

**THE REJECT SHOP LIMITED
ABN 33 006 122 676
AND CONTROLLED ENTITY**

**FINANCIAL REPORT
FOR THE HALF YEAR ENDED 28 DECEMBER 2003**

**THE REJECT SHOP LIMITED
ABN 33 006 122 676
AND CONTROLLED ENTITY**

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entity for the half year ended 28 December 2003.

Directors

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

John Kenneth Fox

Barry Albert 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.

Directors have been in office since the start of the half year to the date of this report unless otherwise stated.

Review of operations

The consolidated profit of the consolidated entity for the half year after providing for income tax and eliminating outside equity interests amounted to \$6,082,532.

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

Seasonality

The half year reflects trading results that can not be reasonably expected for the remainder of the year, mainly due to the seasonal nature of the consolidated entities' activities.

The Statement of Financial Position as at 28 December 2003 reflects a reduced level of interest bearing liabilities than other times during the year due to the seasonal nature of the consolidated entities' activities.

Significant changes in the state of affairs

No significant change in the consolidated entity state of affairs occurred during the half year.

Principal activities

The principal activity of the consolidated entity during the half year was the retailing of discount variety merchandise.

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

Matters subsequent to the end of the half year

On 24 March 2004 the consolidated entity changed its name from The Reject Shop (Aust) Pty Ltd to The Reject Shop Limited and converted to a public company. The consolidated entity has also commenced the preparation of a prospectus and plans to invite applications from investors for shares in the company. If successful the consolidated entity plans to apply for admission to the official list of the Australian Stock Exchange.

No other matter or circumstance has arisen since the half year that has or may significantly affect the operations of the consolidated entity.

Likely developments and expected results of operations

Likely developments in the operations of the consolidated 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 consolidated entity.

Environmental regulation

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

Dividends

A fully franked dividend of \$322.47 per share for the financial year ended 29 June 2003 was paid on 19 September 2003.

Share options

Options that were granted over unissued shares in prior years by the consolidated entity and outstanding at the end of the half year are as follows:

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.
30 options granted to the Slosberg Superannuation Fund at an exercise price of \$2,528.09 per option to be exercised on or before 4 January 2005.
30 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.
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 3 December 2006.

The following options were granted by the consolidated entity during the period and are outstanding at the end of the half year:
51 options granted to Ronald Jones at an exercise price of \$5,753.00 per option to be exercised on or before 17 September 2008.
61 options granted to the Slosberg Superannuation Fund at an exercise price of \$5,753.00 per option to be exercised on or before 17 September 2008.
122 options granted to The Saunders Superannuation Fund at an exercise price of \$5,753.00 per option to be exercised on or before 17 September 2008.

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 half year, the consolidated entity has given indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The Company has paid premiums of \$11,384 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 half year.

Signed in accordance with a resolution of the directors:

Director
John Shuster

Director
Barry Albert Edward Saunders

Dated this day of 2004

THE REJECT SHOP LIMITED
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AND CONTROLLED ENTITY

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE HALF YEAR ENDED 28 DECEMBER 2003

	Note	2003 \$
Revenues from ordinary activities		
Sales revenue	2	99,059,120
Other revenues from ordinary activities	2	<u>764,645</u>
		99,823,765
 Cost of Sales		51,746,683
Store Expenses		28,742,493
Administrative Expenses		6,866,572
Distribution Centre Expenses		<u>3,295,382</u>
		90,651,130
Borrowing Costs Expense		<u>483,303</u>
 Profit from ordinary activities before income tax expense		8,689,332
Income tax expense relating to ordinary activities		<u>(2,606,800)</u>
Net Profit Attributable To Members Of The Reject Shop Limited		<u>6,082,532</u>
 Total changes in equity other than those resulting from transactions with owners as owners		<u>6,082,532</u>
 EARNINGS PER SHARE		
Basic Earnings Per Share		\$ 980.74
Diluted Earnings Per Share		\$ 876.57

The accompanying notes form part of these financial statements.

THE REJECT SHOP LIMITED
ABN 33 006 122 676
AND CONTROLLED ENTITY

STATEMENT OF FINANCIAL POSITION
FOR THE HALF YEAR ENDED 28 DECEMBER 2003

Consolidated

	Note	AS AT 28 December 2003 \$	AS AT 29 June 2003 \$
CURRENT ASSETS			
Cash assets		7,653,460	820,662
Receivables		225,392	191,749
Inventories	4	21,036,130	21,109,745
Other	5	1,334,939	714,735
TOTAL CURRENT ASSETS		30,249,921	22,836,891
NON-CURRENT ASSETS			
Property, plant and equipment	6	15,852,851	15,532,096
Deferred tax assets		831,707	455,091
TOTAL NON-CURRENT ASSETS		16,684,558	15,987,187
TOTAL ASSETS		46,934,479	38,824,078
CURRENT LIABILITIES			
Payables	7	12,173,449	7,795,636
Interest-bearing liabilities	8	1,721,732	7,074,959
Current tax liabilities		2,613,805	1,293,483
Provisions		2,284,608	2,395,834
Other	9	5,936,022	1,880,588
TOTAL CURRENT LIABILITIES		24,729,616	20,440,500
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	10	1,719,435	2,278,996
Provisions		525,567	525,567
TOTAL NON-CURRENT LIABILITIES		2,245,002	2,804,563
TOTAL LIABILITIES		26,974,618	23,245,063
NET ASSETS		19,959,861	15,579,015
EQUITY			
Contributed equity	11	3,663,437	3,365,123
Reserves		738,773	738,773
Retained profits	12	15,557,651	11,475,119
TOTAL EQUITY		19,959,861	15,579,015

The accompanying notes form part of these financial statements.

THE REJECT SHOP LIMITED
ABN 33 006 122 676
AND CONTROLLED ENTITY

STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 28 DECEMBER 2003

	Note	2003 \$
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers (incl. of goods and services tax)		108,808,043
Payments to suppliers and employees (incl. of goods and services tax)		(90,348,087)
Interest received		14,168
Borrowing costs paid		(483,303)
Income tax paid		(1,663,093)
Net cash inflow from operating activities	16	<u>16,327,728</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment		18,000
Purchase of property, plant and equipment		(1,898,456)
Net cash used in investing activities		<u>(1,880,456)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of shares		298,314
Repayment of borrowings		(1,562,057)
Dividends paid		(2,000,000)
Net cash used in financing activities		<u>(3,263,743)</u>
Net increase/(decrease) in cash held		11,183,529
Add opening cash brought forward		(3,569,936)
Closing Cash Carried Forward		<u>7,613,593</u>

The accompanying notes form part of these financial statements.

Note 1: Statement of significant accounting policies

This general purpose financial report for the interim half-year reporting period ended 28 December 2003 has been prepared in accordance with Accounting Standard AASB1029 Interim Financial Reporting, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and other authoritative pronouncements of the Accounting Standards Board.

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 Limited. Control exists where The Reject Shop Limited 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 Limited to achieve the objectives of The Reject Shop Limited. Details of the controlled entity are contained in Note 18.

The consolidated financial statements incorporate all the assets and liabilities of the entity controlled by The Reject Shop Limited as at 28 December 2003 and the results for the controlled entity for the half year. The Reject Shop Limited and its controlled entity are referred to in this financial report as the consolidated entity. All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

(b) Income tax

The consolidated 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 change will occur in income taxation legislation, and the anticipation that the consolidated 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.

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	12-25 %	Straight Line
- Leased	12-25 %	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 consolidated 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 consolidated 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 a liability and are brought into account as income over the initial term of the lease. The lease rental payments are allocated between the rental expense and reduction of the liability.

(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.

(iii) Superannuation

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

(iv) Bonus Plans

A liability for employee benefits in the form of bonus plans is recognised when there is no realistic alternative but to settle the liability and at least one of the following conditions are met:

- There are formal terms in the plan for determining the amount of the benefit;
- The amounts to be paid are determined before the time of completion of the financial report; or
- Past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at amounts expected to be paid when settled.

(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), returns and staff discounts.

(i) Foreign Currency Translation

(i) Transactions

Foreign currency transactions during the year are recorded in Australian currency at the date of the transaction. At balance date amounts receivable and payable in foreign currency are translated to Australian currency using the rate of exchange ruling at that date. Resulting exchange differences are recognised in determining profit for the half year.

(ii) Specific Commitments

Hedging is undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. 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. Any gains or losses arising on the hedging transaction after the recognition of the hedged purchase or sale are included in the statement of financial performance.

When anticipated purchase or sale transactions have been hedged, actual purchases or sales which occur during the designated hedged period are accounted for as having been hedged until the amounts of those transactions in the designated period are fully allocated against the hedged amounts.

If the hedged transaction is terminated prior to its maturity date and the hedged transaction is no longer expected to occur as designated, deferral of any gains or losses which arose prior to termination continues and those gains and losses are included in the measurement of the hedged transaction.

In circumstances where a hedging transaction is terminated prior to maturity because the hedged transaction is no longer expected to occur as designated, any previously deferred gains or losses are recognised in the statement of financial performance on the date of termination.

If a hedge transaction relating to a commitment for the purchase or sale of goods is redesignated as a hedge of another specific commitment and the original transaction is still expected to occur as designated, the gains or losses that arise on the hedge prior to its redesignation continue to be deferred and included in the measurement of the original purchase or sale when it takes place. If the hedge is redesignated as a hedge of another commitment because the original purchase or sale transaction is no longer expected to occur as designated, the gains or losses that arise on the hedge prior to its redesignation are recognised in the statement of financial performance at the date of the redesignation.

(j) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the half year and which are unpaid. The amounts are 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.

(l) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the written-down amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, the recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amount of non-current assets are not discounted to their present values using a market determined risk-adjusted discount rate.

(m) Dividends

Provision is made for the amount of any dividends declared, determined or publicly recommended by the directors on or before the end of the financial period but not distributed at balance date.

(n) Interest bearing liabilities

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other payables.

(o) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the number of ordinary shares outstanding at end of the financial period, adjusted for bonus elements in ordinary shares issued during the period.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(p) Acquisition of assets

The purchase method of accounting is used for all acquisition of assets. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incremental costs directly attributable to the acquisition.

Note 2: OPERATING PROFIT

Profit from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the consolidated entity.

	December 2003
	\$
Revenue from operating activities	
Retail Sales	99,059,120
Revenue from non-operating activities	
Interest	14,168
Settlement discount	732,477
Sale of non-current assets	18,000
Other	~
	<u>764,645</u>
	99,823,765
Expenses	
Depreciation and Amortisation	1,521,711
	<u>1,521,711</u>
Borrowing Costs Expensed	
Term Facilities and bridging finance	32,534
Commercial Bill Interest	235,481
Refinancing Fees	215,288
	<u>483,303</u>

Note 3: Dividends

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
	<u>2,000,000</u>

Balance of franking account adjusted for franking credits arising from payment of provision for income tax 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

	<u>9,036,230</u>
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Note 4: Current Assets - Inventories

	December 2003	June 2003
Inventory at cost	20,550,930	20,615,210
Inventory at net realisable value	485,200	494,535
	<u>21,036,130</u>	<u>21,109,745</u>

Note 5: Current Assets - Other

Prepayments	1,268,245	524,972
Other current assets	66,694	189,763
	<u>1,334,939</u>	<u>714,735</u>

Note 6: Non-Current Assets - Property, Plant and Equipment**Leasehold Improvements**

At cost	7,134,858	6,718,817
Less accumulated depreciation	(3,942,893)	(3,736,811)
	<u>3,191,965</u>	<u>2,982,006</u>

Leased leasehold improvements

Capitalised leased assets at cost	1,021,779	1,021,779
Less accumulated amortisation	(128,722)	(88,073)
	<u>893,057</u>	<u>933,706</u>

Plant and equipment

At cost	3,204,312	3,164,381
Less accumulated depreciation	(2,272,908)	(2,155,332)
	<u>931,404</u>	<u>1,009,049</u>

Leased plant and equipment

Capitalised leased assets at cost	651,144	651,144
Less accumulated amortisation	(112,765)	(80,376)
	<u>538,379</u>	<u>570,768</u>

Motor vehicles

At cost	416,216	416,216
Less accumulated depreciation	(255,850)	(234,596)
	<u>160,366</u>	<u>181,620</u>

Capitalised leased assets at cost

Less accumulated amortisation	744,060	694,261
	(144,928)	(128,377)
	<u>599,132</u>	<u>565,884</u>

Office equipment

At cost	291,526	264,373
Less accumulated depreciation	(231,668)	(224,815)
	<u>59,858</u>	<u>39,558</u>

Capitalised leased assets at cost

Less accumulated amortisation	43,276	43,276
	(14,829)	(10,525)
	<u>28,447</u>	<u>32,751</u>

Note 6: Non-Current Assets - Property, Plant And Equipment (Cont)

	December 2003	June 2003
Computer equipment		
At cost	1,712,807	1,391,646
Less accumulated depreciation	(1,060,127)	(928,499)
	<u>652,680</u>	<u>463,147</u>
 Capitalised leased assets at cost	 4,010,013	 4,017,115
Less accumulated amortisation	(2,614,608)	(2,199,359)
	<u>1,395,405</u>	<u>1,817,756</u>
 Furniture, fixtures and fittings		
At cost	11,704,986	10,725,083
Less accumulated depreciation	(6,238,098)	(5,847,779)
	<u>5,466,888</u>	<u>4,877,304</u>
 Capitalised leased assets at cost	 2,496,729	 2,523,158
Less accumulated amortisation	(561,459)	(464,612)
	<u>1,935,270</u>	<u>2,058,546</u>
 Total plant and equipment	 <u>11,767,829</u>	 <u>11,616,384</u>
 Total property, plant and equipment	 <u>15,852,851</u>	 <u>15,532,096</u>

(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 half year

	Leasehold improvements		Plant & equipment	
	At Cost	Leased	At Cost	Leased
	\$	\$	\$	\$
Balance at the beginning of the half year	2,982,006	933,706	1,009,049	570,768
Additions	416,927	-	48,959	-
Disposals	(886)	-	(9,028)	-
Depreciation/amortisation expense	(206,082)	(40,649)	(117,576)	(32,389)
Carrying amount at end of half year	<u>3,191,965</u>	<u>893,057</u>	<u>931,404</u>	<u>538,379</u>

	Computer equipment		Motor vehicles	
	At Cost	Leased	At Cost	Leased
	\$	\$	\$	\$
Balance at the beginning of the half year	463,147	1,817,756	181,620	565,884
Additions	325,391	-	-	100,122
Disposals	(4,230)	(7,101)	-	(8,314)
Depreciation/amortisation expense	(131,628)	(415,250)	(21,254)	(58,560)
Carrying amount at the end of the half year	<u>652,680</u>	<u>1,395,405</u>	<u>160,366</u>	<u>599,132</u>

	Office equipment		Furniture fixtures and fittings	
	At Cost	Leased	At Cost	Leased
	\$	\$	\$	\$
Balance at the beginning of the half year	39,558	32,751	4,877,304	2,058,546
Additions	27,154	-	979,903	-
Disposals	-	-	-	(26,430)
Depreciation/amortisation expense	(6,854)	(4,304)	(390,319)	(96,846)
Carrying amount at the end of the half year	<u>59,858</u>	<u>28,447</u>	<u>5,466,888</u>	<u>1,935,270</u>

	Total
	\$
Balance at the beginning of the half year	15,532,096
Additions	1,898,456
Disposals	(55,990)
Depreciation/amortisation expense	(1,521,711)
Carrying amount at the end of the half year	<u>15,852,851</u>

Note 7: Current Liabilities - Payables

	December 2003	June 2003
Trade creditors	11,328,462	6,076,638
Sundry creditors and accruals	844,987	1,718,998
	<u>12,173,449</u>	<u>7,795,636</u>

Note 8: Current Liabilities - Interest Bearing Liabilities

Secured		
Bank overdrafts	39,867	4,390,598
Bank loans	-	500,000
Finance lease liability	632,519	763,164
Hire purchase liability	1,049,346	1,421,197
	<u>1,721,732</u>	<u>7,074,959</u>

Note 9: Current Liabilities - Other

Accrued Expenses	5,446,744	1,340,754
Deferred Income	489,278	539,834
	<u>5,936,022</u>	<u>1,880,588</u>

Note 10: Non-Current Liabilities – Interest Bearing Liabilities

Secured		
Finance Lease Liability	597,979	798,354
Hire Purchase Liability	1,121,456	1,480,642
	<u>1,719,435</u>	<u>2,278,996</u>

Note 11: Contributed Equity

(a) Issued and Paid up Capital

Ordinary Shares Fully Paid	<u>3,663,437</u>	<u>3,365,123</u>
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(b) Movement in ordinary shares on issue

	No of Shares	\$
Beginning of the period	6,084	3,365,123
Shares issued during the period		
-fully paid at \$2,528.09 per share	118	298,314
	<u>6,202</u>	<u>3,663,437</u>

Note 12: Retained Profits

	December 2003	June 2003
Retained profits at the beginning of the financial period	11,475,119	6,859,644
Net profit attributable to members of the consolidated entity	6,082,532	4,615,475
Dividends provided for or paid	(2,000,000)	-
Retained profits at reporting date	<u>15,557,651</u>	<u>11,475,119</u>

Note 13: Capital And Leasing Commitments

(a) Finance Leasing Commitments

Payable		
Not later than one year	730,807	886,023
Later than one year and not later than five years	<u>654,034</u>	<u>874,321</u>
Minimum lease payments	1,384,841	1,760,344
Less future finance charges	<u>(154,343)</u>	<u>(198,826)</u>
Total lease liability	<u>1,230,498</u>	<u>1,561,518</u>
Represented by:		
Current liability	632,519	763,164
Non-current liability	<u>597,979</u>	<u>798,354</u>
	<u>1,230,498</u>	<u>1,561,518</u>

(b) Hire purchase commitments

Payable		
Not later than one year	1,236,155	1,673,142
Later than one year and not later than five years	<u>1,239,204</u>	<u>1,681,326</u>
Minimum lease payments	2,475,359	3,354,468
Less future finance charges	<u>(304,557)</u>	<u>(452,629)</u>
Total hire purchase liability	<u>2,170,802</u>	<u>2,901,839</u>
Represented by:		
Current liability	1,049,346	1,421,197
Non-current liability	<u>1,121,456</u>	<u>1,480,642</u>
	<u>2,170,802</u>	<u>2,901,839</u>

**Note 13: Capital And Leasing
Commitments (Con't)**

(c) Operating lease commitments

Payable

Not later than one year

Later than one year and not later
than five years

Later than five years

December 2003

June 2003

22,242,413

17,909,967

46,398,114

30,395,021

1,690,734

1,590,211

70,331,261

49,895,199

Note 14: Contingent Liabilities

Estimates of the maximum amounts of
contingent liabilities that may become
payable:

Letters of credit established for

acquisition of goods for resale

ANZ Bank indemnity guarantee to

landlords

93,214

352,206

894,060

894,060

987,274

1,246,266

Note 15: Related Party Transactions

(a) Consulting fees paid or payable to
director related entities under normal
commercial terms and conditions

18,182

33,333

(b) Out of pocket expenses paid to
directors and director related entities

13,307

11,577

(c) Stock purchased by controlled entity
within the wholly owned group

12,671,519

24,732,028

Note 16: CASH FLOW INFORMATION

December 2003

S

(a) Reconciliation of Cash

Cash at the end of the half year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash on hand	332,481
Cash at bank	7,320,979
Bank overdrafts	(39,867)
	<u>7,613,593</u>

(b) Reconciliation of Cash Flow from operations with profit from ordinary activities

Profit from ordinary activities after Income Tax	6,082,532
Non-cash flows in profit from ordinary activities	
Amortisation of leased assets	490,963
Depreciation	1,030,748
Loss on sale of property, plant and equipment	38,731
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries	
(Increase) / Decrease in receivables and other assets	(653,848)
(Increase) / Decrease in inventories	73,615
Increase/(Decrease) in trade and other creditors and other provisions	8,319,043
Increase/(Decrease) in income tax payable	1,322,560
(Increase)/Decrease in deferred taxes	(376,616)
Net Cash provided by operations	<u>16,327,728</u>

(c) Credit stand-by arrangement and loan facilities

	Limit \$m	Utilised
Interchangeable Working Capital Facility	11,000,000	(4,064,670)
Interchangeable Asset Finance Facility	5,000,000	2,967,745
Interchangeable Seasonal Facility*	12,000,000	-
Foreign Currency Settlement	3,400,000	-
Other Facilities	4,992,000	894,060
Total Facility	36,392,000	(202,865)

*The interchangeable seasonal facility of \$12,000,000 is repayable by 31 December 2003.

Note 17: Segment

The Reject Shop Limited operates within one geographic segment (Australia) and the one business segment (retailing of discount variety merchandise)

Note 18: Controlled Entity

Subsidiary: TRS Trading Group Pty Ltd
Country of incorporation: Australia
Percentage owned 100% (29 June 2003 100%)

Note 19: Subsequent Event

On the 24 March 2004 the consolidated entity converted to a public corporation and changed its name to The Reject Shop Limited.

The consolidated entity has commenced the preparation of a prospectus and plans to invite applications from investors for shares in the company. If successful the consolidated entity plans to apply for admission to the official list of the Australian Stock Exchange.

No other matter or circumstance has arisen since the half year that has or may significantly affect the operations of the consolidated entity.

Note 20: Seasonality

The half year reflects trading results that can not be reasonably expected for the remainder of the year, mainly due to the seasonal nature of the consolidated entities' activities.

The Statement of Financial Position as at 28 December 2003 reflects a reduced level of interest bearing liabilities than other times during the year due to the seasonal nature of the consolidated entities' activities.

Note 21: Comparatives

We have elected not to show comparative information for the Statement of Financial Performance and Statement of Cash Flows as we are not required to do so under the provisions of AASB 1029 – Interim Financial Reporting.

**THE REJECT SHOP LIMITED
ABN 33 006 122 676
AND CONTROLLED ENTITY**

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out above:

- (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 28 December 2003 and of their performance, as represented by the results of their operations and their cash flows, for the half 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 Albert Edward Saunders

Director

John Shuster

ated this

day of

2004