It is anticipated that the purchase price for the shares will be approximately $3.123 million, subject to the completion and finalisation of the 28 February 2014 acquisition balance sheet accounts.

(d) Capital raise

The Group is raising $115.000 million through the issue of new shares, which will be used in part to fund the acquisition of Diners NZ and the future growth of the Group's Financial Services business. The capital raising comprises a $100.000 million equity placement and a $15.000 million share purchase plan. The issue price for the placement shares will be $3.23 which is priced at a 5.0% discount to the dividend adjusted, volume weighted average market share price of the Group's shares during the 5 day trading period from 27 February 2014 to 5 March 2014 (inclusive). The settlement and allotment date for the placement shares is 13 March 2014.

Notes to the Financial Statements continued

21. EVENTS AFTER BALANCE DATE continued

Under the share purchase plan, each shareholder with an address in New Zealand on the register at 5:00pm on 18 March 2014 will be eligible to invest up to $15,000 in new shares. Further details regarding the share purchase plan will be announced to the New Zealand Stock Exchange when they are confirmed.

(e) Capital management

On 5 March 2014, the Board approved a change to the Group's dividend policy. The Group's new dividend policy is to pay a dividend to shareholders of between 75% and 85% of adjusted net profit (refer note 14). The Group's previous dividend policy was to pay a dividend equal to 90% of adjusted net profit. To provide shareholders with certainty around the level of dividends which are expected to be paid during the current financial year and the following 2015 financial year, the Group has indicated it will target paying a minimum annual dividend of at least 19.0 cents per share (subject to no significant change in trading and market conditions). The 2014 dividend would comprise the current half year dividend of 13.0 cents per share and a final dividend of 6.0 cents per share expected to be declared when the Group's full year result is announced.

22. RELATED PARTIES

During the period, the Group has not entered into any material contracts involving related parties or Directors' interests, other than the Torpedo7 transactions detailed below. No amounts owed by related parties have been written off or forgiven during the period. Apart from related party advances, Directors' fees, key executive remuneration and dividends paid by the Group to its Directors, there have been no other related party transactions.

(a) Advances to related parties

In April 2013, an advance was provided to certain minority shareholders of the Torpedo7 Group as a prepayment of contingent consideration arising from the Torpedo7 acquisition. The advance had a principal of $3.000 million with a 4.0% interest rate which was payable quarterly and secured over the vendors' minority shares held in the Torpedo7 Group. In March 2014, an agreement to settle the contingent consideration payable in respect of the Torpedo7 acquisition was made (refer note 19) with part of the proceeds received by the minority shareholders used to fully settle the related party advance.

23. CONTINGENT LIABILITIES

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.

Independent Accountants' Report

TO THE SHAREHOLDERS OF THE WAREHOUSE GROUP LIMITED

Report on the Interim Financial Statements

We have reviewed the interim financial statements of The Warehouse Group Limited on pages 5 to 22, which comprise the consolidated balance sheets as at 26 January 2014, the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Interim Financial Statements

The company's Directors are responsible for the preparation and presentation of the interim financial statements that present fairly the financial position of the Group as at 26 January 2014, and its consolidated financial performance and cash flows for the period ended on that date.

Accountants' Responsibility

We are responsible for reviewing the interim financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim financial statements do not present fairly the matters to which they relate.

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the interim financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the interim financial statements of the Group for the period ended 26 January 2014 in accordance with the Review Engagement Standards issued in New Zealand.

We have no relationship with, or interests in, The Warehouse Group Limited other than in our capacities as accountants conducting this review, auditors of the annual financial statements and providers of other assurance services. These services have not impaired our independence as accountants of the Group.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 26 January 2014 and its financial performance and cash flows for the period ended on that date.

Restriction on Distribution or Use

This report is made solely to the company's shareholders, as a body. Our review work has been undertaken so that we might state to the company's shareholders those matters which we are required to state to them in an accountants' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders, as a body, for our review procedures, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants, Auckland
5 March 2014

Directory

Board of Directors

Eduard (Ted) van Arkel (Chairman)
Keith Smith (Deputy Chairman)
Tony Balfour
James Ogden
Sir Stephen Tindall
John Journee
Vanessa Stoddart

Group Chief Executive Officer
Mark Powell

Group Chief Financial Officer
Stephen Small

Company Secretary
Kerry Nickels

Place of Business

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Level 8, 120 Albert Street
PO Box 2219
Auckland 1140, New Zealand

Auditor

PricewaterhouseCoopers
Private Bag 92162
Auckland 1142, New Zealand

Shareholder Enquiries

Shareholders with enquiries regarding share transactions, changes of address or dividend payments should contact the Share Registrar.

You can manage your shareholding electronically by using Computershare's secure website, www.computershare.co.nz/investorcentre, whereby you can view your share balance, change your address, view payment and tax information, and update your payment instructions and report options.

Share Registrar
Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119, Auckland 1142
New Zealand
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787
Email: enquiry@computershare.co.nz
Website: www.computershare.co.nz/investorcentre

Direct Crediting of Dividends

To minimise the risk of fraud and misplacement of dividend cheques, it is strongly recommended that shareholders have all payments made by way of direct credit to their nominated bank account in New Zealand or Australia.

Investor Relations

For investor relations enquiries, email investor@twl.co.nz

Stock Exchange Listing

NZSX trading code: WHS

Company Numbers

NZ Incorporation: AK/611207

Website

www.thewarehouse.co.nz

World Business Council for Sustainable Development

The company is a member of the Sustainable Business Council ('SBC').

The SBC is a coalition of leading businesses united by a shared commitment to sustainable development via the three pillars of: economic growth, ecological balance and social progress.
Its mission is to provide business leadership as a catalyst for change toward sustainable development and to promote eco-efficiency, innovation and responsible entrepreneurship.

The company is a member of the World Business Council for Sustainable Development ('WBCSD').

The WBCSD is a CEO-led, global association of some 200 companies dealing exclusively with business and sustainable development. The Council provides a platform for companies to explore sustainable development, share knowledge, experiences and best practices, and advocate business positions on these issues in a variety of forums, working with governments, and non-governmental and inter-governmental organisations.

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