THE REJECT SHOP (AUST) PTY LTD
ABN 33 006 122 676
AND CONTROLLED ENTITY

FINANCIAL REPORT
FOR THE YEAR ENDED 29 JUNE 2003

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THE REJECT SHOP (AUST) PTY LTD
ABN 33 006 122 676
AND CONTROLLED ENTITY

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entity for the financial year ended 29 June 2003.

Directors
The names of directors in office at any time during or since the end of the financial year are:

John Kenneth Fox
Barry Edward Saunders
Andrew Alexander Lockhart
John Shuster
Arnold Sloshberg
Robert Backwell
Ron Jones was appointed a director on 17 September 2003, and continues in office at the date of this report.

'irectors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Review of operations
The consolidated profit of the economic entity for the financial year after providing for income tax and eliminating outside equity interests amounted to $4,615,475 (2002: $3,686,985).

A review of the operations of the economic entity during the financial year and the results of those operations found that during the year, the economic entity continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

Significant changes in the state of affairs
No significant change in the economic entity state of affairs occurred during the financial year.

Principal activities
The principal activities of the economic entity during the financial year were the retailing of discount variety merchandise.

No significant change in the nature of these activities occurred during the year.

Matters subsequent to the end of the financial year
No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly ffect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in ,uture financial years.

Likely developments and expected results of operations
Likely developments in the operations of the economic entity and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the economic entity.

Environmental regulation
The economic entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Dividends
The dividends paid or declared since the start of the financial year are as follows:

Fully franked dividend paid during the year
(a) Paid interim fully franked dividend of $nil (2002: $329.72) dollars per share franked at a tax rate of 30%

Since the end of the financial year the directors have recommended the payment of a dividend for that year of $322.47 per share franked at a tax rate of 30% which was paid on 19 September 2003.

Share options
Options that were granted over unissued shares in prior year by the economic entity and outstanding at the end of the financial year are as follows:

Options granted by The Reject Shop (Aust) Pty Ltd

89 options granted to Ronald Jones at an exercise price of $2,528.09 per option to be exercised on or before 28 February 2005
89 options granted to Sloshberg Superannuation Fund at an exercise price of $2,528.09 per option to be exercised on or before 4 January 2005. 59 options were exercised on 16 September 2003
89 options granted to The Saunders Superannuation Fund at an exercise price of $2,528.09 per option to be exercised on or before 4 January 2005. 59 options were exercised on 16 September 2003
33 options granted to Anthony McShanag at an exercise price of $2,528.09 per option to be exercised on or before 10 September 2006.
311 options granted to John Fox at an exercise price of $2,131.21 per option to be exercised on or before on 3 December 2006.

Participation rights of option holder in share or interest issues: shares on a one for one basis

Insurance of officers
During or since the end of the financial year, the economic entity has given indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

.he Company has paid premiums of $13,098 to insure all directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company.

Proceedings on behalf of the company
No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Signed in accordance with a resolution of the directors:

Director ....
John Kenneth Fox

Director ....
Barry Edward Saunders

Dated this day of 2003

THE REJECT SHOP (AUST) PTY LTD
ABN 33 006 122 676
AND CONTROLLED ENTITY

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 29 June 2003

	Note	Economic Entity		Parent Entity	
		2003	2002	2003	2002
		$	$	$	$
Revenues from ordinary activities					
Sales revenue	2	**163,605,911**	145,649,059	**163,605,911**	145,649,059
Other revenues from ordinary activities	2	**3,017,535**	2,785,829	**3,017,535**	2,181,470
		166,623,446	148,434,888	**166,623,446**	147,830,529
Cost of Sales		**86,118,709**	74,534,522	**86,118,709**	74,534,522
Store expenses		**53,343,966**	49,782,135	**53,343,966**	49,782,135
Administrative expenses		**14,608,114**	13,331,226	**14,608,114**	13,577,736
Distribution centre expenses		**5,204,654**	4,690,207	**5,204,654**	4,690,207
		159,275,443	140,317,556	**159,275,443**	140,564,066
Borrowing costs expense	3	**746,023**	656,559	**746,023**	620,157
Profit from ordinary activities before income tax expense		**6,601,980**	5,440,239	**6,601,980**	4,625,772
Income tax expense relating to ordinary activities	4	**(1,986,505)**	(1,753,254)	**(1,986,505)**	(1,495,924)
Profit from ordinary activities after related income tax expense		**4,615,475**	3,686,985	**4,615,475**	3,129,848
Total changes in equity other than those resulting from transactions with owners as owners		**4,615,475**	3,686,985	**4,615,475**	3,129,848

THE REJECT SHOP (AUST) PTY LTD
ABN 33 006 122 676
AND CONTROLLED ENTITY

STATEMENT OF FINANCIAL POSITION
AS AT 29 June 2003

	Note	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
CURRENT ASSETS					
Cash assets	7	**820,662**	1,110,750	**820,662**	1,110,750
Receivables	8	**191,749**	66,508	**191,749**	66,508
Inventories	9	**20,159,143**	18,250,854	**20,159,143**	18,250,854
Other	10	**1,665,337**	1,236,005	**1,665,337**	1,236,005
TOTAL CURRENT ASSETS		**22,836,891**	20,664,117	**22,836,891**	20,664,117
NON-CURRENT ASSETS					
Other financial assets	11	-	-	**1,200**	1,200
Property, plant and equipment	13	**15,532,096**	14,006,761	**15,532,096**	14,006,761
Deferred tax assets	14	**455,091**	141,779	**455,091**	141,779
TOTAL NON-CURRENT ASSETS		**15,987,187**	14,148,540	**15,988,387**	14,149,740
TOTAL ASSETS		**38,824,078**	34,812,657	**38,825,278**	34,813,857
CURRENT LIABILITIES					
Payables	15	**7,795,636**	7,902,739	**8,799,316**	8,994,016
Interest-bearing liabilities	16	**7,074,959**	9,837,570	**7,074,959**	9,837,570
Current tax liabilities	17	**1,293,483**	422,369	**1,293,483**	334,773
Provisions	18	**1,726,877**	1,441,572	**1,726,877**	1,441,572
Other	19	**2,549,546**	2,422,974	**2,549,546**	2,422,974
TOTAL CURRENT LIABILITIES		**20,440,501**	22,027,224	**21,444,181**	23,030,905
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	16	**2,278,996**	1,483,995	**2,278,996**	1,483,995
Provisions	18	**525,567**	337,898	**525,567**	337,898
TOTAL NON-CURRENT LIABILITIES		**2,804,563**	1,821,893	**2,804,563**	1,821,893
TOTAL LIABILITIES		**23,245,063**	23,849,117	**24,248,744**	24,852,798
NET ASSETS		**15,579,014**	10,963,540	**14,576,534**	9,961,059
EQUITY					
Contributed equity	20	**3,365,123**	3,365,123	**3,365,123**	3,365,123
Reserves	21	**738,773**	738,773	**738,773**	738,773
Retained profits	22	**11,475,119**	6,859,644	**10,472,638**	5,857,163
TOTAL EQUITY		**15,579,015**	10,963,540	**14,576,534**	9,961,059

The accompanying notes form part of these financial statements.

THE REJECT SHOP (AUST) PTY LTD
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AND CONTROLLED ENTITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 29 June 2003

	Note	Economic Entity		Parent Entity	
		2003	2002	2003	2002
		$	$	$	$
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		**179,841,261**	160,127,111	**179,841,261**	162,035,364
Payments to suppliers and employees (inclusive of goods and services tax)		**(169,932,010)**	(150,556,117)	**(169,932,010)**	(153,979,072)
Interest received		**14,163**	19,109	**14,163**	15,670
Borrowing costs paid		**(746,023)**	(656,559)	**(746,023)**	(620,157)
ıcome tax paid		**(1,428,703)**	(1,861,197)	**(1,428,703)**	(1,710,193)
·et cash provided by operating activities	26b	**7,748,688**	7,062,347	**7,748,688**	5,741,612
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		**78,633**	-	**78,633**	-
Payment for property, plant and equipment		**(4,495,161)**	(3,663,135)	**(4,495,161)**	(3,663,135)
Net cash used in investing activities		**(4,416,528)**	(3,663,155)	**(4,416,528)**	(3,663,155)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from share issue		-	-	-	-
Proceeds from borrowings		-	-	-	-
Proceeds from sale and leaseback		**1,763,404**	1,986,464	**1,763,404**	1,986,464
Repayment of finance leases		**(2,072,998)**	(1,278,553)	**(2,072,998)**	(1,278,553)
Repayment of borrowings		**(2,000,000)**	(3,000,000)	**(2,000,000)**	(3,000,000)
⁾ividends paid		-	(2,006,000)	-	(2,006,000)
;Net cash used in financing activities		**(2,309,594)**	(4,298,089)	**(2,309,594)**	(4,298,089)
Net increase/(decrease) in cash held		**1,022,566**	(898,877)	**1,022,566**	(2,219,612)
Cash at beginning of the financial year		**(4,592,503)**	(3,693,626)	**(4,592,503)**	(2,372,891)
Cash at end of the financial year	26a	**(3,569,936)**	(4,592,503)	**(3,569,936)**	(4,592,503)

The accompanying notes form part of these financial statements.

Note 1: Statement of significant accounting policies

This general purpose financial report that has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board , Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Principles of consolidations

A controlled entity is any entity controlled by The Reject Shop (Aust) Pty Ltd. Control exists where The Reject Shop (Aust) Pty Ltd has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with The Reject Shop (Aust) Pty Ltd to achieve the objectives of The Reject Shop (Aust) Pty Ltd. etails of the controlled entity are contained in Note 12.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

(b) Income tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense shown is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse nange will occur in income taxation legislation, and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include an appropriate proportion of freight expenses.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated on a straight line basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rates	Depreciation basis
Leasehold improvements		
- At cost	8-20 %	Straight Line
- Leased	8-20 %	Straight Line
Plant and equipment		
- At cost	8-33 %	Straight Line
- Leased	7-33 %	Straight Line
Motor vehicles		
- At cost	12 %	Straight Line
- Leased	12 %	Straight Line
Office equipment		
- At cost	8-20 %	Straight Line
- Leased	8-20 %	Straight Line
Computer equipment		
- At cost	20-33 %	Straight Line
- Leased	25-33 %	Straight Line
Fixture and fittings		
- At cost	7-20 %	Straight Line
- Leased	7-20 %	Straight Line

(e) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the entities within the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives received under operating leases are recognised in the balance sheet as both an asset and liability and are brought into account as income over the initial term of the lease.

(f) Employee Entitlements

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, annual leave and sick leave are recognised in respect of employees' services up to the reporting date, and are measured at the amounts expected to be paid when the liability is settled.

(ii) Long service leave
A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

:ii) Superannuation
Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

(g) Cash

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

(h) Revenue

Revenue from sale of goods is recognised at the point of sale. All revenue is stated net of the amount of goods and services tax (GST).

(i) Foreign Currency Translation

Foreign currency transactions during the year are recorded in Australian currency using the rate of exchange at the date of the transaction except where hedged prior to the date of transaction whereupon the hedge rate is used. Amounts receivable and payable in foreign currency using the rate of exchange ruling at that date.

The gains and losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in operating profit as they arise.

Costs or gains arising at the time of entering hedged transactions for the purchase and sale of goods and services, and exchange differences that occur up to the date of purchase or sale are deferred and included in the measurement of the purchase or sale. The net amounts receivable or payable under the hedging transaction are also recorded in the statement of financial position.

(j) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts and unsecured and are usually paid within 30 days of recognition.

(k) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

THE REJECT SHOP (AUST) PTY LTD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 June 2003

Note 2: Revenue

	Economic Entity		Parent Entity	
	2003	2002	**2003**	2002
	$	$	$	$
Revenue from operating activities				
Sale of goods	**163,605,911**	145,649,059	**163,605,911**	145,649,059
Revenue from outside the operating activities				
Interest	**14,163**	19,109	**14,163**	15,670
Settlement discount	**1,161,335**	741,478	**1,161,335**	143,473
Sale of non-current assets	**1,842,037**	2,020,534	**1,842,037**	2,020,534
ther	-	4,708	-	1,793
	3,017,535	2,785,829	**3,017,535**	2,181,470
	166,623,446	148,434,888	**166,623,446**	147,830,529

Note 3: Profit From Ordinary Activities

Profit from ordinary activities before income tax expense has been determined after:

(a) Expenses:				
Foreign exchange losses	**355,472**	-	**355,472**	-
Borrowing costs				
other persons	**746,023**	656,559	**746,023**	620,157
Depreciation of non - current assets				
lant and equipment	**2,178,240**	1,482,492	**2,178,240**	1,482,492
Amortisation of non-current assets:				
capitalised leased assets	**522,971**	839,389	**522,971**	839,389
Provision for diminution of Inventories	**30,000**	226,000	**30,000**	226,000
Remuneration of the auditors of parent entity for:				
auditing services	**52,000**	62,000	**52,000**	62,000
other services	**32,742**	56,000	**32,742**	56,000
Research and development costs	-	2,704	-	2,704
Operating lease payments				
Base rentals	**19,791,663**	16,964,380	**19,791,663**	16,964,380
% rentals	**238,871**	72,965	**238,871**	72,965

Note 3: Profit From Ordinary Activities (Continued)

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
Net loss on disposal of non-current assets				
Property, plant and equipment	**189,892**	141,152	**189,892**	141,152

.ote 4: Income Tax

The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:

	Economic Entity 2003	Economic Entity 2002	Parent Entity 2003	Parent Entity 2002
Profit from ordinary activities before income tax expense	**6,601,980**	5,440,239	**6,601,980**	4,625,772
Income tax calculated @ 30%	**1,980,594**	1,632,072	**1,980,594**	1,387,732
Tax effect of permanent differences				
Sundry items	**5,975**	108,192	**5,975**	108,192
Income tax adjusted for permanent differences	**1,986,569**	1,740,264	**1,986,569**	1,495,924
(Over)/Under provision in previous year	**(64)**	12,990	**(64)**	-
Income tax expense	**1,986,505**	1,753,254	**1,986,505**	1,495,924

he Reject Shop (Aust) Pty Ltd implemented the tax consolidation legislation as of 1 July 2002. The Australian Tax Office (ATO) has not yet been notified of this decision and a tax sharing agreement between members of the tax consolidated group has not yet been notified of this decision. As a consequence, The Reject Shop (Aust) Pty Ltd, as the head entity in the tax consolidated group, recognises current and deferred tax balances in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under an accounting tax allocation agreement with the tax consolidated subsidiaries are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax allocation agreement are recognised as a component of income tax expense (revenue).

The financial effect of the tax consolidation legislation has been recognised in these financial statements, with no material impact on the consolidated statement of financial performance or financial position.

Note 5: Remuneration And Retirement Benefits

	Economic Entity		Parent Entity	
	2003	2002	**2002**	2001
	$	$	**$**	$
(a) Directors' remuneration				
Income paid or payable to all directors f each entity in the economic entity by .ne entities of which they are directors	**1,036,280**	956,815		
Income paid or payable to all directors of the parent entity by the parent entity and any related parties			**1,036,280**	956,815
Number of parent entity directors whose income from the parent entity or any related parties was within the following bands:				
	No.	No.	**No.**	No.
$1 - $9,999	**1**	1	**1**	1
$10,000 - $19,999	**2**	2	**2**	2
$50,000 - $59,999	**1**	1	**1**	1
$340,000 - $349,999	**-**	1	**-**	1
$350,000 - $359,999	**1**	-	**1**	-
$520,000 - $529,999	**-**	1	**-**	1
$580,000 - $589,999	**1**	-	**1**	-

he names of directors of the parent entity who have held office during the financial year are:

John Kenneth Fox
Barry Edward Saunders
Andrew Alexander Lockhart
John Shuster
Arnold Sloshberg
Robert Backwell
Ron Jones, was appointed a director on 17th September 2003.

Note 6: Dividends

	Economic Entity 2003	Economic Entity 2002	Parent Entity 2002	Parent Entity 2001
Paid interim fully franked dividend of $nil (2002: $329.72) dollars per share franked at tax rate of 30% (2002: 30%)	-	2,006,000	-	2,006,000
Since the end of the financial year, the directors have recommended the payment of a dividend for that year of $322.47 per share, franked at a rate of 30%, which was paid on 19 September 2003.	2,000,000		2,000,000	
	2,000,000	2,006,000	2,000,000	2,006,000

Note 6: Dividends (Continued)

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
Balance of franking account at year-end adjusted for franking credits arising ·om payment of provision for income ·ax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years	**6,909,957**	4,610,138	**6,486,579**	4,186,762

Note 7: Cash Assets

Cash on hand	**233,073**	220,270	**233,073**	220,270
Cash at bank	**587,589**	890,480	**587,589**	890,480
	820,662	1,110,750	**820,662**	1,110,750

Note 8: Receivables

CURRENT				
Other debtors	**191,749**	66,508	**191,749**	66,508
	191,749	66,508	**191,749**	66,508

Note 9: Inventories

CURRENT				
Finished goods at cost	**20,418,103**	18,574,791	**20,418,103**	18,574,791
Less provision for diminution in value	**(258,960)**	(323,937)	**(258,960)**	(323,937)
	20,159,143	18,250,854	**20,159,143**	18,250,854

Note 10: Other Assets

CURRENT				
Prepayments	**1,475,574**	1,211,720	**1,475,574**	1,211,720
Other current assets	**189,763**	24,285	**189,763**	24,285
	1,665,337	1,236,005	**1,665,337**	1,236,005

Note 11: Other Financial Assets

	Note	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Shares in controlled entities at cost	12	-	-	1,200	1,200
Total other financial assets		-	-	1,200	1,200

Note 12: Controlled Entities

Subsidiary: TRS Trading Group Pty Ltd
Country of incorporation: Australia
Percentage owned 100% (2002 100%)

Note 13: Property, Plant And Equipment

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Leasehold Improvements				
At cost	6,718,817	6,503,195	6,718,817	6,503,195
Less accumulated depreciation	(3,736,811)	(3,384,603)	(3,736,811)	(3,384,603)
	2,982,006	3,118,592	2,982,006	3,118,592
Leased leasehold improvements				
Capitalised leased assets at cost	1,021,779	536,152	1,021,779	536,152
Less accumulated amortisation	(88,073)	(39,954)	(88,073)	(39,954)
	933,706	496,198	933,706	496,198
Plant and equipment				
At cost	3,164,381	3,111,196	3,164,381	3,111,196
Less accumulated depreciation	(2,155,332)	(1,934,873)	(2,155,332)	(1,934,873)
	1,009,049	1,176,323	1,009,049	1,176,323
Leased plant and equipment				
Capitalised leased assets at cost	651,144	487,690	651,144	487,690
Less accumulated amortisation	(80,376)	(37,004)	(80,376)	(37,004)
	570,768	450,686	570,768	450,686
Motor vehicles				
At cost	416,216	529,931	416,216	529,931
Less accumulated depreciation	(234,596)	(259,139)	(234,596)	(259,139)
	181,620	270,792	181,620	270,792
Capitalised leased assets at cost	694,261	520,721	694,261	520,721
Less accumulated amortisation	(128,377)	(155,641)	(128,377)	(155,641)
	565,884	365,080	565,884	365,080

Note 13: Property, Plant And Equipment (Continued)

	Note	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Office equipment					
At cost		**264,373**	236,512	**264,373**	236,512
Less accumulated depreciation		**(224,815)**	(215,361)	**(224,815)**	(215,361)
		39,558	21,151	**39,558**	21,151
Capitalised leased assets at cost		**43,276**	25,906	**43,276**	25,906
ess accumulated amortisation		**(10,525)**	(4,826)	**(10,525)**	(4,826)
		32,751	21,080	**32,751**	21,080
Computer equipment					
At cost		**1,391,646**	1,243,452	**1,391,646**	1,243,452
Less accumulated depreciation		**(928,499)**	(773,521)	**(928,499)**	(773,521)
		463,147	469,931	**463,147**	469,931
Capitalised leased assets at cost		**4,017,115**	3,043,718	**4,017,115**	3,043,718
Less accumulated amortisation		**(2,199,359)**	(1,508,030)	**(2,199,359)**	(1,508,030)
		1,817,756	1,535,688	**1,817,756**	1,535,688
Furniture, fixtures and fittings					
At cost		**10,725,083**	10,199,259	**10,725,083**	10,199,259
Less accumulated depreciation		**(5,847,778)**	(5,163,381)	**(5,847,778)**	(5,163,381)
		4,877,305	5,035,878	**4,877,305**	5,035,878
Capitalised leased assets at cost		**2,523,158**	1,384,004	**2,523,158**	1,384,004
Less accumulated amortisation		**(464,612)**	(338,641)	**(464,612)**	(338,641)
		2,058,546	1,045,363	**2,058,546**	1,045,363
Total plant and equipment		**11,616,384**	10,391,972	**11,616,384**	10,391,972
Total property, plant and equipment		**15,532,096**	14,006,761	**15,532,096**	14,006,761

(a) Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year (Economic entity and Parent Entity)

	Leasehold improvements At Cost $	Leasehold improvements Leased $	Plant & equipment At Cost $	Plant & equipment Leased $
2003				
Balance at the beginning of the year	**3,118,592**	**496,198**	**1,176,323**	**450,686**
Additions	**844,732**	**489,849**	**183,675**	**164,300**
Disposals	**(565,146)**	**(3,655)**	**(87,349)**	**(731)**
Depreciation expense	**(416,172)**	**(48,686)**	**(263,600)**	**(43,487)**
Carrying amount at end of year	**2,982,006**	**933,706**	**1,009,049**	**570,768**

	Computer equipment		Motor vehicles	
	At Cost	Leased	At Cost	Leased
	$	$	$	$
2003				
Balance at the beginning of the year	469,931	1,535,688	270,792	365,080
Additions	212,577	973,397	-	369,740
Disposals	(50,124)	-	(38,440)	(93,599)
Depreciation/amortisation expense	(169,237)	(691,329)	(50,732)	(75,337)
Carrying amount at the end of the year	463,147	1,817,756	181,620	565,884

	Office equipment		Furniture fixtures and fittings	
	At Cost	Leased	At Cost	Leased
	$	$	$	$
.003				
Balance at the beginning of the year	21,151	21,080	5,035,878	1,045,363
Additions	45,431	17,367	1,814,556	1,142,938
Disposals	(15,635)	-	(1,175,149)	(2,192)
Depreciation expense	(11,389)	(5,699)	(797,980)	(127,563)
Carrying amount at the end of the year	39,558	32,751	4,877,304	2,058,546

	Total
2003	$
Balance at the beginning of the year	14,006,761
Additions	6,258,565
Disposals	(2,032,019)
Depreciation expense	(2,701,211)
Carrying amount at the end of the year	15,532,096

Note 14: Deferred Tax Assets

	Economic Entity		Parent Entity	
	2003	2002	**2003**	2002
	$	$	$	$
The future income tax benefits comprise				
Timing differences	455,091	141,779	455,091	141,779

Note 15: Payables

CURRENT				
Unsecured liabilities				
Trade creditors	6,076,638	6,757,016	6,076,638	6,757,016
Sundry creditors and accruals	1,718,998	1,145,723	1,718,998	1,145,723
Amounts owing to controlled entities		-	1,003,680	1,091,277
	7,795,636	7,902,739	8,799,316	8,994,016

Note 16: Interest Bearing Liabilities

		Economic Entity		Parent Entity	
	Note	2003	2002	2003	2002
		$	$	$	$
CURRENT					
Secured liabilities					
Bank overdrafts		**4,390,598**	5,703,253	**4,390,598**	5,703,253
Bank loans		**500,000**	2,500,000	**500,000**	2,500,000
Finance lease liability	23	**763,164**	679,335	**763,164**	679,335
Hire purchase liability	23	**1,421,197**	954,982	**1,421,197**	954,982
		7,074,959	9,837,570	**7,074,959**	9,837,570
'ON-CURRENT					
,secured liabilities					
Finance lease liability	23	**798,354**	596,921	**798,354**	596,921
Hire purchase liability	23	**1,480,642**	887,074	**1,480,642**	887,074
		2,278,996	1,483,995	**2,278,996**	1,483,995

Note 16: Interest Bearing Liabilities (continued)

Bank overdraft and bank loans are secured by:

Cross Guarantee and Indemnity between The Reject Shop (Aust) Pty Ltd ABN 33 006 122 676 and TRS Trading Group Pty Ltd ABN 20 059 935 465 supported by :

First Registered Company Charge (Mortgage Debt) over all the assets and undertakings of The Reject Shop (Aust) Pty Ltd ABN 33 006 122 676 (already held)- this to be a fixed and floating charge over all present and future assets, undertaking (including goodwill) and unpaid/uncalled capital of the company.

First Registered Company Charge (Mortgage Debt) over all the assets and undertakings of TRS Trading Group Pty Ltd ABN 20 059 935 465 (already held)- this to be a fixed and floating charge over all present and future assets, undertaking (including goodwill) and unpaid/uncalled capital of the company.

Letter of Set-Off by and on account of The Reject Shop (Aust) Pty Ltd ABN 33 006 122 676 and TS Trading Group Pty Ltd ABN 20 059 935 465

Note 17: Tax Liabilities

	Note	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
CURRENT					
Income tax		**1,293,483**	422,369	**1,293,483**	334,773

Note 18: Provisions

	Economic Entity 2003	Economic Entity 2002	Parent Entity 2003	Parent Entity 2002
CURRENT				
Employee entitlements	**1,726,877**	1,441,572	**1,726,877**	1,441,572
NON-CURRENT				
Employee entitlements	**525,567**	337,898	**525,567**	337,898
(a) Aggregate employee entitlements liability	**2,252,444**	1,779,470	**2,252,444**	1,779,470
	Number		Number	
Employee numbers				
Average number of employees during the financial year	**1,795**	1,685	**1,795**	1,685

Note 19: Other Liabilities

	Economic Entity 2003	Economic Entity 2002	Parent Entity 2003	Parent Entity 2002
CURRENT				
Accrued expenses	**2,009,712**	1,865,613	**2,009,712**	1,865,613
Deferred income	**539,834**	557,361	**539,834**	557,361
	2,549,546	2,422,974	**2,549,546**	2,422,974

Note 20: Contributed Equity

	Note				
Paid up Capital 6,084 (2002: 6,084) fully paid ordinary shares		**3,365,123**	3,365,123	**3,365,123**	3,365,123
Detail of share options refer Directors Report					

Note 21: Reserves

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
Capital profits reserve	**738,773**	738,773	**738,773**	738,773

Note 22: Retained Profits

Retained profits at the beginning of the financial year	**6,859,644**	5,178,659	**5,857,163**	4,733,315
Net profit attributable to members of the entity	**4,615,475**	3,686,985	**4,615,475**	3,129,848
Dividends provided for or paid	-	2,006,000	-	2,006,000
Retained profits at reporting date	**11,475,119**	6,859,644	**10,472,638**	5,857,163

Note 23: Capital And Leasing Commitments

(a) Finance Leasing Commitments

Payable					
not later than one year		**886,023**	755,352	**886,023**	755,352
later than one year and not later than five years		**874,321**	642,061	**874,321**	642,061
Minimum lease payments		**1,760,344**	1,397,413	**1,760,344**	1,397,413
Less future finance charges		**198,826**	121,157	**198,826**	121,157
Total lease liability		**1,561,518**	1,276,256	**1,561,518**	1,276,256
Represented by:					
Current liability	16	**763,164**	679,335	**763,164**	679,335
Non-current liability	16	**798,354**	596,921	**798,354**	596,921
		1,561,518	1,276,256	**1,561,518**	1,276,256

(b) Hire purchase commitments

Payable				
not later than one year	**1,673,142**	1,070,846	**1,673,142**	1,070,846
later than one year and not later than five years	**1,681,326**	922,735	**1,681,326**	922,735
Minimum hire purchase payments	**3,354,468**	1,993,581	**3,354,468**	1,993,581
Less future finance charges	**452,629**	151,525	**452,629**	151,525
Total hire purchase liability	**2,901,839**	1,842,056	**2,901,839**	1,842,056

Represented by:

	Note	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Current liability	16	**1,421,197**	954,982	**1,421,197**	954,982
Non-current liability	16	**1,480,642**	887,074	**1,480,642**	887,074
		2,901,839	1,842,056	**2,901,839**	1,842,056

(c) Operating Lease Commitments
Non-cancellable operating leases contracted for but not capitalised in the :counts:

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
·ayable				
not later than one year	**17,909,967**	17,354,413	**17,909,967**	17,354,413
later than one year and not later than five years	**30,395,021**	35,138,704	**30,395,021**	35,138,704
later than five years	**1,590,211**	4,511,637	**1,590,211**	4,511,637
	49,895,199	57,004,754	**49,895,199**	57,004,754

Note 24: Contingent Liabilities

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Estimates of the maximum amounts of contingent liabilities that may become payable:				
Workcover claims by certain employees have been brought against the company. The actions are being defended by company's counsel				
Letters of credit established for acquisition of goods for resale	**352,206**	47,542	**352,206**	-
ANZ Bank indemnity guarantee to ındlords	**894,060**	716,557	**894,060**	716,557
	1,246,266	764,099	**1,246,266**	716,557

Note 25: Related Party Transactions

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
(a) Consulting fees paid or payable to director related entities under normal commercial terms and conditions	**33,333**	36,364	**33,333**	36,364
(b) Rent paid or payable to director related entities under normal commercial terms and conditions	-	18,671	-	18,671
(c) Out of pocket expenses paid to directors and director related entities	**11,577**	8,214	**11,577**	8,214
(d) Stock purchased by TRS	**24,732,028**	24,484,806	**24,732,028**	24,484,806

Note 26: Cash Flow Information

	Note	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
(a) Reconciliation of Cash					
Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:					
Cash on hand		**233,073**	220,270	**233,073**	220,270
Cash at bank		**587,589**	890,480	**587,589**	890,480
Bank overdrafts		**(4,390,598)**	(5,703,253)	**(4,390,598)**	(5,703,253)
		(3,569,936)	(4,592,503)	**(3,569,936)**	(4,592,503)
(b) Reconciliation of Cash Flow from operations with profit from ordinary activities					
Profit from ordinary activities after Income Tax		**4,615,475**	3,686,985	**4,615,475**	3,129,848
Non-cash flows in profit from ordinary activities					
Amortisation of leased assets		**522,971**	839,389	**522,971**	839,389
Depreciation		**2,178,240**	1,482,492	**2,178,240**	1,482,492
Loss on sale of property, plant and equipment		**189,892**	141,152	**189,892**	141,152
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries					
(Increase) / Decrease in receivables and other assets		**(554,573)**	143,800	**(554,573)**	1,673,631
(Increase) in inventories		**(1,908,289)**	(2,576,281)	**(1,908,289)**	(7,211,005)
Increase in trade and other creditors and other provisions		**2,147,170**	3,452,753	**2,147,170**	5,990,374
Increase/(Decrease) in income tax payable		**871,114**	(91,928)	**871,114**	(162,652)
(Increase) in deferred taxes		**(313,312)**	(16,015)	**(313,312)**	(51,617)
Net Cash provided by operations		**7,748,688**	7,062,347	**7,748,688**	5,741,612

(c) Credit stand-by arrangement and loan facilities

The company has a total bank facility of $36,392,000 (2002: $31,692,000). Included in the facility is a seasonal interchange facility totalling $12,000,000 (2002: $9,000,000) which is repayable by 31 December 2003. As at 29 June 2003, the standard bank facility of $24,392,000 (2002: $22,692,000) remains. The used portion of this facility totals $11,075,483 while $13,316,517 remains unused (2002: $15,279,985).

Note 27: Financial Instruments

(a)Financial instruments

(i) Derivative Financial Instruments
Derivative financial instruments are used by the economic entity to hedge exposure to exchange rate risk associated with foreign currency borrowings and interest rate risk associated with movements in interest rates which impact on the borrowings of the economic entity. The derivative financial instruments used by the entity are not recognised in the financial statements. Transactions for hedging purposes are undertaken without the use of collateral as only reputable institutions with sound financial positions are dealt with.

(ii) Unrecognised financial instruments

Forward Exchange Contracts
The economic entity enters into forward exchange contracts to buy and sell specified amounts of foreign currency in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the economic entity against unfavourable exchange rate movements for both the contracted and anticipated future sales and purchases undertaken in foreign currencies.

The accounting policy in regard to forward exchange contracts is detailed in note 1(i)

At balance date, the details of outstanding forward exchange contracts are:

	2003	2002	2003	2002
	$	$	$	$
Sell Australian Dollars Settlement	Buy United States Dollars		Average Exchange Rate	
Less than 6 months	**7,599,314**	11,859,849	**0.66**	0.54
Sell Australian Dollars Settlement	Buy Euro			
Less than 6 months	**349,319**	331,126	**0.57**	0.60
Sell Australian Dollars Settlement	Buy Pounds Sterling			
Less than 6 months	**492,009**	537,781	**0.37**	0.37
Sell Australian Dollars Settlement	Buy Denmark DK			
Less than 6 months	**68,751**	-	**4.22**	-

Note 27: Financial Instruments (continued)

(b) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing within 1 Year	
	2003	2002	**2003**	2002	**2003**	2002
	%	%	**$**	$	**$**	$
Financial Assets						
Cash	**3.75**	4.50	**820,662**	1,110,750	**-**	-
Financial Liabilities						
Bank loans and overdrafts	**4.95**	5.48	**-**	-	**4,890,598**	8,203,253
Hire purchase liabilities	**6.50**	6.98	**-**	-	**1,421,197**	954,982
Lease liabilities	**6.80**	10.50	**-**	-	**763,164**	679,335
Total Financial Liabilities			**-**	-	**7,074,959**	9,837,570

Fixed Interest Rate Maturing

	1 to 5 years		Over 5 Years	
	2003	2002	**2003**	2002
	$	$	**$**	$
Financial Assets				
Financial Liabilities	**-**	-	**-**	
Hire purchase liabilities	**1,480,642**	887,074	**-**	-
Lease liabilities	**798,354**	596,921	**-**	-
Total Financial Liabilities	**2,278,996**	1,483,995	**-**	-

	Non-interest Bearing		Total	
	2003	2002	**2003**	2002
	$	$	**$**	$
Financial Assets				
Cash	**-**	-	**820,662**	1,110,750
Receivables and other debtors	**338,789**	66,508	**338,789**	66,508
Total Financial Assets	**338,789**	66,508	**1,012,411**	1,177,258
Financial Liabilities				
Bank loans and overdrafts	**-**	-	**4,890,598**	8,203,253
Trade and Sundry creditors	**7,795,636**	7,902,739	**7,795,636**	7,902,739
Hire purchase liabilities	**-**	-	**2,901,839**	1,842,056
Lease liabilities	**-**	-	**1,561,518**	1,276,256
Total Financial Liabilities	**7,795,636**	7,902,739	**17,149,591**	19,224,304

(c) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts is the net fair value of these contracts.

The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity

Note 27: Financial Instruments (continued)

(d) Net Fair Values
For other assets and other liabilities the net fair value approximates their carrying value.

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments, forward exchange contracts and interest rate swaps.

Financial assets where the carrying amount exceeds net fair values have not been written down as the economic entity intends to hold these assets to maturity.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

Note 28: Non-cash financing and investing activities

	Economic Entity		Parent Entity	
	2003	2002	**2003**	2002
	$	$	**$**	$
Acquisition of plant & equipment by means of finance lease	**3,157,595**	2,754,177	**3,157,595**	2,754,177

Note 29: Equity

Total equity at the beginning of the financial year	**10,963,540**	9,282,555	**9,961,059**	8,837,211
Total changes in equity recognised in the Statement of Financial Performance	**4,615,475**	3,686,985	**4,615,475**	3,129,848
Transactions with owners as owners				
- Dividends	-	(2,006,000)	-	(2,006,000)
Total equity at reporting date	**15,579,013**	10,963,540	**14,576,534**	9,961,059

Note 30: Segment
The Reject Shop operates within with the one geographic segment (Australia) and the one business segment (retailing of discount variety merchandise).

Note 31: Business information

The Reject Shop (Aust) Pty Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

The registered office of the company is:
The Reject Shop (Aust) Pty Ltd
5 Lloyd Street
West Melbourne Vic 3003

The principal place of business is:
The Reject Shop (Aust) Pty Ltd
5 Lloyd Street
West Melbourne Vic 3003

THE REJECT SHOP (AUST) PTY LTD
ABN 33 006 122 676
AND CONTROLLED ENTITY

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 3 – 23:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the company's and economic entity's financial position as at 29 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the director's opinion

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

This declaration is made in accordance with a resolution of the directors.

Director ____________________

Barry Edward Saunders

Director ____________________

John Kenneth Fox

Dated this day of 2003

Independent audit report to the members of
The Reject Shop (Aust) Pty Ltd

Audit opinion
In our opinion, the financial report of The Reject Shop (Aust) Pty Ltd:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of The Reject Shop (Aust) Pty Ltd as at 29 June 2003, and of their performance for the period ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for The Reject Shop (Aust) Pty Ltd (the company), for the period ended 29 June 2003. The consolidated entity comprises both the company and the entities it controlled during that period.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When this audit report is included in a document containing the directors' report, our procedures include reading the directors' report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
12 September 2003