Appendix 4D

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary half year report

For the half year ended 26 December 2004
Compared to the half year ended 28 December 2003

				$A'000
Revenues from ordinary activities	up	12.8%	to	112,627
Profit from ordinary activities after tax attributable to members	up	22.5%	to	7,451
Net profit for the period attributable to members	up	22.5%	to	7,451

Dividends	Amount per share	Franked amount per share
Interim dividend	10.0¢	10.0¢

Record date for determining entitlements to the dividend	4 March 2005
Dividend payment date	23 March 2005

EVERYONE'S A WINNER AT
THE REJECT SHOP

ASX/Media Release

THE REJECT SHOP LIMITED HALF YEAR RESULTS (FY2005)

(ASX: TRS)

16 February 2005

Half year profit up 22.5%; Full year profit forecast upgraded

Highlights:

- Sales, $111.8 million, up 12.8%
- Comparable store sales growth 5.9%
- NPAT $7.5 million, up 22.5%
- Six new stores opened in the period
- Full year forecast increased to $6.5-$6.7 million
- Interim dividend 10 cents per share

Summary:

	HY2005 $ Million	HY2004 $ Million
Sales	111.8	99.1
EBITDA	12.6	10.7
EBIT	11.0	9.2
NPAT	7.5	6.1

The Chairman of The Reject Shop Limited, Mr Brian Beattie, today announced on behalf of the Board a 22.5% increase in net profit after tax (NPAT) to $7.5 million for the six months to 26 December 2004.

The profit was earned on total sales of $111.8 million, an increase of 12.8% on the previous corresponding period. Sales growth was underpinned by strong comparable store sales growth of 5.9% and six new store openings during the period.

The Directors have declared a fully franked interim dividend of 10 cents per share to be paid 23 March 2005. The record date is 4 March 2005.

Following its strong first half trading performance the Company has increased NPAT expectations for the full year ending 26 June 2005 from an initial forecast range of $6.0m - $6.2m to a range of between $6.5m - $6.7m.

The strong sales and improved gross margin performance provided the Company with the opportunity to accelerate initiatives designed to sustain long term growth and this led to some additional costs in the half. These initiatives included the strengthening of the buying capability with new expertise and technology, the introduction of cost effective technology into stores to improve productivity, the replacement of some Everything Here $2 stores with The Reject Shop stores and relocating some existing stores to improved locations.

The Reject Shop Managing Director, Mr Barry Saunders said he was pleased with the first half result, particularly the strong comparable stores growth and a sound performance by new stores opened during the period.

"Improved gross margins have been achieved through a combination of strong sales in some of the higher margin product categories, improved information from the data warehouse enabling better item quantification and fewer markdowns and a favourable impact from the strength of the Australian dollar."

"We are focused on investing in the future growth of the business and to this end have made considerable progress strengthening the buying team. While this will lead to additional costs in the second half, I believe this capability is central to long term growth. A larger more experienced and better equipped buying team has the potential to drive future sales and profit growth."

"We are evaluating our overall logistics facilities and the possibility exists to introduce new technology and relocate the distribution centre to improve productivity and cater for future growth."

"In the first half we opened six new stores and are planning a further six stores for the second half, including some Queensland opportunities. We also remain committed to improving productivity in stores by progressively rolling out radio frequency technology as well as computer assisted store ordering" he said.

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

Barry Saunders	Chris Bryce	Graham Lever
Managing Director	Chief Financial Officer	Company Secretary
Office: (03) 9371 5500	Office: (03) 9371 5552	Office: (03) 9371 5531

Fowlstone Communications

Geoff Fowlstone	Lindsay Muir
Office: (02) 9955 9899	Office: (02) 9955 9899
Mobile: 0413 746 949	Mobile: 0400 320 540
Email: geoff@fowlstone.com.au	Email: lindsay@fowlstone.com.au

ends

Overview of Financial Performance

Sales grew from $99.1m to $111.8m and net profit after tax from $6.1m to $7.5m, representing growth of 12.8% and 22.5% respectively, from the corresponding period last year.

Sales growth was driven by stronger than forecast comparable store sales growth of 5.9%, particularly in the first quarter, six new store openings, and growth from stores opened during the prior year. Comparable stores growth is attributed to a combination of improved item planning, assisted by the new data warehouse, a continuous improvement of store presentation standards, and improvements in stock flow management as well as a strong retail environment particularly from July to October.

November and December sales growth was moderate in comparison, however margins ahead of forecast were achieved through improved planning, item selection and stock flow.

Gross margin, inclusive of settlement discount, increased from 48.5% to 49.2% of sales compared to the corresponding period last year. Improved item quantification, stronger than anticipated sales in some of the higher margin product categories and a strong sell through in traditional Christmas categories all contributed. 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 37.7% to 38.0%, compared to the corresponding period last year. The decision to move the central office caused some additional expenditure, predominantly asset writedowns. Preliminary costs were also incurred in assessing the potential for a relocation of the distribution centre. In addition, an expansion of the buying team was initiated.

Depreciation and amortisation as a percentage of sales reduced slightly from 1.5% to 1.4% of sales.

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

Operational Performance

In conjunction with the new Board, management updated the Company's five year strategic plan, during the period. A tour of US retailers by senior management and buyers also identified improvement opportunities which were incorporated into this plan. Progress against the plan is promising, with our focus firmly on continuous improvement in all facets of the business.

The buying team continues to be a strength, and during the half major upgrade of this capability was commenced which is viewed as a foundation for long term sustainable growth. The current phase of development should be completed during the second half of FY2005, and become a significant contributor to profit during FY2006.

Six new stores were opened during the period and at the end of the period there were a total of 105 stores. Three stores were opened in regional NSW, two in metropolitan Victoria and one in regional Victoria. Some key stores were upsized and some existing stores were relocated to improved locations. The store portfolio continues to be actively managed and the opportunity was taken to replace some E$2 stores with The Reject Shop stores. There are further store openings planned for the second half, including some Queensland opportunities.

Our stores continued to improve their productivity during the period, assisted by improved stock flow, particularly during peak trading. Some stores also benefited from the introduction of radio frequency technology. The rollout of this technology to all stores in the second half, coupled with the full implementation of computer assisted store ordering should provide significant productivity and working capital benefits. Steady progress is also being made on improvement opportunities in staff rostering and scheduling.

The information technology platform continued to add value, with progress made on the store portal and continued enhancement to the data warehouse. With increased use of technology an upgrade of our Disaster Recovery Plan was undertaken during the period.

The logistics team have been evaluating the potential of relocating the Distribution Centre and introducing new technology to improve productivity and cater for future growth. Whilst no formal commitments have been made the prospects are exciting. In the near term the Company will continue to introduce low cost technologies and improved scheduling to increase productivity.

People continue to be the driver of the business and recent growth and the planned expansion of our merchandise team meant the opportunity was taken to relocate the central store support centre during the period. The move enabled the central office staff to locate in the same building for the first time in over three years. Improved cross functional collaboration is expected from the move.

Outlook for the remainder of FY2005

The first half performance represents a good start to the year, and the early sales post Christmas have shown signs of good growth. While it is possible general retail conditions may moderate in the second half the Company is confident of achieving an increased full year NPAT forecast of between \$6.5m and \$6.7m.

This forecast reflects the seasonal nature of our business, as well as accommodating some additional expenditure with respect to the buying team and the potential relocation of the Distribution Centre.

We aim to maintain our current dividend policy and based on our revised forecast the Board has declared a fully franked interim dividend of 10 cents per share.

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entity for the half year ended 26 December 2004.

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

Brian John Beattie
Barry Albert Edward Saunders
John Shuster
Alexander Craig McMorron

Review of operations
The profit of the consolidated entity for the half year after providing for income tax amounted to $7.451 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 Statement of Financial Position as at 26 December 2004 reflects a reduced level of interest bearing liabilities than other times during the year due to the seasonal nature of the consolidated entity's activities.

Dividend
Dividends paid during the half year were 2.5 cents per fully paid share totalling $602k on 24 September 2004.

On 16 February 2005, the directors have declared a fully franked dividend of 10 cents per share to be paid on 23 March 2005.

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 consolidate 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

16 February 2005

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
333 Collins Street
MELBOURNE VIC 3000
GPO Box 1331L
MELBOURNE VIC 3001
DX 77 Melbourne
Australia
www.pwcglobal.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 26 December 2004, 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
Partner
PricewaterhouseCoopers

Melbourne
16 February 2005

STATEMENTS OF FINANCIAL PERFORMANCE
For the Half Year Ended 26 December 2004

	Note	**26 December 2004 $'000**	28 December 2003 $'000
Revenues from ordinary activities			
Sales revenue	2	**111,768**	99,059
Other revenues from ordinary activities	2	**859**	765
		112,627	99,824
Cost of sales		**57,562**	51,747
Store expenses		**32,976**	29,316
Administrative expenses		**7,466**	6,294
Distribution centre expenses		**3,592**	3,295
		101,596	90,652
Borrowing costs		**439**	483
Profit from ordinary activities before income tax expense		**10,592**	8,689
Income tax expense relating to ordinary activities	4	**3,141**	2,606
Net Profit Attributable To Members Of The Reject Shop Limited		**7,451**	6,083
Total changes in equity other than those resulting from transactions with owners as owners		**7,451**	6,083
Earnings per Share			
Basic Earnings Per Share	20	**31.0**	26.2
Diluted Earnings Per Share	20	**29.6**	25.7

The above statements of financial performance should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION
As at 26 December 2004

	Note	26 December 2004 $'000	27 June 2004 $'000
CURRENT ASSETS			
Cash assets	5	**13,662**	3,056
Receivables	6	**399**	180
Inventories	7	**22,157**	20,249
Other	8	**630**	251
TOTAL CURRENT ASSETS		**36,848**	23,736
NON-CURRENT ASSETS			
Property, plant and equipment	9	**17,629**	15,961
Deferred tax assets	10	**1,831**	1,107
TOTAL NON-CURRENT ASSETS		**19,460**	17,068
TOTAL ASSETS		**56,308**	40,804
CURRENT LIABILITIES			
Payables	11	**15,361**	10,689
Interest bearing liabilities	12	**2,409**	2,351
Current tax liabilities	13	**3,260**	1,580
Provisions	14	**3,175**	2,996
Other	15	**5,377**	2,668
TOTAL CURRENT LIABILITIES		**29,582**	20,284
NON-CURRENT LIABILITIES			
Interest bearing liabilities	16	**1,869**	2,454
Provisions	17	**597**	655
TOTAL NON-CURRENT LIABILITIES		**2,466**	3,109
TOTAL LIABILITIES		**32,048**	23,393
NET ASSETS		**24,260**	17,411
EQUITY			
Contributed equity		**1,616**	1,616
Reserves		**739**	739
Retained profits	18	**21,905**	15,056
TOTAL EQUITY		**24,260**	17,411

The above statements of financial performance should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS
For the Half Year Ended 26 December 2004

	Note	26 December 2004 $'000	28 December 2003 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		**122,920**	108,808
Payments to suppliers and employees (inclusive of goods and services tax)		**(104,951)**	(90,348)
Interest received		**33**	14
Borrowing costs paid		**(439)**	(483)
Income tax paid		**(2,185)**	(1,663)
Net cash inflow from operating activities	19	**15,378**	16,328
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**39**	18
Payments for property, plant and equipment		**(3,682)**	(1,898)
Net cash used in investing activities		**(3,643)**	(1,880)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**-**	298
Repayment of borrowings		**(497)**	(1,562)
Dividends paid		**(602)**	(2,000)
Net cash used in financing activities		**(1,099)**	(3,264)
Net increase/(decrease) in cash held		**10,636**	11,184
Add opening cash brought forward		**2,496**	(3,570)
Closing Cash Carried Forward	19	**13,132**	7,614

The above statements of financial performance 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 ended 26 December 2004 has been prepared in accordance with Accounting Standard *AASB 1029 Interim Financial Reporting*, other authoritative pronouncements of the Australian Accounting Standards Board, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the Corporations Act 2001.

This half year 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 financial report for the year ended 27 June 2004 and any public announcements made by The Reject Shop Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Unless otherwise stated, the accounting policies adopted are consistent with those of the annual financial report for the year ended 27 June 2004 and previous half year.

	26 December 2004 $'000	28 December 2003 $'000
Note 2: Operating Profit		
Revenue from operating activities		
Retail Sales	**111,768**	99,059
Revenue from non-operating activities		
Interest	**33**	14
Settlement discount	**787**	733
Sale of non-current assets	**39**	18
	859	765
	112,627	99,824

Note 3: Profit From Ordinary Activities

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

Interest and finance charges paid/payable	**439**	483
Depreciation and amortisation	**1,535**	1,522
Net loss on disposal of property, plant and equipment	**440**	78
Rental expenses relating to operating leases		
Base rentals	**12,338**	10,735
Rent paid on percentage of sales basis	**208**	100
Foreign exchange losses	**47**	125

	26 December 2004 $'000	28 December 2003 $'000

Note 4: Income Tax

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

	26 December 2004 $'000	28 December 2003 $'000
Profit from ordinary activities before income tax expense	**10,592**	8,689
Income tax calculated @ 30%	**3,178**	2,606
Tax effect of permanent differences	**(30)**	
Income tax adjusted for permanent differences	**3,148**	-
(Over)/Under provision in previous year	**(7)**	-
Income tax expense	**3,141**	2,606

	26 December 2004 $'000	27 June 2004 $'000

Note 5: Current Assets – Cash Assets

	26 December 2004 $'000	27 June 2004 $'000
Cash on hand	**351**	263
Cash at bank	**13,311**	2,793
	13,662	3,056

Note 6: Current Assets – Receivables

	26 December 2004 $'000	27 June 2004 $'000
Other debtors	**399**	180

Note 7: Current Assets – Inventories

	26 December 2004 $'000	27 June 2004 $'000
Inventory at cost	**21,962**	20,013
Inventory at net realisable value	**195**	236
	22,157	20,249

Note 8: Current Assets – Other

	26 December 2004 $'000	27 June 2004 $'000
Prepayments	**337**	220
Other current assets	**293**	31
	630	251

	26 December 2004 $'000	27 June 2004 $'000
Note 9: Non-Current Assets – Property, Plant And Equipment		
Leasehold improvements		
At cost	**7,425**	6,915
Less accumulated depreciation	**(4,156)**	(4,042)
	3,269	2,873
Under finance lease and hire purchase	**1,559**	1,606
Less accumulated amortisation	**(233)**	(181)
	1,326	1,425
Plant and equipment		
At cost	**3,189**	3,130
Less accumulated depreciation	**(2,324)**	(2,306)
	865	824
Under finance lease and hire purchase	**690**	702
Less accumulated amortisation	**(179)**	(147)
	511	555
Motor vehicles		
At cost	**315**	342
Less accumulated depreciation	**(216)**	(216)
	99	126
Under finance lease and hire purchase	**845**	822
Less accumulated amortisation	**(247)**	(203)
	598	619
Office equipment		
At cost	**366**	306
Less accumulated depreciation	**(248)**	(238)
	118	68
Under finance lease and hire purchase	**67**	67
Less accumulated amortisation	**(28)**	(21)
	39	46
Computer equipment		
At cost	**2,520**	1,626
Less accumulated depreciation	**(1,162)**	(1,011)
	1,358	615
Under finance lease and hire purchase	**4,200**	4,204
Less accumulated amortisation	**(3,358)**	(3,028)
	842	1,176
Furniture, fixtures and fittings		
At cost	**12,469**	11,155
Less accumulated depreciation	**(6,544)**	(6,355)
	5,925	4,800
Under finance lease and hire purchase	**3,501**	3,523
Less accumulated amortisation	**(822)**	(689)
	2,679	2,834

	26 December 2004 $'000	27 June 2004 $'000

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

Total plant and equipment	**13,034**	11,663
Total property, plant and equipment	**17,629**	15,961

Note 10: Non Current Assets – Deferred Tax Assets

Future Income Tax Benefit	**1,831**	1,107

No part of the future income tax benefit is attributable to tax losses.

Note 11: Current Liabilities – Payables

Unsecured liabilities		
Trade creditors	**12,040**	9,145
Sundry creditors and accruals	**3,321**	1,544
	15,361	10,689

Note 12: Current Liabilities – Interest Bearing Liabilities

Secured Liabilities		
Bank overdrafts	**530**	559
Bank loans	**-**	-
Finance lease liability	**438**	499
Hire purchase liability	**1,441**	1,293
	2,409	2,351

Note 13: Current Liabilities – Tax Liabilities

Income tax	**3,260**	1,580

Note 14: Current Liabilities – Provisions

Employee entitlements	**3,175**	2,996

Note 15: Current Liabilities – Other

Accrued expenses	**4,602**	2,264
Deferred income	**775**	404
	5,377	2,668

Note 16: Non-Current Liabilities – Interest Bearing Liabilities

Secured liabilities		
Finance lease liability	**345**	472
Hire purchase liability	**1,524**	1,982
	1,869	2,454

	26 December 2004 $'000	27 June 2004 $'000
Note 17: Non-Current Liabilities – Provisions		
Employee entitlements	**597**	655

Note 18: Equity – Retained Profits

Retained profits at the beginning of the financial period	**15,056**	
Net profit attributable to members of the consolidated entity	**7,451**	
Dividends provided for or paid	**(602)**	
Retained profits at reporting date	**21,905**	

	26 December 2004 $'000	27 June 2004 $'000

Note 19: 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 statement of financial position as follows:

Cash on hand	**351**	263
Cash at bank	**13,311**	2,793
Bank overdrafts	**(530)**	(560)
	13,132	2,496

	26 December 2004 $'000	28 December 2003 $'000
Reconciliation of Cash Flow from operations with profit from ordinary activities		
Profit from ordinary activities after Income Tax	**7,451**	6,083
Non-cash flows in profit from ordinary activities		
Amortisation of leased assets	**265**	491
Depreciation	**1,270**	1,031
Loss on sale of property, plant and equipment	**440**	39
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries		
(Increase) in receivables and other assets	**(598)**	(654)
(Increase) / Decrease in inventories	**(1,908)**	74
Increase in trade and other creditors and other provisions	**7,502**	8,319
Increase in income tax payable	**1,680**	1,322
(Increase) in deferred taxes	**(724)**	(377)
Net Cash provided by operations	**15,378**	16,328

Note 20: Earnings per share	26 December 2004 Cents	28 December 2003 Cents
Basic earnings per share	**31.0**	26.2
Diluted earnings per share	**29.6**	25.7
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**24,075,110**	23,257,064
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**25,215,262**	23,692,032

Note 21: Net Tangible Assets Per Share	26 December 2004 $	27 June 2004 $
Net tangible asset backing per ordinary share	**1.01**	0.72
Total shares outstanding as at end of period	**24,075,110**	24,075,110

Note 22: Dividends	26 December 2004 $'000	28 December 2003 $'000
Final fully franked dividend paid on 24 September 2004	**602**	2,000
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	**12,756**	9,036

Note 23: Contingent Liabilities	26 December 2004 $'000	27 June 2004 $'000
Estimates of the maximum amounts of contingent liabilities that may become payable:		
Letters of credit established for acquisition of goods for resale	**83**	244
ANZ Bank indemnity guarantee to landlords	**951**	955
	1,034	1,199

Note 24: Segment

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

Note 25: Dividend Reinvestment Plan

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

Note 26: 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, the results of operations, or the state of affairs of the entity in future years.

Note 27: International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian Equivalents to International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board.

This half year financial report has been prepared in accordance with existing Australian Accounting Standards and Urgent Issues Group Consensus Views ("existing standards"). The differences between existing standards and Australian Equivalents to IFRS identified to date as potentially having a significant effect on the entity's financial performance and financial position are summarised below. This summary should not be taken as an exhaustive list of all the differences between existing standards and Australian Equivalents to IFRS.

The consolidated entity has not quantified the effect of the differences discussed below. Accordingly, there can be no assurances that the financial performance and financial position disclosed in this financial report would not be significantly different if determined in accordance with Australian Equivalents to IFRS.

The consolidated entity has performed an overview of the potential of the conversion to IFRS standards and has identified the following as requiring further analysis:

Share Based Remuneration

The cost of options or rights granted to employees must be expensed through the profit and loss account over the vesting period of the options or rights granted. The consolidated entity has not measured the amount to be expensed however this will negatively impact the profit for FY2006 and future years.

Income Tax

The consolidated entity is required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than accounting for the effects of timing and permanent differences between taxable income and accounting profit. This will likely impact deferred tax balances, however the impact on profits is still to be quantified.

Impairment of Assets

The consolidated entity currently assesses whether assets are impaired by determining whether the recoverable amount is supported by undiscounted future cash flows, whereas the new IFRS standard requires a discounted cash flow basis to be adopted. Whilst there always remains the potential for asset write-downs, based on an initial assessment we do not anticipate any profit impact as a result of the adoption of IFRS.

Hedging

The consolidated entity is required to account for derivative financial instruments and hedging activities using fair values, which may lead to increased volatility in the statement of financial performance.

Employee Provisions

The new IFRS standard requires employee provisions to be restated based on a discounted basis. This will impact the provision for employee liabilities, however this will have limited impact on profits.

Classification of Financial Instruments

Financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables – measured at amortised cost, held to maturity – measured at cost, held for trading – measured at fair value with fair value changes charged to net profit or loss, available for sale – measured at fair value with fair value changes taken to equity and non trading liabilities – measured at amortised cost. This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised on the balance sheet. The future financial effect of this change in accounting policy is not yet known as the classification and measurement has not been fully completed.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 17 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 26 December 2004 and of their performance, as represented by the results of their operations and their cash flows, for the half year ended on that date; 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 directors.

BJ Beattie
Chairman

BAE Saunders
Managing Director

16 February 2005

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
333 Collins Street
MELBOURNE VIC 3000
GPO Box 1331L
MELBOURNE VIC 3001
DX 77 Melbourne
Australia
www.pwcglobal.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 as at 26 December 2004 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 1029: 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 statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for The Reject Shop Limited, for the half-year ended 26 December 2004.

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 1029: Interim Financial Reporting and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company financial position, and its performance as represented by the results of its operations and cash flows.

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

- inquiries of company personnel/the responsible entity's personnel, and
- analytical procedures applied to financial data.

PRICEWATERHOUSECOOPERS

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
16 February 2005