Appendix 4D

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary half year report

For the 26 weeks ended 29 December 2013
Compared to the 26 weeks ended 30 December 2012

				$A'000
Revenues from continuing operations	up	17.7%	to	385,448
Profit from continuing operations after tax attributable to members	down	15.9%	to	16,877
Net profit for the period attributable to members	down	15.9%	to	16,877

Dividends	Amount per share	Franked amount per share
Interim dividend	21.5¢	100%

Record date for determining entitlements to the dividend	26 March 2014
Dividend payment date	14 April 2014

Commentary on the Company's trading result is included in the media release and on pages 2 to 4 of the half year report enclosed.

Overview of Financial Performance

$ Amounts are in '000's / %'s are to Sales	HYE14	HYE13
Sales	385,448	327,518
Gross Profit (i)	44.9%	46.2%
Cost of Doing Business (ii)	36.3%	36.1%
EBITDA	33,315	36,137
Depreciation and Amortisation	8,620	6,750
EBIT	24,695	29,387
Net Interest Expense	585	1,061
Profit Before Tax	24,110	28,326
Income Tax Expense	7,233	8,268
Net Profit After Tax	16,877	20,058

Reconciliation of EBIT	HYE14	HYE13
EBIT as reported	24,695	29,387
Excl. Ipswich DC Insurance Claim	-	(2,874)
Excl. Excess New Store Costs	3,625	1,428
Normalised EBIT	28,320	27,941

(i) Non IFRS Measure
(ii) Unaudited

Sales

Sales grew by 17.7% from $327.5m to $385.4m against the corresponding period last year.

Comparable store sales despite trending positively for most of the half were flat overall with disappointing sales over the peak weeks leading into Christmas. This was particularly evident in stores in major shopping centres, which continue to drag down very good growth generally in other store locations.

Overall sales growth was driven by 33 new store openings in the half, as well as growth from stores opened in the prior year.

Gross Profit

Gross Profit (sales less cost of sales) as a percent to sales was down on the Company's expectations and the prior year, reflecting higher than planned markdowns and poor returns from some higher margin categories, and despite achieving stronger sales in lower margin categories.

Cost of Doing Business (CODB)

CODB (consisting of store and administrative expenses but excluding depreciation and amortisation) as a percent to sales increased slightly during the half. This was the net effect of the following:

- ➔ Store expenses inclusive of store wages, new store opening costs, occupancy costs, other store operating costs and advertising were up as a percentage to sales, mainly due to the expansion of the new store network during the half, with new store opening costs increasing from $1.4m (17 new stores) to $3.6m (33 new stores). A revised mix of advertising spend between catalogues and television saw the advertising spend as a % to sales reduce during the half. Occupancy costs as a percent to sales were flat, aided by a number of lease rental reductions for renewals during the period; and

- ➔ Administrative expenses, which reduced as a percentage to sales, as the fixed cost base was able to be leveraged against the increased sales base of a significantly expanded business.

Depreciation and amortisation expense increased significantly on the back of the significant number of store openings over the last twelve month period.

Earnings

The Company EBIT of $24.7m is down on the prior half. However, the comparability of the two periods is impacted by two material items:

- ➔ In the prior half there was a $2.9m receipt relating to the final settlement relating to the flooding of Company's Ipswich Distribution Centre; and
- ➔ The new store opening costs in HY14 were $3.6m compared to only $1.4m borne in the prior half.

After adjusting for the above two items, the Company recorded a modest 1.3% increase in EBIT during the half.

Dividends

The Company has declared an interim dividend of 21.5 cents per share which has a record date of 26 March 2014 and will be paid on 14 April 2014. This dividend is indicative of an increased payout ratio of 60% of Net Profit After Tax, which is up from the 50% which has been applied since the flooding of the Ipswich Distribution Centre in FY2011. This increased payout is also reflective of the strong balance sheet position at the end of the half and the strong operating cashflow the business has generated in the half and will continue to generate into the future.

Financial Position and Capital Investment

In April 2013 the company raised $43m in additional equity via an Institutional and Share Placement Plan to support the significant capital expenditure and working capital requirements of an accelerated new store opening program which has taken place over the 12 month period ending December 2013.

This equity raising, combined with a strong operating cashflow generation during the December half, has allowed the Company to be in a net cash position of $14.8m at the end of the half. This is despite the business having spent $20.5m on capital expenditure during HYE14, including a record $13.9m on new stores. We have also invested approximately $8m in working capital (primarily inventory) required to service these new stores.

This reduced net debt position saw interest expense reduce by $0.5m on the prior half.

Overview of Operational Performance and Outlook

The Company's result was below expectations. This reflects flat overall comparable store sales for the half, resulting from an unexpected poor December trading period, coupled with a disappointing gross margin outcome. This detracted from positive improvements in key operating metrics, and the successful execution of 33 new store openings during the half.

The Company remains conscious of the requirement to improve operating returns, after significant periods of investing in stores and infrastructure for the future.

The Company's strategic approach to its store portfolio remains paramount to ensure the Company operates in long term viable locations. This half, the Company is considering closing 4 stores subject to finalization of negotiations with landlords. These exits, as previously noted, are being balanced with new stores opening in locations where the Company believes it can sustain long-term profitable growth.

The Company has 12 new store openings scheduled for the second half, however in relative terms the significant amount of focus, time and incremental expenditure on new stores is largely in the past.

This half the Company is targeting moderate comparable store sales growth, gross margin percentage in line with the prior corresponding half and continued improvement in other key metrics. The reducing AUD will continue to require significant focus and planning over this half and into next year, and we have already addressed some of the areas which resulted in a lower margin result this half.

The Company expects full year NPAT, inclusive of opening costs, to be between \$17m and \$18m, compared to \$19.5 million for the previous full year (which included an insurance recovery of \$2.0m after tax relating to a prior period).

DIRECTORS' REPORT

Your directors present their report on the Company and its controlled entities for the half year ended 29 December 2013.

Directors

The following persons were directors of The Reject Shop Limited during the whole of the half year and up to the date of this report:

William J Stevens
Non-executive Director
Chairman of the Board, Member of the Remuneration Committee and Member of the Audit Committee.

Chris J Bryce
Managing Director

Kevin J Elkington
Non-executive Director
Chairman of the Audit Committee and Member of the Remuneration Committee.

Denis R Westhorpe
Non-executive Director
Member of the Audit Committee and Member of the Remuneration Committee.

Melinda Conrad
Non-executive Director
Chairman of the Remuneration Committee and Member of the Audit Committee.

Review of operations

The profit of the consolidated entity for the half year after providing for income tax amounted to $16,877,418.

The half year ended 29 December 2013, incorporates 26 weeks trading.

A review of the operations of the consolidated entity during the half year and the results of these operations are set out on pages 2 and 3 of the Appendix 4D and the Company's media release.

Seasonality

The first half of the Company's year traditionally produces a profit result significantly higher than the second half due to the significant sales increase during the peak trading period of November and December which provides profit leverage given a fixed cost base which does not increase during this same two month period.

The balance sheet as at 29 December 2013 reflects a reduced level of borrowings as compared to other times during the year due to the seasonal nature of the consolidated entity's activities.

Dividends

On 14 October 2013, a fully franked final ordinary dividend of 13.0 cents per share totalling $3,747,412 was paid. On 19 February 2014, the directors declared a fully franked interim dividend of 21.5 cents per share to be paid on 14 April 2014.

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

Auditor's independence declaration

A copy of the auditor's 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 98/100 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:

William J Stevens Chairman	Chris J Bryce Managing Director

19 February 2014

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Auditor's Independence Declaration

As lead auditor for the review of The Reject Shop Limited for the half-year ended 29 December 2013, 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.

D Rosenberg

Daniel Rosenberg
Partner
PricewaterhouseCoopers

Melbourne
19 February 2014

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Consolidated Statement of Comprehensive Income
For the Half Year Ended 29 December 2013

	Note	Half Year 2013 $'000	Half Year 2012 $'000
Revenues from continuing operations			
Sales revenue	2	**385,448**	327,518
Other income	2,4	**30**	3,194
		385,478	330,712
Cost of sales		**213,931**	177,411
Store expenses		**127,288**	105,446
Administrative expenses		**19,534**	18,441
		360,753	301,298
Finance costs	3	**615**	1,088
Profit before income tax		**24,110**	28,326
Income tax expense	5	**7,233**	8,268
Profit for the half year		**16,877**	20,058
Other comprehensive income			
Items that may be re-classified to profit or loss			
Changes in the fair value of cash flow hedges		**(3,508)**	(646)
Income tax relating to components of other comprehensive income		**1,052**	194
Other comprehensive income for the half-year, net of tax		**(2,456)**	(452)
Total Comprehensive Income for the Half Year Attributable To Members Of The Reject Shop Limited		**14,421**	19,606

Earnings per Share		**Cents**	Cents
Basic Earnings Per Share	24	**58.5**	76.9
Diluted Earnings Per Share	24	**57.8**	76.0

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

Consolidated Balance Sheet
As at 29 December 2013

	Note	29 December 2013 $'000	30 June 2013 $'000
Current Assets			
Cash	6	**15,323**	8,274
Receivables	7	**1,209**	847
Inventories	8	**89,237**	85,071
Derivative financial instruments	30	**3,345**	6,853
Other	9	**1,680**	624
Total Current Assets		**110,794**	101,669
Non-Current Assets			
Property, plant and equipment	10	**98,351**	86,738
Deferred tax assets	11	**9,008**	5,745
Total Non-Current Assets		**107,359**	92,483
Total Assets		**218,153**	194,152
Current Liabilities			
Payables	12	**38,405**	26,726
Borrowings	13	**481**	8,389
Tax liabilities		**6,292**	3,074
Provisions	14	**8,562**	8,911
Other	15	**14,443**	9,488
Total Current Liabilities		**68,183**	56,588
Non-Current Liabilities			
Borrowings	16	**-**	-
Provisions	17	**13,147**	11,147
Other	18	**1,150**	1,350
Total Non-Current Liabilities		**14,297**	12,497
Total Liabilities		**82,480**	69,085
Net Assets		**135,673**	125,067
Equity			
Contributed equity	19	**46,247**	46,277
Reserves	20	**7,642**	10,136
Retained profits	21	**81,784**	68,654
Total Equity		**135,673**	125,067

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

Consolidated Statement of Changes in Equity
For the Half Year Ended 29 December 2013

2013	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balances as at 30 June 2013	**46,277**	**739**	**4,600**	**4,797**	**68,654**	**125,067**
Profit for the period					16,877	16,877
Other comprehensive income				(2,456)		(2,456)
Transaction with owners in their capacity as owners:						
Cost of capital raising	(30)					(30)
Dividends Paid					(3,747)	(3,747)
Share based remuneration			(48)			(48)
Tax credited directly to equity			10			10
Balances as at 29 December 2013	**46,247**	**739**	**4,562**	**2,341**	**81,784**	**135,673**

2012	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balances as at 1 July 2012	**3,366**	**739**	**3,971**	**277**	**60,162**	**68,515**
Profit for the period	-	-	-	-	20,058	20,058
Other comprehensive income	-	-	-	(452)	-	(452)
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(4,697)	(4,697)
Share based remuneration	-	-	289	-	-	289
Tax credited directly to equity	-	-	10	-	-	10
Balances as at 30 December 2012	**3,366**	**739**	**4,270**	**(175)**	**75,523**	**83,723**

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

Consolidated Statement of Cash Flows
For the Half Year Ended 29 December 2013

	Note	Half Year 2013 $'000	2012 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		**423,326**	359,858
Payments to suppliers and employees (inclusive of goods and services tax)		**(377,517)**	(327,508)
Insurance claims received		**-**	7,854
Interest received		**30**	27
Borrowing costs paid		**(615)**	(642)
Income tax paid		**(6,217)**	(5,093)
Net cash inflows from operating activities	23	**39,007**	34,496
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		**234**	405
Payments for property, plant and equipment		**(20,507)**	(12,465)
Net cash outflows used in investing activities		**(20,273)**	(12,060)
Cash Flows from Financing Activities			
Costs associated with share issue		**(30)**	-
Proceeds from borrowings		**127,200**	101,100
Repayment of borrowings		**(134,200)**	(125,500)
Dividends paid	26	**(3,747)**	(4,697)
Net cash outflows used in financing activities		**(10,777)**	(29,097)
Net increase / (decrease) in cash held		**7,957**	(6,661)
Cash at the beginning of the half year		**6,885**	9,043
Cash at the end of the half year	23	**14,842**	2,382

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

Note 1: Basis of preparation of half-year report

This condensed consolidated interim financial report for the half year reporting period ended 29 December 2013 has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the Corporations Act 2001.

This interim 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 30 June 2013 and any public announcements made by The Reject Shop Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

	Note	Half Year 2013 $'000	2012 $'000
Note 2: Revenue From Continuing Operations			
Sales Revenue			
Sales of goods		**385,448**	327,518
Other Income			
Interest		**30**	27
Income from insurance claims	4	**-**	3,167
		30	3,194
		385,478	330,712

Note 3: Expenses
Profit before income tax expense includes the following expenses:

Interest and finance charges paid/payable		**615**	1,088
Depreciation and amortisation		**8,620**	6,750
Unrealised foreign exchange (gain)		**(13)**	(6)
Net loss / (gain) on disposal of property, plant and equipment		**40**	(58)
Rental expenses relating to operating leases:			
Minimum lease payments		**48,046**	40,560
Provision for rent escalations		**466**	499
Rent paid on percentage of sales basis		**211**	250
Employee benefits expenses		**79,661**	66,673
New store opening costs		**3,625**	1,428

Note 4: Accounting for Insurance Claims

Losses recognised in the Consolidated Statement of Comprehensive Income which are the subject of insurance recoveries are as follows:

Cost of sales		**-**	13
Store expenses		**-**	70
Administrative expenses		**-**	-
Total insured expenses		**-**	83
Recoveries from insurance claims relate to:			
Inventory write-offs		**-**	13
Loss of gross profits		**-**	3,084
Property, plant and equipment		**-**	-
Expenses		**-**	70
		-	3,167

	Half Year 2013 $'000	Half Year 2012 $'000
Note 5: Income Tax		
(a) Income tax expense		
Current tax	**9,443**	10,543
Deferred tax	**(2,210)**	(2,275)
	7,233	8,268
Deferred income tax expense included in income tax expense comprises:		
(Increase) in net deferred tax assets	**(2,210)**	(2,275)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**24,110**	28,326
Tax at the Australian tax rate of 30% (2012 – 30%)	**7,233**	8,498
Tax effect of amounts which are deductible in calculating taxable income:		
Research and development	**-**	(230)
	7,233	8,268
Under provided in prior years	**-**	-
Income tax expense	**7,233**	8,268
(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	**10**	204
(d) Tax (expense) / income relating to items of other comprehensive income		
Cash flow hedges	**1,052**	194

	Note	29 December 2013 $'000	30 June 2013 $'000
Note 6: Current Assets – Cash			
Cash on hand	23	**1,502**	1,235
Cash at bank	23	**13,821**	7,039
		15,323	8,274
Note 7: Current Assets – Receivables			
Other debtors		**751**	228
Insurance receivable		**458**	619
		1,209	847

	29 December 2013 $'000	30 June 2013 $'000
Note 8: Current Assets – Inventories		
Inventory at cost	**88,639**	84,423
Inventory at net realisable value	**598**	648
	89,237	85,071

Note 9: Current Assets – Other

Prepayments	**1,463**	427
Other current assets	**217**	197
	1,680	624

Note 10: Non-Current Assets – Property, Plant And Equipment

Leasehold improvements		
At cost	**55,760**	44,162
Less accumulated depreciation	**(19,161)**	(16,583)
	36,599	27,579
Plant and equipment		
At cost	**115,682**	107,305
Less accumulated depreciation	**(53,930)**	(48,146)
	61,752	59,159
Total property, plant and equipment	**98,351**	86,738

The consolidated entity has capital commitments totalling $1,194,050 (Dec 2012: $Nil), all payable within one year.

Note 11: Non-Current Assets – Deferred Tax Assets

The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Employee benefits	**3,816**	3,111
Lease escalation	**2,667**	2,527
Inventories	**678**	1,029
Lease incentives	**897**	838
Sundry items	**1,204**	465
Employee share trust	**322**	416
Equity raising costs	**228**	261
Other provisions and accruals	**1,095**	122
	10,907	8,769
Set-off of deferred tax liabilities of consolidated entity pursuant to set off provisions:		
Depreciation	**(758)**	(782)
Insurance receivable	**(137)**	(186)
Hedging reserve	**(1,004)**	(2,056)
	9,008	5,745
Deferred tax assets expected to be recovered within 12 months	**5,064**	2,401
Deferred tax assets expected to be recovered after more than 12 months	**3,944**	3,344
	9,008	5,745

	29 December 2013 $'000	30 June 2013 $'000

Note 12: Current Liabilities – Payables

	29 December 2013 $'000	30 June 2013 $'000
Unsecured liabilities		
Trade creditors	**28,940**	21,569
Sundry creditors and accruals	**9,465**	5,157
	38,405	26,726

Note 13: Current Liabilities – Borrowings

	29 December 2013 $'000	30 June 2013 $'000
Secured Liabilities		
Bank overdraft	**481**	1,389
Commercial bills	**-**	7,000
	481	8,389

Note 14: Current Liabilities – Provisions

	29 December 2013 $'000	30 June 2013 $'000
Employee entitlements	**8,562**	8,911

Note 15: Current Liabilities – Other

	29 December 2013 $'000	30 June 2013 $'000
Accrued expenses	**12,173**	7,501
Deferred income	**2,270**	1,987
	14,443	9,488

Note 16: Non-Current Liabilities – Borrowings

	29 December 2013 $'000	30 June 2013 $'000
Secured liabilities		
Commercial bills	**-**	-

Note 17: Non-Current Liabilities – Provisions

	29 December 2013 $'000	30 June 2013 $'000
Employee entitlements	**4,258**	2,724
Provision for rent escalation	**8,889**	8,423
	13,147	11,147

Note 18: Non-Current Liabilities – Other

	29 December 2013 $'000	30 June 2013 $'000
Deferred income	**1,150**	1,350

Note 19: Equity – Contributed Equity

Movements in ordinary share capital

Date	Details	No. of shares	Issue Price per share $	Contributed Equity $'000
1 July 2012	**Balance**	**26,071,170**		**3,366**
9 July 2012	Exercise of performance rights	21,050	-	-
24 April 2013	Capital raising	1,851,852	16.20	30,000
29 May 2013	Capital raising	864,176	16.20	14,000
29 May 2013	Capital raising costs	-		(1,089)
30 June 2013	**Balance**	**28,808,248**		**46,277**
9 July 2013	Exercise of performance rights	18,000	-	-
11July 2013	Capital raising costs	-		(30)
29 December 2013	**Balance**	**28,826,248**		**46,247**

	29 December 2013 $'000	30 June 2013 $'000

Note 20: Equity – Reserves

	29 December 2013 $'000	30 June 2013 $'000
Capital profits reserve	**739**	739
Share based payments reserve	**4,562**	4,600
Hedging reserve – cash flow hedges	**2,341**	4,797
	7,642	10,136

Note 21: Equity – Retained Profits

	29 December 2013 $'000	30 June 2013 $'000
Retained profits at the beginning of the financial period	**68,654**	60,162
Net profit attributable to members of the consolidated entity	**16,877**	19,451
Dividends provided for or paid	**(3,747)**	(10,959)
Retained profits at reporting date	**81,784**	68,654

Note 22: Contingent Liabilities

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

	29 December 2013 $'000	30 June 2013 $'000
Letters of credit established for acquisition of goods for resale	**-**	22
ANZ Bank indemnity guarantee to landlords	**1,463**	1,254
	1,463	1,276

Note 23: Cash Flow Information

Reconciliation of Cash

	Half Year 2013 $'000	2012 $'000
Reconciliation of cash flow from operations with profit from ordinary activities		
Profit from ordinary activities after income tax	**16,877**	20,058
Non-cash flows in profit from ordinary activities:		
Depreciation	**8,620**	6,750
(Profit) / Loss on sale of property, plant and equipment	**40**	(58)
Non-cash share based expense	**(48)**	289
Tax credited directly to equity	**10**	10
Changes in operating assets and liabilities, net of effects of purchase and disposal of subsidiaries		
Decrease/(Increase) in receivables and other assets	**(1,418)**	4,314
(Increase) in inventories	**(4,166)**	(14,840)
Increase in trade and other creditors and other provisions	**19,137**	15,018
Increase in income tax payable	**3,218**	5,522
(Increase) in deferred taxes	**(3,263)**	(2,567)
Net cash provided by operations	**39,007**	34,496

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	**1,502**	1,111
Cash at bank	**13,821**	1,301
Bank overdrafts	**(481)**	(30)
	14,842	2,382

Note 24: Earnings per share	**Half Year 2013 Cents**	2012 Cents
Basic earnings per share	**58.5**	76.9
Diluted earnings per share	**57.8**	76.0
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**28,825,363**	26,088,539
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**29,206,908**	26,398,523

Note 25: Net Tangible Assets	**30 December 2013 Cents**	1 July 2013 Cents
Net tangible asset backing per ordinary share	**470.6**	434.1

	Half Year 2013 $'000	2012 $'000
Note 26: Dividends		
Fully franked final dividend paid on 14 October 2013 (2012: 15 October 2012)	**3,747**	4,697
Balance of franking account at half year adjusted for franking credits arising from payment of 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	**37,217**	41,047

Note 27: Segment Information

The Reject Shop operates within the one reportable segment (retailing of discount variety merchandise). Total revenues of $385,447,882 all relate to the sale of discount variety merchandise in the Company's country of domicile (Australia), in this single reportable segment. The Company is not reliant on any single customer.

Note 28: Dividend Reinvestment Plan

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

Note 29: 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 30: Fair Value Measurements

The only financial assets or financial liabilities carried at fair value are cash flow hedges. The directors consider the cash flow hedges to be Level 2 financial instruments because, unlike Level 1 financial instruments, their measurement is derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices), There have been no transfers between levels 1, 2 and 3 for recurring fair value measurements during the half-year. The cash flow hedges fair values have been obtained from third party valuations derived from forward exchange rates at the balance sheet date.

The fair value of the cash flow hedges at 29 December 2013 was an asset of $3,345,060 (30 June 2013: asset of $6,853,334).

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 19 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 29 December 2013 and of its 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.

William J Stevens
Chairman

Chris J Bryce
Managing Director

Melbourne
19 February 2014

Independent auditor's review report to the members of The Reject Shop Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of The Reject Shop Limited (the company), which comprises the balance sheet as at 29 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for The Reject Shop Limited Group (the consolidated entity). The consolidated entity comprises both The Reject Shop Limited (the company) and the entities it controlled during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 29 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of The Reject Shop Limited ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of The Reject Shop Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 29 December 2013 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

D Rosenberg

Daniel Rosenberg
Partner

Melbourne
19 February 2014