Independent Auditor's Report

To the shareholders of The Warehouse Group Limited

Our opinion

In our opinion, the accompanying financial statements of The Warehouse Group Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 July 2023, its financial performance and its cash flows for the 52 week period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's financial statements comprise:

- the consolidated balance sheet as at 30 July 2023;
- the consolidated income statement for the 52 week period then ended;
- the consolidated statement of comprehensive income for the 52 week period then ended;
- the consolidated statement of changes in equity for the 52 week period then ended;
- the consolidated statement of cash flows for the 52 week period then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of executive remuneration benchmarking, access to the 2022 Executive Reward report, agreed upon procedures at the Annual Shareholders' Meeting, agreed upon procedures relating to the calculations of the Negative Pledge Agreement and revenue and total assets confirmation and a tax audit for an overseas subsidiary. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. The provision of these other services and relationships have not impaired our independence as auditor of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current 52 week period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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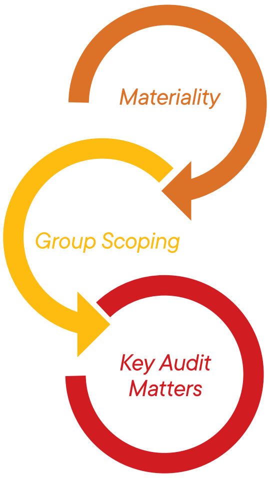
Description of the key audit matter	How our audit addressed the key audit matter
Inventory valuation and costing The carrying value of the Group's inventory as at 30 July 2023 was \$493.3 million (2022: \$562.3 million) with inventory provisions of \$21.0 million (2022: \$17.2 million). To calculate the cost of inventory, the Group uses a weighted average method and also includes expenditure incurred to purchase the inventory and transport it to its current location. To value inventory, the Group measures inventory at the lower of cost and net realisable value by deducting a provision from the cost of inventory that is determined based on various factors including historical data, current trends and product information from buyers. Determining the appropriate level of provisions involves judgement, including management's expectations of future sales levels and estimation of selling price adjustments. Due to the judgements involved in estimating the inventory provisions, and the significance of the inventory balance, this is an area of focus for the audit. Note 8.1 of the financial statements describes the accounting policy for inventory and the judgements and estimates applied by management to determine the inventory provision.	We have updated our understanding of the key processes and controls surrounding inventory costing and provisioning and assessed the design and implementation of relevant inventory controls, especially controls over the cyclical count process. Our procedures to audit the cost of inventory included the following, on a sample basis: • testing the accuracy of the weighted average cost calculation by reperforming the calculation; and • checking the cost of inventory to supplier and freight invoices and supplier rebate contracts. On inventory provisions, our procedures included: • observing management's stocktake procedures, throughout the period, at a sample of selected locations, to confirm existence of inventory and that aged and clearance items were identified and accounted for; • holding discussions with management to understand and corroborate the assumptions used to estimate inventory provisions; • assessing management's forecast accuracy by comparing management's retrospective review of inventory provisions in the prior period against actual inventory write offs in the current period; • on a sample basis, testing the net realisable value of finished goods by comparing the cost to the most recent retail price less the cost to sell, and that finished goods were valued at the lower of cost or net realisable value; • on a sample basis, inspecting the inventory aging schedules and checking whether provisions were recorded for aged stock in accordance with Group policy; • performing a reasonableness test of the shrinkage provisions by comparing the provision against the actual shrinkage for the period; • comparing all inventory provisions for each inventory category as a percentage of the gross carrying amount versus the prior 52 week period, and understanding the rationale for material or unexpected changes; and • considering the appropriateness of disclosures in the financial statements.

Description of the key audit matter	How our audit addressed the key audit matter
Impairment of Torpedo7 property, plant and equipment and right-of-use assets As disclosed in note 2.1 of the financial statements, the Torpedo7 operating segment incurred an operating loss of $22.2 million for the 52 week period ended 30 July 2023. The trading performance and sector outlook (particularly those relating to the bike market) were identified as indicators of impairment. The total carrying value of Torpedo7's property, plant and equipment and right-of-use (ROU) assets amounted to $10.8 million and $26.3 million, respectively. For the purposes of testing property, plant and equipment and ROU assets for impairment, each individual store is considered to be a separate cash generating unit (CGU). Management performed an impairment assessment using a fair value less cost of disposal (FVLCD) model. The Group engaged an external expert to determine the appropriate post tax discount rate of 11.1% and the long-term growth rate of 2.1%. Key assumptions, to which the model is sensitive, are the average revenue recovery assumption of 4% and the Recovery Plan gross margin of 43% in the terminal year. The Group concluded that there is no impairment of property, plant and equipment and ROU assets. Non-achievement in the Recovery Plan may result in impairment of these assets. This is an area of audit focus due to Torpedo7's underperformance over recent years and the inherent judgement in assumptions used in impairment testing. Further, we consider there is execution risk in the Recovery Plan due to the underperformance, current market conditions and the time horizon over which the recovery is expected to occur.	Our audit procedures included: • updating our understanding of the business process applied by management in preparing the impairment assessment, including the level at which a CGU is defined; • analysing store performance data to identify whether an impairment indicator existed at period end; • in respect of lease reassessments, inspecting a sample of lease agreements to understand the changes to key terms and conditions and tracing these through to the adjustments made by management in the underlying accounting records; • agreeing the cash flow projections in the FVLCD impairment assessment to the Recovery Plan; • obtaining an understanding of the strategic and operational initiatives as set out in the Recovery Plan and, with the assistance of our auditor's valuation expert, performing sensitivity analysis over the FVLCD model to consider which assumptions the model is most sensitive to, and benchmarking the projected margins with comparable companies' margins; • assessing the appropriateness of the terminal growth and discount rates used in the FVLCD model; • checking the mathematical accuracy of the impairment model by reperforming the calculation; and • considering the appropriateness of the disclosures in the financial statements.

Our audit approach

Overview



Overall Group materiality: $8,497,000, which represents approximately 0.25% of total revenues.

We chose total revenues as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Group and it is a generally accepted benchmark. In recent periods we have used a three-period weighted average adjusted profit before tax measure as the benchmark. We have changed the benchmark in the current period due to the volatility of the Group's profit. Using revenue as the benchmark for this period results in a similar overall materiality level to previous periods, which we consider is appropriate.

Full scope audits were performed for two of the five trading entities within the Group based on their financial significance, which represents approximately 87% of the Group's retail sales for the period.

Specified audit procedures and analytical review procedures were performed on the remaining entities and on consolidation entries.

As reported above, we have two key audit matters, being:

- Inventory valuation and costing
- Impairment of Torpedo7 property, plant and equipment and right-of-use assets

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We identified subsidiaries that, due to their financially significant contribution to the Group's overall results, required a full scope audit. In addition, we also performed specific audit procedures on certain balances and transactions of other subsidiaries. Audits of each subsidiary are performed at a materiality level calculated with reference to a proportion of the Group materiality relative to the financial significance of the business concerned.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Lisa Crooke.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants

Auckland

27 September 2023