Appendix 4D

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary half year report

For the half year ended 25 December 2005
Compared to the half year ended 26 December 2004

				$A'000
Revenues from continuing activities	up	14.3%	to	127,700
Profit from continuing activities after tax attributable to members	up	20.4%	to	8,651
Net profit for the period attributable to members	up	20.4%	to	8,651

Dividends	Amount per share	Franked amount per share
Interim dividend	13¢	13¢

Record date for determining entitlements to the dividend	3 March 2006
Dividend payment date	17 March 2006

EVERYONE'S A WINNER AT THE REJECT SHOP

ASX/Media Release

THE REJECT SHOP LIMITED
HALF YEAR RESULTS (FY2006)
(ASX: TRS)

15 February 2006

Half year profit up 20.4%; Full year profit forecast upgraded

Highlights:

- Sales, $127.7 million, up 14.3%
- Comparable store sales growth of 5.8%
- NPAT of $8.7 million up 20.4%
- 10 new stores opened in the period
- Full year forecast range increased to $8.0-$8.2 million, upgraded by 6.5%
- Interim dividend of 13 cents per share

Summary:

AIFRS	HY2006 $ Million	HY2005 $ Million
Sales	127.7	111.8
EBITDA	14.7	12.3
EBIT	12.7	10.8
NPAT	8.7	7.2

The Chairman of The Reject Shop Limited, Mr Brian Beattie, today announced a 20.4% increase in first half NPAT based on sales of $127.7m, up 14.3% on last year. The $8.7m profit was driven by comparable store sales growth of 5.8%, strong Christmas trading and 10 new store openings. (For comparative purposes the previous AGAAP equivalent NPAT was $9.0m or 20.2% up on last year)

On the strength of the result, Mr. Beattie was pleased to announce the Directors had declared a fully franked interim dividend of 13 cents per share up from 10 cents last year. Mr Beattie also announced the Board's intention to increase the annual payout ratio to protect shareholders from the adverse non cash effect on NPAT of AIFRS. The half year dividend anticipated this change.

In addition, he announced the Company had increased its NPAT forecast for the full year from an initial forecast range of $7.5m to $7.7m to a range of between $8.0m to $8.2m, an increase of 6.5%.

The Reject Shop Managing Director, Mr Barry Saunders said the strong first half result resulted from the sales growth in traffic building ranges, improved Christmas seasonal performance and a more effective promotional program. These followed a range of initiatives throughout the stock pipeline. The strong Christmas performance was largely driven by a measured increase in buying funds allocated, improved selection and by our strategy to adapt to changing shopping patterns. By better managing the flow of stock to our stores we were able to maintain the strength of our core product range while satisfying consumers' appetite for Christmas stock.

"While we are pleased with the first half performance, we are now focussed on the further progress envisaged in the next phase of our strategic plan. We continue to invest in a range of initiatives which have the potential to deliver long term growth. Examples include the key development of the new Tullamarine Distribution Centre, due to start operations by July 2006 further range improvements from our expanded buying team, backed by improved range planning, allocation techniques and logistics are also on the agenda.

Important work remains to be done on staff structures and scheduling arising out of our Enterprise Agreement with benefits for staff security, career paths and profitability. IT and process improvement developments will enable our people to further enhance productivity."

"We continue to actively manage our store portfolio, with plans to open 4 stores in the second half. By the end of FY2006 we will have achieved our objective of servicing every trade area in which we operate with a Reject Shop store offering a comprehensive product mix. This means that by year end we will have exited most if not all E$2 stores. We will be seeking further new sites in our current markets for the FY2007 program, including Queensland where the strength of trading in the first half was an important indicator of the company's potential in new trade areas. In addition, we will make further progress on securing opportunities in Western Australia."

Looking forward, Mr. Saunders said that despite speculation that the retail environment may moderate, as a consequence of internal improvements the Company was confident in achieving the upgraded NPAT guidance.

The dividend will be paid on 17 March 2006 with the record date 3 March 2006.

Further information can be obtained from the Company's website at www.rejectshop.com.au

Barry Saunders
Managing Director
Office: (03) 9371 5555

Chris Bryce
Chief Financial Officer
Office: (03) 9371 5555

Fowlstone Communications

Geoff Fowlstone
Office: (02) 9955 9899
Mobile: 0413 746 949
Email: geoff@fowlstone.com.au

Lindsay Muir
Office: (02) 9955 9899
Mobile: 0400 320 540
Email: lindsay@fowlstone.com.au

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Overview of Financial Performance

Sales grew from $111.8m to $127.7m and net profit after tax grew from $7.2m to $8.7m (AIFRS adjusted), representing growth of 14.3% and 20.4% respectively, from the corresponding period last year. For comparative purposes reported NPAT under AGAAP would have been $9.0m against $7.5m in the prior year, an increase of 20.2%.

Sales growth was driven by comparable store sales growth of 5.8%, 10 new store openings and continued growth from stores opened during the prior year. Comparable stores growth is attributed to the continued development of basic and traffic building ranges, constant attention to competitive pricing and a more effective marketing program. In addition, improved planning and execution lifted sales during the peak November and December trading period.

Gross margin, increased from 49.2% to 50.1% of sales compared to the corresponding period last year. This reflected strong trading in higher margin seasonal merchandise during November and December and a reduced cost of clearance during the period resulting from improved item quantification and allocations. In addition, there was a net favourable impact on the gross margin from the strength in the Australian dollar, especially at the $2 price point.

Operating costs, excluding depreciation and amortisation, as a percentage of sales increased slightly from 38.2% to 38.7%, compared to the corresponding period last year. This was primarily due to the full impact of the costs associated with the expansion of the merchandise team in the second half of FY2005 and the uplift in short term wage costs associated with the introduction of the store Enterprise Agreement (EA).

Depreciation and amortisation as a percentage of sales increased slightly from 1.3% to 1.5% of sales as a result of accelerated depreciation on the existing Distribution Centre assets and planned store closures.

The financial position remains strong with improving cash flows and a robust balance sheet. Cash flows support the increase to our current dividend guideline ratio and store opening program, as well as positioning the business for long term growth.

Operational Performance

The development of the expanded buying team continued with noticeable positive impacts on sales and margin during the period. The added attention to detail the expanded team provides has significant scope for adding further value going forward.

Ten new stores were opened during the period and at the end of the period there were a total of 113 stores. Four stores were opened in regional NSW, two in Queensland and one each in metropolitan and regional Victoria, the ACT and regional South Australia. Some key stores were upsized and some existing stores were relocated to improved locations. The trading performance of all four Queensland stores provides further confidence in pursuing opportunities in new trade areas, with Western Australia a new focus area.

Two further E$2 stores were closed with the remainder scheduled for closure in the second half. All E$2 stores scheduled for closure have been replaced with a The Reject Shop store. There are further store openings planned for the second half, including another Queensland store.

Store productivity continues to improve assisted by the introduction of radio frequency (RF) technology and improved communications via the portal. The rollout of the RF technology was completed early in the half and benefits have already been made in shelf edge ticketing and streamlining administrative stock processes. The full implementation of computer assisted store ordering scheduled for the second half should provide significant productivity and working capital benefits going forward. With the finalisation of the store EA, accelerated progress on staff structuring and scheduling is anticipated during the second half.

The logistics team have completed the planning for the relocation of the Distribution Centre to a new facility at Tullamarine and are currently testing new technologies for the new facility which will improve productivity. Construction of the new facility has commenced and is currently on schedule to be operating by July 2006.

During the period a further US trip was undertaken including a tour of a number of US retail distribution facilities. This validated the strategy with respect to the new DC and highlighted a number of potential opportunities to improve future stock turns.

People development continues to be a significant focus and the Board was pleased when the Company was acknowledged as the Employer of the Year by Melbourne East Group Training, one of Australia's leading accredited training providers, in November 2005.

Outlook for the remainder of FY2006

The first half performance represents a strong start to the year, and sales post Christmas have continued the momentum. Whilst speculation exists of a moderation in general retail conditions in the second half, the Company is confident of achieving an increased full year NPAT forecast of between $8.0m to $8.2m, up from $7.5m to $7.7m at the start of the year.

This forecast reflects the seasonal nature of our business, as well as accommodating some potential acceleration of expenditure with respect to the development of the new Distribution Centre.

Given our strong balance sheet the Board has announced its intention to increase the annual dividend payout ratio to protect shareholders from the adverse non cash impact on NPAT of AIFRS. Based on our revised forecast the Board has declared a fully franked interim dividend of 13 cents per share.

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entity for the half year ended 25 December 2005.

Directors
The names of the directors in office during the whole of the half year and up to the date of this report are:

BJ Beattie
Chairman, Non-executive director and Chairman of the Remuneration Committee
BAE Saunders
Managing Director
AC McMorron
Non-executive director, Chairman of the Audit Committee and Member of the Remuneration Committee
J Shuster
Non-executive director and Member of the Audit and Remuneration Committees

Review of operations
The profit of the consolidated entity for the half year after providing for income tax amounted to $8.651 million.

A review of the operations of the consolidated entity during the half year and the results of these operations are set out in the attached results announcement.

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

The balance sheet as at 25 December 2005 reflects a reduced level of borrowings than other times during the year due to the seasonal nature of the consolidated entity's activities.

Dividends
On 23 September 2005, a final fully franked dividend of 7 cents per share totalling $1,764,231 was paid.

On 15 February 2006, the directors declared a fully franked interim dividend of 13 cents per share to be paid on 17 March 2006.

The Company's dividend reinvestment plan is not currently active.

Auditor's independence declaration
A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Rounding of amounts to nearest thousand dollars
The consolidated entity is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Signed in accordance with a resolution of the directors:

....
BJ Beattie
Chairman

....
BAE Saunders
Managing Director
15 February 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77 Melbourne
Australia
www.pwc.com/au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Auditors' Independence Declaration

As lead auditor for the review of The Reject Shop Limited for the half year ended 25 December 2005, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of The Reject Shop Limited and the entities it controlled during the period.

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
15 February 2006

Income Statement
For the Half Year Ended 25 December 2005

	Note	**25 December 2005 $'000**	26 December 2004 $'000
Revenues from continuing activities			
Sales revenue	2	**127,700**	111,768
Other revenues from continuing activities	2	**78**	33
		127,778	111,801
Cost of sales		**63,744**	56,775
Store expenses		**37,841**	32,914
Administrative expenses		**8,890**	7,687
Distribution centre expenses		**4,568**	3,592
		115,043	100,968
Borrowing costs	3	**377**	439
Profit from continuing activities before income tax expense		**12,358**	10,394
Income tax expense relating to continuing activities	4	**3,707**	3,211
Net Profit Attributable To Members Of The Reject Shop Limited		**8,651**	7,183
Total changes in equity other than those resulting from transactions with owners as owners		**8,651**	7,183

Earnings per Share

	Note	25 December 2005	26 December 2004
Basic Earnings Per Share	22	**34.3**	29.8
Diluted Earnings Per Share	22	**33.4**	28.5

The above income statement should be read in conjunction with the accompanying notes.

Balance Sheet
As at 25 December 2005

	Note	25 December 2005 $'000	26 June 2005 $'000
CURRENT ASSETS			
Cash assets	5	**14,560**	4,930
Receivables	6	**367**	47
Inventories	7	**22,966**	21,305
Other	8	**864**	615
TOTAL CURRENT ASSETS		**38,757**	26,897
NON-CURRENT ASSETS			
Property, plant and equipment	9	**21,284**	17,659
Deferred tax assets	10	**2,621**	2,211
TOTAL NON-CURRENT ASSETS		**23,905**	19,870
TOTAL ASSETS		**62,662**	46,767
CURRENT LIABILITIES			
Payables	11	**17,159**	10,882
Short term borrowings	12	**1,639**	2,390
Current tax liabilities	13	**3,218**	1,314
Provisions	14	**4,034**	3,773
Other	15	**4,578**	3,448
TOTAL CURRENT LIABILITIES		**30,628**	21,807
NON-CURRENT LIABILITIES			
Long term borrowings	16	**601**	1,079
Provisions	17	**2,057**	1,988
TOTAL NON-CURRENT LIABILITIES		**2,658**	3,067
TOTAL LIABILITIES		**33,286**	24,874
NET ASSETS		**29,376**	21,893
EQUITY			
Contributed equity	18	**3,347**	3,046
Reserves	19	**1,622**	1,327
Retained profits	20	**24,407**	17,520
TOTAL EQUITY		**29,376**	21,893

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For the Half Year Ended 25 December 2005

	Note	25 December 2005 $'000	26 December 2004 $'000
Total equity at the beginning of the period		**21,893**	16,599
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to:			
Hedging Reserve	19	**105**	-
Revaluation of cash flow hedges	19	**260**	
Share based remuneration	19	**181**	265
Deferred tax credited directly to equity	18	**50**	51
Net income recognised directly in equity		**596**	316
Profit for the period	**19**	**8,651**	7,183
Total recognised income and expense for the period		**31,140**	24,098
Transactions with equity holders in their capacity as equity holders:			
Dividends provided for or paid	19	**(1,764)**	(602)
Total equity at the end of the period		**29,376**	23,496

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows
For the Half Year Ended 25 December 2005

	Note	**25 December 2005 $'000**	26 December 2004 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		**140,277**	122,920
Payments to suppliers and employees (inclusive of goods and services tax)		**(119,383)**	(104,951)
Interest received		**78**	33
Borrowing costs paid		**(377)**	(439)
Income tax paid		**(2,162)**	(2,185)
Net cash inflow from operating activities	21	**18,433**	15,378
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**2**	39
Payments for property, plant and equipment		**(5,812)**	(3,682)
Net cash used in investing activities		**(5,810)**	(3,643)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of borrowings		**(888)**	(497)
Dividends paid		**(1,764)**	(602)
Net cash used in financing activities		**(2,652)**	(1,099)
Net increase in cash held		**9,971**	10,636
Cash at the beginning of the period		**4,433**	2,496
Cash at the end of the period	21	**14,404**	13,132

The above statement of cash flows should be read in conjunction with the accompanying notes.

Note 1: Statement of significant accounting policies

This general purpose financial report for the half year reporting period ended 25 December 2005 has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the Corporations Act 2001.

The financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 26 June 2005 and any public announcements made by The Reject Shop Limited during the half year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Basis of preparation of half year financial report

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

This interim financial report is the first The Reject Shop Limited interim financial report to be prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), accordingly AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of The Reject Shop Limited until and including 26 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). When preparing The Reject Shop Limited interim financial report for the half year ended 25 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs are given in note 29.

These financial statements have been prepared under the historical costs convention.

(b) Principles of Consolidations

A controlled entity is an entity where The Reject Shop Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of the entity so that it operates with The Reject Shop Limited to achieve the objectives of The Reject Shop Limited. The Reject Shop Limited has a 100% owned controlled entity, TRS Trading Pty Ltd.

The consolidated financial statements incorporate all the assets and liabilities of the entity controlled by The Reject Shop Limited as at 25 December 2005 and the results for the controlled entity for the 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.

(c) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the notional income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(d) 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, supplier rebate and discount expenses.

(e) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation. The depreciable amount of all fixed assets including leasehold improvements and capitalised leased assets, but excluding freehold land, are depreciated on a straight line basis over their estimated useful lives to the consolidated entity commencing from the time the asset is held ready for use. The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rates	Class of fixed asset	Depreciation rates
Leasehold Improvements and Office Equipment		Fixture and Fittings	
- At cost	8-20 %	- At cost	7-20 %
- Leased	8-20 %	- Leased	7-20 %
Motor vehicles		Computer Equipment	
- At cost	12-25 %	- At cost	20-33 %
- Leased	12-25 %	- Leased	25-33 %

The useful lives and recoverable amount (determined on a discounted cash flow basis) of all assets is assessed at each reporting date and where appropriate, adjusted. The Company has defined each individual store as a cash generating unit and accordingly the assessment of the carrying value of the Company's assets is on an individual store basis, with non store assets apportioned appropriately to each store.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(f) Leases

Leases of property, plant and equipment where the consolidated entity has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the lease property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in long term borrowings. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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. Leases containing fixed escalation clauses require the escalation amounts to be determined on lease inception and expensed evenly over the lease term.

Lease incentives received under operating leases are recognised in the balance sheet as deferred income and are recognised as a reduction in lease expense over the initial term of the lease.

(g) Employee Entitlements

(i) Wage and salaries, annual leave and sick leave
Liabilities for wages and salaries, annual leave and vested sick leave are recognised in respect of employees' services up to the reporting date, and are measured at the amounts expected to be settled, with payments expected beyond 12 months discounted to estimated future cash outflows, using interest rates on national government bonds.

(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 personal 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 short term cash incentives are expected to be settled within 12 months and are measured at amounts expected to be paid when settled.

(v) Equity-based compensation benefits
Equity-based compensation benefits have been provided to selected employees via the Executive Option Plan and the Performance Rights Plan.

For options vested before 1 January 2005, no expense has been recognised in respect of these options. The shares are recognised when the options are exercised and any proceeds received allocated to contributed equity.

For rights granted after 7 November 2002 and vested after 1 January 2005, the fair value of options granted under The Reject Shop Limited Performance Rights Plan are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of rights, the balance of the share-based payments reserve relating to those rights is transferred to contributed equity.

(h) Cash

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

(i) Revenue

Revenue from the 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.

(j) Derivatives

From 27 June 2004 to 26 June 2005
The consolidated entity has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 27 June 2005. The consolidated entity has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 26 June 2005.

Adjustments on transition date: 27 June 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured at fair value. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

From 27 June 2005
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The entity designates derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The consolidated entity documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair value or cash flows of hedged items.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast purchase that is hedged takes place). However, when the forecast transaction that is hedged, results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(k) 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 are unsecured and are usually paid within 30 days of recognition.

(l) Borrowing costs

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

(m) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(n) 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.

(o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate.

(p) 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 the 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 the 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.

(q) 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.

(r) Software costs

Costs in relation to software development, including website costs, are charged as expenses in the period in which they are incurred unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over the period of expected benefit.

(s) Restoration Costs

Upon the finalisation of a lease period and prior to return of the premises to a landlord, a leased premise may require expenditure to return the premise to its original format. An expense is provided for in the period that the closure is formally approved by the Company, as this is when costs are committed and can be reliably measured.

(t) Store Opening Costs

Costs associated in the setup of a new store are expensed in the period in which they are incurred.

(u) Rounding of Amounts

The Company is a kind referred to in Class Order 98/100, issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the directors' and financial reports. Amounts in these reports have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

	25 December 2005 $'000	26 December 2004 $'000
Note 2: Revenue From Continuing Activities		
Revenue from operating activities		
Retail Sales	**127,700**	111,768
Revenue from non-operating activities		
Interest	**78**	33
	127,778	111,801

Note 3: Profit From Continuing Activities

Profit from continuing activities before income tax expense includes the following expenses:

	25 December 2005 $'000	26 December 2004 $'000
Interest and finance charges paid/payable	**377**	439
Depreciation and amortisation	**1,934**	1,449
Net loss on disposal of property, plant and equipment	**251**	440
Rental expenses relating to operating leases		
Minimum lease payments	**13,546**	12,338
Provision for rent escalations	**144**	24
Rent paid on percentage of sales basis	**168**	208
Foreign exchange gains / (losses)	**48**	(47)

Note 4: Income Tax

	25 December 2005 $'000	26 December 2004 $'000
(a) Income tax expense		
Current tax	**4,131**	3,930
Deferred tax	**(410)**	(712)
Over provided in prior years	**(14)**	(7)
	3,707	3,211
Deferred income tax expense included in income tax expense comprises:		
Increase in net deferred tax assets	**(410)**	(712)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**12,358**	10,394
Tax at the Australian tax rate of 30% (2004 – 30%)	**3,707**	3,118
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	**54**	100
Sundry	**(40)**	-
	3,721	3,218
Over provided in prior years	**(14)**	(7)
Income tax expense	**3,707**	3,211

	25 December 2005 $'000	26 June 2005 $'000
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited in equity		
Current tax – credited directly to equity	**(50)**	(50)

Note 5: Current Assets – Cash Assets

Cash on hand	**442**	283
Cash at bank	**14,118**	4,647
	14,560	4,930

Note 6: Current Assets – Receivables

Other debtors	**367**	47

Note 7: Current Assets – Inventories

Inventory at cost	**22,932**	21,086
Inventory at net realisable value	**34**	219
	22,966	21,305

Note 8: Current Assets – Other

Prepayments	**365**	449
Other current assets	**134**	61
Derivative financial instruments	**365**	105
	864	615

Note 9: Non-Current Assets – Property, Plant And Equipment

Leasehold improvements		
At cost	**8,716**	7,710
Less accumulated depreciation	**(4,572)**	(4,392)
	4,144	3,318
Under finance lease and hire purchase	**1,559**	1,559
Less accumulated amortisation	**(407)**	(325)
	1,152	1,234
Plant and equipment*		
At cost	**24,118**	20,118
Less accumulated depreciation	**(11,792)**	(11,112)
	12,326	9,006
Under finance lease and hire purchase	**9,132**	9,054
Less accumulated amortisation	**(5,470)**	(4,953)
	3,662	4,101
Total property, plant and equipment	**21,284**	17,659

*Plant & equipment includes fixtures, fittings and motor vehicles

	25 December 2005 $'000	26 June 2005 $'000
Note 10: Non Current Assets – Deferred Tax Assets		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Employee benefits	**1,119**	989
Non deductible accruals	**983**	723
Inventories	**519**	555
Lease incentives	**84**	145
Sundry items	**64**	65
	2,769	2,477
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:		
Finance leases	**(74)**	(69)
Depreciation	**(87)**	(175)
Sundry items	**13**	(22)
Net deferred tax assets	**2,621**	2,211

Note 11: Current Liabilities – Payables

Unsecured liabilities		
Trade creditors	**13,053**	9,348
Sundry creditors and accruals	**4,106**	1,534
	17,159	10,882

Note 12: Current Liabilities – Short Term Borrowings

Secured Liabilities		
Bank overdrafts	**156**	497
Finance lease liability	**245**	358
Hire purchase liability	**1,238**	1,535
	1,639	2,390

Note 13: Current Liabilities – Tax Liabilities

Income tax	**3,218**	1,314

Note 14: Current Liabilities – Provisions

Employee entitlements	**3,897**	3,731
Provision for rent escalation	**137**	42
	4,034	3,773

Note 15: Current Liabilities – Other

Accrued expenses	**3,940**	2,930
Deferred income	**638**	518
	4,578	3,448

	Note	25 December 2005 $'000	26 June 2005 $'000
Note 16: Non-Current Liabilities – Long Term Borrowings			
Secured liabilities			
Finance lease liability		**84**	181
Hire purchase liability		**517**	898
		601	1,079
Note 17: Non-Current Liabilities – Provisions			
Employee entitlements		**817**	797
Provision for rent escalation		**1,240**	1,191
		2,057	1,988
Note 18: Equity – Contributed Equity			
Balance at the beginning of the financial period		**3,046**	1,667
Shares issued on exercise of options		**-**	1,329
Exercise of Performance Rights transfer from share based payments reserve		**251**	-
Deferred tax credited directly to equity		**50**	50
Contributed equity at reporting date		**3,347**	3,046
Note 19: Reserves			
Capital profits reserve		**739**	739
Share based payments reserve		**518**	588
Hedging reserve – cash flow hedges		**365**	-
		1,622	1,327
Movements:			
Share based payments reserve			
Balance 27 June 2005		**588**	57
Rights expense		**181**	531
Transfer to contributed equity	18	**(251)**	-
Balance at end of period		**518**	588
Hedging reserve – cash flow hedges			
Balance 27 June 2005		**-**	-
Adjustments on adoption of AASB 132 and AASB 139, net of tax		**105**	-
Revaluation of cash flow hedges - gross		**260**	-
Balance at end of period		**365**	-

	25 December 2005 $'000
Note 20: Equity – Retained Profits	
Retained profits at the beginning of the financial period	**17,520**
Net profit attributable to members of the consolidated entity	**8,651**
Dividends provided for or paid	**(1,764)**
Retained profits at reporting date	**24,407**

	25 December 2005 $'000	26 December 2004 $'000
Note 21: Cash Flow Information		
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 balance sheet as follows:		
Cash on hand	**442**	351
Cash at bank	**14,118**	13,311
Bank overdrafts	**(156)**	(530)
	14,404	13,132
Reconciliation of Cash Flow from operations with profit from continuing activities		
Profit from continuing activities after Income Tax	**8,651**	7,183
Non-cash flows in profit from ordinary activities		
Amortisation of leased assets	**189**	265
Depreciation	**1,745**	1,184
Loss on sale of property, plant and equipment	**251**	440
Non-cash share based expense	**181**	285
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries		
Increase in receivables and other assets	**(309)**	(493)
Increase in inventories	**(1,661)**	(1,908)
Increase in trade and other creditors and other provisions	**7,842**	7,397
Increase in income tax payable	**1,954**	1,749
Increase in deferred taxes	**(410)**	(724)
Net Cash provided by operations	**18,433**	15,378

Note 22:Earnings per share	25 December 2005 Cents	26 December 2004 Cents
Basic earnings per share	**34.3**	29.8
Diluted earnings per share	**33.4**	28.5
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**25,188,185**	24,075,110
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**25,906,828**	25,215,262

Note 23:Net Tangible Assets Per Share	25 December 2005 $	26 June 2005 $
Net tangible asset backing per ordinary share	**1.17**	0.87
Total shares outstanding as at end of period	**25,203,295**	25,078,295

	25 December 2005 $'000	26 December 2004 $'000
Note 24: Dividends		
Final fully franked dividend paid on 23 September 2005	**1,764**	602
Balance of franking account at half year 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	**14,748**	12,756

Note 25: Contingent Liabilities

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

Letters of credit established for acquisition of goods for resale	**105**	83
ANZ Bank indemnity guarantee to landlords	**1,696**	951
	1,801	1,034

Note 26: Segment

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

Note 27: Dividend Reinvestment Plan

The Company has established a dividend reinvestment plan which is not currently active.

Note 28: Matters Subsequent to the End of the Half Year

No matters or circumstances have arisen since the end of the half year which have significantly affected or may significantly affect the operations of the consolidated entity, the results of operations, or the state of affairs of the consolidated entity in future financial years.

Note 29: Explanation of transition to Australian equivalents to IFRSs

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 28 June 2004

		Consolidated Entity		
	Note	Previous AGAAP $'000	Effect of transition $'000	AIFRS $'000
CURRENT ASSETS				
Cash assets		3,056		3,056
Receivables		180		180
Inventories		20,249		20,249
Other		251		251
TOTAL CURRENT ASSETS		23,736		23,736
NON-CURRENT ASSETS				
Other financial assets		-		-
Property, plant and equipment	e	15,961	(86)	15,875
Deferred tax assets	d	1,107	357	1,464
TOTAL NON-CURRENT ASSETS		17,068		17,339
TOTAL ASSETS		40,804		41,075
CURRENT LIABILITIES				
Payables		10,689		10,689
Short term borrowings		2,351		2,351
Tax liabilities		1,580		1,580
Provisions	a	2,996	100	3,096
Other		2,668		2,668
TOTAL CURRENT LIABILITIES		20,284		20,384
NON-CURRENT LIABILITIES				
Long term borrowings		2,454		2,454
Provisions	a,c	655	983	1,638
TOTAL NON-CURRENT LIABILITIES		3,109		4,092
TOTAL LIABILITIES		23,393		24,476
NET ASSETS		17,411		16,599
EQUITY				
Contributed equity	d	1,616	50	1,666
Share based payments reserve	b	-	58	58
Capital profits reserve		739		739
Retained profits	h	15,056	(920)	14,136
TOTAL EQUITY		17,411		16,599

Note 29: Explanation of transition to Australian equivalents to IFRSs (continued)

(b) At the end of the last half-year reporting period under previous AGAAP: 26 December 2004

	Note	Consolidated Entity Previous AGAAP $'000	Effect of transition $'000	AIFRS $'000
CURRENT ASSETS				
Cash assets		**13,662**		**13,662**
Receivables		**399**		**399**
Inventories		**22,157**		**22,157**
Other		**630**		**630**
TOTAL CURRENT ASSETS		**36,848**		**36,848**
NON-CURRENT ASSETS				
Other financial assets		-		-
Property, plant and equipment		**17,629**		**17,629**
Deferred tax assets	d	**1,831**	336	**2,167**
TOTAL NON-CURRENT ASSETS		**19,460**		**19,796**
TOTAL ASSETS		**56,308**		**56,644**
CURRENT LIABILITIES				
Payables		**15,361**		**15,361**
Short term borrowings		**2,409**		**2,409**
Tax liabilities		**3,260**		**3,260**
Provisions	a	**3,175**	74	**3,249**
Other		**5,377**		**5,377**
TOTAL CURRENT LIABILITIES		**29,582**		**29,656**
NON-CURRENT LIABILITIES				
Long term borrowings		**1,869**		**1,869**
Provisions	a,c	**597**	1,026	**1,623**
TOTAL NON-CURRENT LIABILITIES		**2,466**		**3,492**
TOTAL LIABILITIES		**32,048**		**33,148**
NET ASSETS		**24,260**		**23,496**
EQUITY				
Contributed equity	d	**1,616**	101	**1,717**
Share based payments reserve	b	-	323	**323**
Capital profits reserve		**739**		**739**
Retained profits	h	**21,905**	(1,188)	**20,717**
TOTAL EQUITY		**24,260**		**23,496**

Note 29: Explanation of transition to Australian equivalents to IFRSs (continued)

(c) At the end of the last reporting period under previous AGAAP: 26 June 2005

		Consolidated Entity		
	Note	Previous AGAAP $'000	Effect of transition $'000	AIFRS $'000
CURRENT ASSETS				
Cash assets		4,930		4,930
Receivables		47		47
Inventories		21,305		21,305
Other		615		615
TOTAL CURRENT ASSETS		26,897		26,897
NON-CURRENT ASSETS				
Other financial assets		-		-
Property, plant and equipment		17,659		17,659
Deferred tax assets	d	1,906	305	2,211
TOTAL NON-CURRENT ASSETS		19,565		19,870
TOTAL ASSETS		46,462		46,767
CURRENT LIABILITIES				
Payables		10,882		10,882
Short term borrowings		2,390		2,390
Tax liabilities		1,314		1,314
Provisions	a	3,731	42	3,773
Other		3,448		3,448
TOTAL CURRENT LIABILITIES		21,765		21,807
NON-CURRENT LIABILITIES				
Long term borrowings		1,079		1,079
Provisions	a,c	927	1,061	1,988
TOTAL NON-CURRENT LIABILITIES		2,006		3,067
TOTAL LIABILITIES		23,771		24,874
NET ASSETS		22,691		21,893
EQUITY				
Contributed equity	d	2,945	101	3,046
Share based payments reserve	b	-	588	588
Capital profits reserve		739		739
Retained profits	h	19,007	(1,487)	17,520
TOTAL EQUITY		22,691		21,893

Note 29: Explanation of transition to Australian equivalents to IFRSs (continued)

(2) Reconciliation of profit under previous AGAAP to profit under AIFRS

(a) Reconciliation of profit for the half-year ended 26 December 2004

		Consolidated Entity		
	Note	**Previous AGAAP $'000**	Effect of transition $'000	**AIFRS $'000**
Revenues from continuing activities				
Sales revenue		**111,768**		**111,768**
Other revenues from continuing activities	f	**72**	(39)	**33**
		111,840		**111,801**
Cost of sales		**56,775**		**56,775**
Store expenses	a,e	**32,976**	(62)	**32,914**
Administrative expenses	b,c,f	**7,466**	221	**7,687**
Distribution centre expenses		**3,592**		**3,592**
		100,809		**100,968**
Borrowing costs		**439**		**439**
Profit from continuing activities before income tax expense		**10,592**		**10,394**
Income tax expense relating to continuing activities	d	**3,141**	70	**3,211**
Net Profit Attributable to Members of The Reject Shop Limited		**7,451**		**7,183**

Note 29: Explanation of transition to Australian equivalents to IFRSs (continued)

(b) Reconciliation of profit for the year ended 26 June 2005

		Consolidated Entity		
	Note	**Previous AGAAP $'000**	Effect of transition $'000	**AIFRS $'000**
Revenues from continuing activities				
Sales revenue		**203,098**		**203,098**
Other revenues from continuing activities	f	**252**	(102)	**150**
		203,350		**203,248**
Cost of sales		**103,904**		**103,904**
Store expenses	a,e	**65,909**	(40)	**65,869**
Administrative expenses	b,c,f	**15,567**	402	**15,969**
Distribution centre expenses		**7,409**		**7,409**
		192,789		**193,151**
Borrowing costs		**679**		**679**
Profit from continuing activities before income tax expense		**9,882**		**9,418**
Income tax expense relating to continuing activities	d	**2,821**	70	**2,891**
Net Profit Attributable to Members of The Reject Shop Limited		**7,061**		**6,527**

(3) Reconciliation of cash flow statement for the year ended 26 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the statement of cash flows.

(4) Notes to the reconciliations

(a) Leases

AASB 117 - Leases requires the escalation amounts on leases containing fixed escalation clauses to be determined on lease inception and expensed evenly over the lease term, therefore bringing forward the impact of such escalation clauses into the current period. Under previous AGAAP lease payments under an operating lease were recognised as an expense in the period in which they were incurred.

(i) At 28 June 2004

For the consolidated entity there has been an increase of $1,186,749 in provision for future lease payments and a corresponding decrease in retained earnings.

(ii) At 26 December 2004

For the consolidated entity there has been an increase of $1,208,877 in provision for future lease payments and a corresponding decrease in retained earnings.

(iii) At 26 June 2005

For the consolidated entity there has been an increase of $1,233,006 in provision for future lease payments and a corresponding decrease in retained earnings.

(iv) For the half year ended 26 December 2004

For the consolidated entity there has been an increase of $24,127 in lease expense.

(v) For the year ended 26 June 2005

For the consolidated entity there has been an increase of $46,256 in lease expense.

(b) Equity Based Compensation

AASB 2 - Share based payments requires the recognition of expense for all performance rights and options issued to employees after 7 November 2002 that had not vested by 1 January 2005. Under previous AGAAP there was no expense recognised for equity based compensation.

(i) At 28 June 2004

For the consolidated entity there has been an increase of $57,650 in share based payment reserve and a corresponding decrease in retained earnings.

(ii) At 26 December 2004

For the consolidated entity there has been an increase of $322,662 in share based payment reserve and a corresponding decrease in retained earnings.

(iii) At 26 June 2005

For the consolidated entity there has been an increase of $587,673 in share based payment reserve and a corresponding decrease in retained earnings.

(iv) For the half year ended 26 December 2004

For the consolidated entity there has been an increase of $265,012 in employee benefit expense.

(v) For the year ended 26 June 2005

For the consolidated entity there has been an increase of $530,023 in employee benefit expense.

(c) Employee Benefits

AASB 119 - Employee Benefits requires liabilities for employee annual leave to be discounted. Previous AGAAP did not require discounting.

(i) At 28 June 2004

For the consolidated entity there has been a decrease of $104,415 in non current employee entitlements provision and a corresponding increase in retained earnings.

(ii) At 26 December 2004

For the consolidated entity there has been a decrease of $109,412 in non current employee entitlements provision and a corresponding increase in retained earnings.

(iii) At 26 June 2005

For the consolidated entity there has been a decrease of $129,936 in non current employee entitlements provision and a corresponding increase in retained earnings.

(iv) For the half year ended 26 December 2004

For the consolidated entity there has been a decrease of $4,997 in employee benefits expense.

(v) For the year ended 26 June 2005

For the consolidated entity there has been a decrease of $25,521 in employee benefits expense

(d) Income Taxes

AASB 112 - Income taxes requires deferred tax balances to be determined using the balance sheet method which calculates temporary differences based on the carrying amount of an entity's assets and liabilities in the balance sheet and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

Previous AGAAP determined tax balances using the income statement method, items are only tax-effected if they were included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes could not be recognised directly in equity.

(i) At 28 June 2004

For the consolidated entity there has been a increase of $357,153 in deferred tax assets and a corresponding increase in retained earnings.

Additionally, the consolidated entity there has been an increase of $50,471 in contributed equity and a corresponding decrease in retained earnings.

(ii) At 26 December 2004

For the consolidated entity there has been an increase of $336,126 in deferred tax assets and a corresponding increase in retained earnings.

Additionally, the consolidated entity there has been an increase of $100,942 in contributed equity and a corresponding decrease in retained earnings.

(iii) At 26 June 2005

For the consolidated entity there has been an increase of $305,083 in deferred tax assets and a corresponding increase in retained earnings.

Additionally, the consolidated entity there has been an increase of $100,942 contributed equity and a corresponding decrease in retained earnings.

(iv) For the half year ended 26 December 2004

For the consolidated entity there has been an increase of $18,576 in tax expense.

Additionally, the consolidated entity there has been an increase of $50,471 in tax expense.

(v) For the year ended 26 June 2005
For the consolidated entity there has been an increase of $19,618 in tax expense.

Additionally, the consolidated entity there has been an increase of $50,471 in tax expense.

(e) Impairment of Assets
AASB136 - Impairment of Assets requires the recoverable amount of all assets be assessed at each reporting date on a discounted cash flow basis. The assessment is made for each store, as a defined cash generating unit. Under previous AGAAP the consolidated entity assessed recoverable amount on a non-discounted basis at the aggregate level of assets.

(i) At 28 June 2004

For the consolidated entity there has been a decrease of $86,129 in property, plant and equipment and a corresponding decrease in retained earnings.

(ii) At 26 December 2004

For the consolidated entity there was no effect.

(iii) At 26 June 2005

For the consolidated entity there was no effect.

(iv) For the half year ended 26 December 2004

For the consolidated entity there has been a decrease of $86,129 in store expenses.

(v) For the year ended 26 June 2005

For the consolidated entity there has been a decrease of $86,129 in store expenses.

(f) Revenue

Under AIFRS, the revenue recognised in relation to the sale of non-current assets is the net gain or loss on sale. Under previous AGAAP gross proceeds from the sale were recognised as revenue and the carrying amount of the assets sold was recognised as an expense.

(i) At 28 June 2004

For the consolidated entity there was no effect.

(ii) At 26 December 2004

For the consolidated entity there was no effect.

(iii) At 26 June 2005

For the consolidated entity there was no effect.

(iv) For the half year ended 26 December 2004

For the consolidated entity there has been a decrease of $39,289 in revenue and a corresponding decrease in administration expenses.

(v) For the year ended 26 June 2005

For the consolidated entity there has been a decrease of $101,789 in revenue and a corresponding decrease in administration expenses.

(g) Financial Instruments

The consolidated entity has taken advantage of the exemption available under AASB 1 to apply AASB 132 - *Financial Instruments: Disclosure and Presentation* and AASB 139 - *Financial Instruments: Recognition and Measurement* only from 27 June 2005. This allows the consolidated entity to apply previous AGAAP to the comparative information of financial instruments within the scope of AASB 132 and AASB 139.

Under AASB132, the current classification of financial instruments issued by the consolidated entity would not change.

(h) Retained Earnings

The effect on retained earnings of the changes set out above are as follows:

	Notes	28 June 2004 $'000	26 December 2004 $'000	26 June 2005 $'000
Leases	a	(1,187)	(1,209)	(1,233)
Equity based compensation	b	(58)	(323)	(588)
Employee benefits	c	104	109	130
Income taxes	d	307	235	204
Impairment of assets	e	(86)	-	-
		(920)	(1,188)	(1,487)

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 30 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 25 December 2005 and of it's performance, as represented by the results of it's operations and it's cash flows, for the half year ended on that date; and

(b) there are reasonable grounds to believe that The Reject Shop Limited 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.

....
BJ Beattie
Chairman

....
BAE Saunders
Managing Director

Melbourne
15 February 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77 Melbourne
Australia
www.pwc.com/au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Independent review report to the members of The Reject Shop Limited

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of The Reject Shop Limited:

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of The Reject Shop Limited Group (defined below) as at 25 December 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for The Reject Shop Limited Group (the consolidated entity), for the half-year ended 25 December 2005. The consolidated entity comprises both The Reject Shop Limited (the company) and the entities it controlled during that half-year.

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.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

PRICEWATERHOUSECOOPERS

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

Our procedures include reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

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

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

Independence

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

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
15 February 2006