

# Appendix 4E

## The Reject Shop Limited

(ABN 33 006 122 676)

### Consolidated preliminary final report

For the 52 week financial period ended 30 June 2019  
Compared to the 52 week financial period ended 01 July 2018

#### Results for announcement to the market

				\$A'000
Sales revenue from continuing operations	down	(0.8%)	to	793,687
(Loss) / Profit from continuing operations after tax attributable to members	down	(201.9%)	to	(16,899)
Net (loss) / profit for the period attributable to members	down	(201.9%)	to	(16,899)
Dividends		Amount per share		Franked amount per share
Interim dividend (paid 08 April 2019)		10.0 cents		100%
Final dividend		nil		n/a
Record date for determining entitlements to final dividend		n/a		
Dividend payment date		n/a		

Commentary on the Group's trading results is included in the media release and on pages 19 to 23 of the annual report enclosed.

**THE REJECT SHOP**

# **Annual Report**

**2018 – 2019**



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# Chairman's Report



Dear Shareholder,

The financial results for the 2019 year have been significantly disappointing. The Company has reported a loss from its trading for the year, for the first time.

While acknowledged that general economic conditions remain tough, and that there is a particularly challenged retail trading environment, we consider that the Company has made some poor execution decisions. These have further exacerbated the trading outcome.

On a more positive note, we have identified changes that are necessary, and these are being implemented.

As forecast in May 2019, the trading activity for the year has resulted in a net loss of \$1.54 million after tax. While costs have been well controlled, this has primarily resulted from a shortfall in sales, through changes in our merchandising strategies that have not been well executed. We have taken actions to address and correct this. This operating result includes provisions in respect of several onerous store leases, as well as accelerated write-offs of fittings and fixtures at stores where leases are unlikely to be renewed.

In addition to this net trading loss, a further non-cash provisioning charge of \$15.36 million (after tax) has been taken against the carrying value of the Company's assets across the Distribution Centres, and the store network. This has resulted in a Net Loss for the year (after tax) of \$16.90 million.

This additional provisioning charge has been taken, in accordance with accounting standards, and based upon an estimated shortfall in the future discounted cash flows of the business based upon a range of assumptions, including current performance; rather than expectations of what our performance should be, given the positive changes being made. The Company remain of the view that our future cash flows are within our control, and that the full historical cost of all acquired assets should, and will be, recovered from future operations.

The net loss for the year resulted, at 30th June 2019, in the Company being in breach of the Fixed Charge Covenant established with its bankers in respect of its ongoing financing facilities. We also expect to be in breach of that covenant at 30th September 2019. Our bankers have waived compliance with the breach at those dates; and continue to provide the working capital facilities that support our ongoing operations. The return to profitable operations in this 2020 financial year will sustain our ability, in the medium term, to meet all debt covenants.

The Company balance sheet remains strong, with all long-term assets being funded by shareholder equity. The Company have had a long-term approach of using debt facilities only for working capital purposes. Due to the net loss for the period; the Board have determined that no final dividend will be paid.

These financial outcomes have necessitated change. The Chief Executive Officer has recently left the business, together with some other senior roles. Ongoing succession and transformation activity had also been occurring at the Board level. The Company has commenced a search for a new Chief Executive Officer. This search process is very well underway and we hope to have made an appointment within the near term.

During this time, the Board is confident that the Company, under our Acting CEO, Dani Aquilina and her team, will be well on the way to turning the Company's fortunes around. Dani has experience and exposure to several roles within the Company over the past ten years, and we consider that she has a sound understanding of our core promise, and the expectations of our customers. Dani and her team have already introduced some effective changes and together in due course with our new CEO, the Board is confident of a return to both profitability and growth.

Dani has set out further detail, in the CEO Report, some of the actions that she and the team believe will return us to our profit objective. The Discount Variety sector of the economy provides great opportunity in tough economic times, and so long as our offer is 'best in class' there is no reason we should not return to the position of leading Discount Variety destination.

Together with your Board, I would like to acknowledge the enormous effort that the entire staff at the Company have made; and continue to make. It does not go unnoticed. Together with this effort, and a development of the return to our core competencies; a return to profitability and growth is not far away. The keen selection of product at the right margins, combined with an ongoing focus on reducing our Cost-of-Doing-Business will ensure that we will return to continuing profitable outcomes.

**The team, and your Board, consider that our charter, our core values, and our mission remain steadfast.**

The Board considers the safety and well-being of our people, and our customers to be paramount. We are committed to an objective of injury-free operations, and we remain vigilant to the risks which that may invoke for our staff and customers.

As discussed previously, all our stores are expected to achieve sales that will enable sound economic outcomes. The vast majority of our stores are sustainable. Where sustainable sales and rental outcomes cannot be achieved, stores will be closed when leases expire.

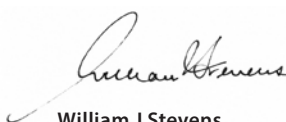
Our extensive store network enables us to have ongoing contact with many communities. Our established Reject Shop Foundation and our localised Community Support programs continue to receive resounding support from the communities and our staff. Our Foundation continues to provide support to children with medical difficulties. The Board thank all involved for their generous engagement.

Throughout the year, your Board has been in regular contact with our shareholders. Some of this has been the disappointing updates regarding the current year financial performance. The takeover bid initiated by Allensford in November 2018, which was not supported

by your Board, nonetheless resulted in them becoming a substantial shareholder. They acquired almost 20% of the Company's shares – and were accordingly granted Board representation. Notwithstanding the disappointing financial outcome for the 2019 year, and the current share price, it remains the view of both the Board, and our substantial shareholder, that the Company has a prominent place in the retail landscape – and that long term value of a Company share significantly exceeds its current market price.

A great deal of information is set out in the Directors' Report, the Annual Report, and its Supplements on our values, and how the Company operates. We encourage you to read it, and to engage with us at the Annual General Meeting in October, with any of your questions.

On behalf of the Board



**William J Stevens**  
Chairman

# Acting Chief Executive Officer's Report



Dear Shareholder,

I am honoured to have been appointed to the position of Acting Chief Executive Officer. The Reject Shop is a business that plays such an integral role of serving the value conscious consumer and supporting those that need to stretch their money further. I believe that there is a distinct position in the Australian retail environment for a clearly defined and well-executed Discount Variety Store that owns low prices and delivers amazing products every day. The Reject Shop is best positioned to deliver this with our asset base, scale and knowledgeable team.

FY2019 proved to be a challenging sales environment for the business due to both a decline in consumer confidence and strategic shifts to our merchandise strategy that resulted in comparable sales growth of -2.5%.

Challenging market conditions were overlaid with directional shifts to some elements of our merchandise strategy that took the focus away from core aspects of our value proposition. This entailed a deeper investment into home and apparel categories as well as the introduction of an increasing number of higher priced items. This shift in direction did not meet customer expectations and ultimately came at a cost.

As a business we have responded quickly to the results of last year with a clear strategy to turn the business around. We are doing this by re-engaging our core DNA with an absolute focus on our value proposition.

We are working to reinforce the benefit that we provide to consumers by emphasising the great value of our

products through the front of our stores and through the repositioning of our campaigns. These changes have included a greater focus on volume lines that deliver great savings to customers.

From a store perspective, we saw a continuing weakness in the West Australian economy with declining comparative growth of -7.6%. Queensland and New South Wales also softened throughout the year whilst Victoria and South Australia were relatively flat and Tasmania achieved a pleasing +0.9% growth.

The sales decline was compounded by a reduction in our gross margin which reduced through the second half. The reduction in margin was the result of the following factors:

- a response to competitive price pressures which resulted in price roll backs;
- increased markdowns to clear product in support of simplifying the shopping experience; and
- as a result of responding to the shift in elements of the merchandise strategy which resulted in clearance activity.

Additionally, we experienced a significant increase in our shrink results on the prior year. We are progressing through a plan to reduce the impact of shrink. We will accelerate this program through FY2020 with an expected improvement to be realised through the year. Freight and supply chain costs were well controlled following on from several cost and efficiency initiatives delivered over the previous years.

As a business, we have managed our costs well despite incurring increases relating to operating our store network. Rate rises in store Enterprise Bargaining Agreements and CPI increases in rents have had significant impact to the cost of doing business. We have invested in our people through staff training programs targeted at our store management team. We also increased marketing activity over the festive season with a pre-Christmas television campaign to remind consumers of our brand and maximise sales potential. The impact of these cost increases were lessened through ongoing savings in Power, due to our Energy Efficiency Initiatives and significant cash reductions as a result of lease renewals throughout the year.

## Store Openings and Closures

Throughout the year we opened fourteen stores, relocated one store, reopened two stores impacted by fire and flood and closed eight stores. The decision to close stores was made based on financial measures relating to the store or resulting from centre refurbishments whereby we were unable to maintain tenancy.

Looking ahead we are focusing on how we can optimise our portfolio through both a strategic and commercial lens. Our network will continue to grow through FY2020 however, we will see a reduction in the number of openings on previous years. Additionally, we will continue to re-locate or close non-performing stores to ensure a healthy portfolio.

## Our People

The company has over 5,000 valuable team members. We are continuing to invest in our people having placed 400 of our team members through our retail leaders' program through FY2019. We are also pleased to have launched our inclusion and diversity strategy which is aimed at ensuring our team work in an environment of inclusivity, built on diversity, equality and opportunity.

The sustained focus and attention on preventing injury and returning injured workers back into their workplaces more quickly; has resulted in reduced levels of Worker Compensation premiums during the past three years and the lowest number of serious injuries resulting in Lost Time since 2013/14. In addition, there has been a 14% decline in customer incidents recorded from FY2018 to FY2019.

## Looking Ahead

In response to the declining profitability we experienced in FY2019 we have enacted a turnaround plan to alter the sales trajectory and set The Reject Shop up for a stronger FY2020 and beyond.

## Re-engaging Our Core DNA

We are doing this by dialing up the essence of who we are, a proud discount variety retailer. We have commenced executing a plan which re-engages our core DNA with an absolute focus on our value proposition which remains centered around owning everyday low prices. We offer customers:

- leading branded product;
- great daily essentials and household general merchandise; and
- new exciting product which is refreshed regularly.

Ensuring we maintain a balance across all these factors is key to our success.

We are also progressing strategies to improve transaction growth including our trials with Card Factory, which are now complete. This has delivered significant growth in volume and improved the overall sales for those stores through increased transactions. Following these results, we are excited to announce an exclusive partnership with Card Factory, which will see us sell their branded greeting card range in our stores. The roll out will commence in the second half of FY2020.

## Making it Easier for Customers

We are working to make the shopping experience easier for customers both in store and browsing online. This includes ensuring our Buyers are creating a carefully curated range of the best-selling product at discount retail prices. This will see a more tailored range in our store throughout FY2020 and will be complemented by a simplified pricing architecture to reinforce value.

We are progressing our digital strategy with the first objective to help customers find our amazing product through our website. We anticipate yielding a significant benefit once executed.

## Focusing on Costs

Our work on costs is never done. As a discount variety store we must maintain a strong focus on efficiencies and ensure we have initiatives that capture scale and simplification benefits from our network.

This will include supply chain initiatives that deliver cost and capital efficient benefits and a continued focus on achieving rental reductions. We are very focused on anything that adds cost and complexity into our business and are reviewing activity that will remove this to ensure our prices remain low.

Whilst in the early stages of our turnaround I invite shareholders to shop with us and see the changes that we are making to cement our relevance in the market and improve performance.

In closing, I want to thank every one of our team members who work hard every day. I am excited to see what we will accomplish in FY2020.

Regards,



**Dani Aquilina**  
Acting Chief Executive Officer

# Board of Directors



**William (Bill)  
Stevens**

**Non-Executive  
Chairman**

Bill is a Fellow of the Institute of Chartered Accountants in Australia with an extensive career with KPMG (and Touche Ross) for 37 years. During his career with KPMG he was the client service partner for major clients including BHP Billiton, Santos, Pacific Dunlop/Ansell and Pacific Brands. More recently he was CEO of the Pacific Edge Group. He is also a director of International Healthcare Investments Ltd and a number of private company groups. Bill joined the Board in August 2008 and was appointed Chairman on 14 July 2010.



**Michele  
Teague**

**Non-Executive  
Director**

Michele is an experienced senior executive having operated within large corporates – many publically listed - and for companies employing 30,000+ people with revenues of \$14+ billion. Key roles have been at General Manager Marketing/Global Marketing level, and commercial Managing Director/GM level, with P&L accountability for \$100m+ revenue. Michele joined the Board of The Reject Shop in September 2017, and has been on boards of industry bodies (marketing and advertising) and New Zealand Rugby League.



**Selina  
Lightfoot**

**Non-Executive  
Director**

Selina is an experienced Company Director and consultant; her previous executive experience including over 25 years as a corporate legal advisor including 10 years as a Partner at a major Australian law firm. Selina's areas of expertise include corporate governance, mergers and acquisitions, business integration, outsourcing and commercial contracting. Through her legal roles and other directorships, Selina has been exposed to a broad range of industries, including technology, retail and manufacturing. In addition to her legal qualifications, Selina holds a Graduate Diploma in Applied Finance and Investment and is a Graduate of the Australian Institute of Company Directors. Selina joined the Board of The Reject Shop in August 2018.



**Jack  
Hanrahan**

**Non-Executive  
Director**

Jack has over 30 years of experience across various retail sectors in a variety of senior executive roles. Jack's broad expertise in retail was developed through a range of retailers, including heading up the Retailer Relations section at Westfield. Jack has academic qualifications from the Graduate School of Business at Macquarie University and he has also written a textbook "Retail Strategy Planning & Control". Jack joined the Board of The Reject Shop in December 2018.



**Steven  
Fisher**

**Non-Executive  
Director**

Steven has more than 30 years experience in general management positions in the wholesale consumer goods industry and was the former Managing Director of the Voyager Group. Prior to entering the consumer goods industry Steven was a practicing chartered accountant having qualified with a Bachelor of Accounting degree. Steven is the current Chairman of The Breville Group and has held the position of Chairman since 2012. Steven joined the Board of The Reject Shop in June 2019.

During the last three years he has served as a Non-Executive Director of the following other listed company: Breville Group Limited.



**Zachary  
Midalia**

**Non-Executive  
Director**

Zachary Midalia has experience working nationally and internationally with some of the most respected investment firms and entities. He has led critical investment decisions across a broad range of sectors in both the public and private markets and been a Non-Executive Director representing shareholder interests on a range of boards. Currently he is the Investment Director of the Melbourne head-quartered Kin Group with responsibility for investments across retail, real estate and consumer businesses. Zachary holds a Master of Business Administration with Dean's Honours from Columbia Business School and a Bachelor of Commerce from University of Sydney. Zachary joined the Board of The Reject Shop in June 2019 as a representative of major shareholder, Kin Group.

**The board acknowledges  
your continuing support,  
and we remain confident  
in the Company's outlook.**

# Management Team



**Dani  
Aquilina**  
**Acting Chief  
Executive Officer**

Dani has more than 20 years experience in retail including over eight years with Kmart. Since joining The Reject Shop in 2007, Dani has played key roles spanning production, supplier sourcing, customer distribution, planning and most recently, product development and business innovation. She has a Masters of Business in Supply Chain and Logistics Management. Dani was appointed General Manager of Distribution in January 2013 progressing to General Manager of Supply Chain Planning in June 2016 and later General Manager of Supply Chain and Strategy in October 2018. As of May 2019, Dani is now Acting CEO for The Reject Shop.



**Darren  
Briggs**  
**Chief Financial  
Officer & Company  
Secretary**

Darren spent over 10 years working with Deloitte in Australia and the United States. Darren then spent the next thirteen years working in senior finance roles at large corporations, most recently ten years at Skilled Group Limited. Darren joined The Reject Shop as Financial Controller/Company Secretary in May 2008 and was promoted to Chief Financial Officer/Company Secretary in October 2009.



**Robert  
d'Andrea**  
**General Manager –  
Human Resources**

Robert has significant experience in Human Resources across a number of industry sectors including Retail, Supply Chain and Financial Services. Holding senior HR roles with Coles, Linfox and the National Australia Bank, Robert's background covers the full range of HR management disciplines as well as project and change management. Robert's experience includes working in major business turnarounds and change programs. Robert joined The Reject Shop in May 2015.



**Brendon  
Short**  
**General Manager –  
Operations**

Brendon has 27 years of experience working across big box retail and specialty stores in South Africa and Australia. He has worked with Woolworths South Africa, Country Road Group and most recently David Jones as Retail General Manager for their South West Region. Brendon's experience includes commercial, sales and operational roles leading large teams. Brendon joined The Reject Shop in March 2019.



**Allan  
Penrose**

**General Manager –  
Marketing**

Allan has over 20 years retail marketing experience, having held senior marketing roles at Kmart, Target, Grey Advertising and George Patterson Y&R. Prior to joining The Reject Shop Allan spent 5 years at The Solomon Partnership where he developed a number of successful integrated brand campaigns for Coles Supermarkets. Allan joined The Reject Shop in August 2010.



**Steven  
Williamson**

**Acting General  
Manager – Buying**

Steven joined The Reject Shop in 2017 having more than 30 years experience in Retail and Wholesale including over 17 years with Target. At Target, Steven held multiple roles ranging from Buyer to Business Manager of General Merchandise. At The Reject Shop, Steven has previously acted as General Manager – Buying and played key roles in Strategy and Innovation. Steven was appointed Acting General Manager of Buying in June 2019.

**We understand that  
value is a key driver of  
our customer motivation,  
and that we need to  
deliver on this every day.**

# The Reject Shop Foundation

The Reject Shop Foundation is a not-for-profit foundation committed to 'Help Kids In Need', by contributing funds to Australian programs that support kids at a time they need it most.

Our national charity partner HeartKids assists us in improving the lives and futures of the growing number of kids and their families affected by childhood heart disease, through their family support programs and investment into world class research. We however could not do this without the generosity of our customers and team members through donations via our cash collection boxes available across the Company's entire store network, and team member fundraising and voluntary work place giving programs.

FY2019 also marked the launch of The Reject Shop Foundation Community Grants Program; an initiative which gives team members an opportunity to support a child, charity or local cause which has impacted them, their family or community through the use of a community grant, valued up to \$1,000 each. Community grants are awarded to 'Help Kids In Need' in the areas of education, social support, rural and remote accessibility and serious illness.

**We thank our customers and team members for their ongoing support to raise in excess of \$818,000 to help 'Kids In Need' and look forward to supporting many more kids over the coming year.**

The Reject Shop Foundation is administered by the Good2Give Community Fund.





# Corporate Governance, Environmental and Social Statement

The Company and the Board have set and maintained high standards of corporate governance. The Company has complied with the Principles and Recommendations released by the ASX Corporate Governance Council in March 2014 and any subsequent amendments.

A summary of the Company's main corporate governance practices are outlined below and were in place for the entire period, unless otherwise stated. This statement is accurate and is up to date as at 22 August 2019 and has been approved by the Board. A full copy of the Company's corporate governance, environmental and social policies and charters can be found in the investors section of the Company's website at [www.rejectshop.com.au](http://www.rejectshop.com.au).

## The Board of Directors

The Board operates in accordance with the Board Charter, which establishes the composition of the Board and its overall responsibilities, as summarised below:

### Composition of the Board

Under the Company's Constitution and the Board Charter the following criteria must always be met:

- The Board must be comprised of at least 3 directors;
- The Board must be comprised of a majority of independent directors;
- The Chairman must be an independent director; and
- The Managing Director and the Chairman are separate roles and undertaken by separate people.

There are currently six Non-Executive Directors. Each Non-Executive Director is individually assessed, on an annual basis, for independence based on the following criteria:

- They must not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- They have not, within the last three years, been employed in an executive capacity by the Company, or been a director after ceasing to hold any such employment;
- They have not, within the last three years, been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with a service provider;
- They must not be a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- They must have no material contractual relationship with the Company or another group member other than as a director of the Company;
- They have not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Company; and
- They must be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Company.

Materiality is assessed on both qualitative and quantitative bases.

Of the six Non-Executive Directors, five are assessed as independent in that they satisfy all criteria above.

Mr Steven Fisher and Mr Midalia have been nominated and appointed, under a nominee director protocol agreed with Allensford Pty Ltd in its capacity as trustee for the Allensford Unit Trust (Allensford), a substantial shareholder that is ultimately controlled by the Kin Group Pty Ltd (Kin Group). The protocol sets out the agreed approach to appointment of two nominee directors, the management of potential and actual conflicts of interest, including information sharing, and dealing in shares of the Company.

The Board has considered Mr Fisher's independence in light of the criteria above and satisfied itself that Mr Fisher is not associated with Allensford or Kin Group. The Board has determined that Mr Fisher is independent and that his nomination by a substantial shareholder does not materially interfere with his capacity to bring an independent judgement to bear on issues before the Board.

Mr Midalia is not considered independent by virtue of his other commercial arrangements with Allensford and the Kin Group.

The directors considered as independent are as follows:

**William J Stevens**

**Michele Teague**

**Selina Lightfoot**

*(Appointed 23 August 2018)*

**Jack Hanrahan**

*(Appointed 12 December 2018)*

**Steven Fisher**

*(Appointed 14 June 2019)*

The director considered as non-independent is as follows:

**Zachary Midalia**

*(Appointed 14 June 2019)*

Details of each directors' experience is contained on pages 6 and 7 and their attendance at Board and Committee meetings is contained in the Directors' Report on page 18 in this annual report.

All directors have entered into written contracts of employment. In addition, Mr Midalia has agreed to comply with the terms of the nominee director protocol.

### Responsibilities of the Board

The Board delegates responsibility for the day-to-day management of the Company to the Acting Chief Executive Officer and senior management, however retains responsibility for:

- Establishing and reviewing the implementation of strategy;
- Monitoring senior management's performance and approving remuneration;
- Ensuring appropriate resources are available to achieve the Company's objectives; and
- Promoting best practice corporate governance, including overseeing the Company's risk management policies.

To enable the directors to fulfil their responsibilities, each director may, at the Company's expense and after consultation with the Chairman, seek independent professional advice.

To assist in meeting its responsibilities, the Board has established the Audit and Risk Committee and Remuneration and Nominations Committee, each with their own separate charter and structure. Significant matters arising from these Committee meetings are tabled at the subsequent Board meeting.

### Board Skills and Experience Matrix

To assist in identifying areas of focus and maintaining an appropriate and diverse mix, the Board has developed a 'Board Skills and Experience Matrix' ('Board Matrix') which is represented in the table below. The Company's Board Matrix sets out the mix of skills, experience and expertise that the Board currently has. The Board benefits from the combination of Director's individual skills, experience and expertise in the areas identified below:

#### Board Skills and Experience Matrix (out of 6 directors)

<b>Legal, Governance &amp; Compliance</b>	
Legal	2
Corporate Governance	6
Compliance	6
<b>Operations</b>	
Marketing	3
Retail, buying, sales & distribution	3
General management experience	5
Business Development	4
Strategy	6
CEO	3
Property/ store development	2
Supply chain/ offshore procurement	2
<b>Finance and Risk</b>	
Accounting	4
Finance	4
OH&S/Risk Management	6
<b>People</b>	
Human Resources	3
Remuneration	4
<b>Technology</b>	
Technology	2
Digital	3

### Rotation of Directors

Under the Company's constitution at least one third of the Company's directors must retire at each annual general meeting, as well as any director who has served for more than three years since their last election, excluding the Managing Director.

### Audit and Risk Committee

The Audit and Risk Committee operates under the Audit and Risk Committee Charter which outlines the composition and responsibilities of the Audit and Risk Committee as outlined below:

#### Composition of the Audit and Risk Committee

The Audit and Risk Committee Charter, in line with the recommendations outlined by the Corporate Governance Council, states that the Committee should consist of at least three members, all of whom are Non-Executive Directors and the majority being independent directors. The chairperson must be an independent director and not the Chairman of the Board. In addition, the members of the Committee must have a working familiarity with basic finance and accounting practices, and at least one member of the Committee must have accounting or related financial management expertise.

The Audit and Risk Committee currently comprises the following members:

**Selina Lightfoot** (Chair)  
**William J Stevens**  
**Michele Teague**  
**Jack Hanrahan**  
**Steven Fisher**  
**Zachary Midalia**

### Role of the Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in:

- Overseeing the reliability and integrity of financial and asset management;
- Ensuring compliance with the Company's accounting policies, financial reporting and disclosure practices;
- Monitoring internal controls including financial systems integrity and risk management; and
- Maintaining the relationship and reviewing the work of the external auditors.

### Responsibilities of the Audit and Risk Committee

- Reviewing the integrity of accounting principles adopted by management in the presentation of financial reports;
- Regularly reviewing, assessing and updating internal controls, risk management and regulatory compliance;
- Reviewing, monitoring and assessing related party transactions; and
- Monitoring the effectiveness and independence of the external auditor.

### Role of the External Auditor

PricewaterhouseCoopers was appointed auditor effective 2 July 2001, and provides an annual declaration of their independence to the Audit and Risk Committee. Whilst not a member of the Audit and Risk Committee, they are invited to attend meetings. In addition, they will attend the Annual General Meeting to answer shareholder questions with regard to the conduct of their audit.

### Risk Management and Assessment

The Board has delegated to the Audit and Risk Committee the responsibility for overseeing the implementation of certain policies and procedures aimed at ensuring that the Company conducts its operations in a manner that manages risk to protect its people, its customers, the environment, Company assets and reputation as well as to realise business opportunities.

Risk identification and management is a key focus of the General Management team. Accordingly, the General Management team have designed and implemented a risk management and internal control system to manage the Company's material risks, with a comprehensive analysis of the material risks being prepared for review by the Audit and Risk Committee.

In addition, the Company's Internal Audit and Loss Prevention, and Quality Assurance functions provide ongoing assurance to the Board and management that established procedures and requirements are being met.

The Acting Chief Executive Officer and the Chief Financial Officer have made the following certifications to the Board:

- The Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards; and
- The above statement is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board, and ensures that the Company's risk management and internal

compliance is operating efficiently and effectively in all material respects.

To enable these certifications to be made, all functional General Managers have provided similar certifications to the Acting Chief Executive Officer and Chief Financial Officer.

### Continuous Disclosure Policy

The Company has a Continuous Disclosure Policy which establishes the framework by which the Company will satisfy its continuous disclosure obligations as required by the Listing Rules of the Australian Securities Exchange and the Corporations Act. This policy ensures information is disclosed in a full and timely manner to enable all shareholders and the market to have an equal opportunity to obtain and review information about the Company.

The Company has a Shareholder Communication Policy which recognises the right of Shareholders to be informed of matters, in addition to those required by law, which affect their investment. In conjunction with the Company's Continuous Disclosure Policy, this policy ensures that Shareholder and financial markets are provided with information about the Company's activities in a balanced and understandable way. In addition, the Company is committed to communicating effectively with Shareholders and making it easier for Shareholders to communicate with the Company.

Link Market Services (our Registrar) provide the ability to have these services provided electronically.

Annual and half year reports, media and analysts' presentations, press releases together with the broader continuous disclosure policy are available on the Company's website.

## Code of Conduct

The Company has an established corporate code of conduct which forms the basis for a shared view of the Company, its mission and its ethical standards and code of conduct by senior management and employees. After approval by the Board this code has been adopted by all senior executives. Included in the code of conduct is an encouragement to all employees to report any breaches of the code to senior management or Human Resources. In addition, a formalised whistleblowers policy has been developed and implemented during the year which offers employees an avenue to report on a known or anonymous basis.

The Company has a Share Trading Policy which restricts the trading of securities by directors and employees to specified windows during the period, namely between 24 hours and 30 working days after announcement of the Company's half yearly results, and between 24 hours after the announcement of the Company's

period-end result and 30 working days after the close of the Company's annual general meeting. In addition, with prior approval of the Chairman, a trading window may be opened for a period commencing 24 hours after and not exceeding 30 working days after any formal announcement to the Australian Securities Exchange.

## Diversity Policy

The Company recognises the importance of diversity and values the competitive advantage that is gained from a diverse workforce at all levels of the organisation. Accordingly, the Company has developed a Diversity Policy which focuses on respecting the unique differences that individuals can bring to the business. This policy ensures the Company will continue to foster an environment that respects differences in age, gender, ethnicity, religion, sexual orientation and cultural background. The Company will continue to ensure that all employment opportunities are filled and remunerated on the basis of merit and performance and not due to any known bias.

The Company is committed to building a diverse workforce, with a particular focus on gender and gender equality, and to support this focus, the following objectives have been set:

- Communication of the Company's Gender Diversity Statement to internal and external stakeholders;
- Review the means by which the Company recruits, develops and retains females across the organisation;
- Continue to build from our current workplace flexibility options including job sharing and/or part-time employment;
- Conduct and report a gender audit to measure progress from baseline data and identify and review any specific areas of gender inequality; and
- Report to the Board on a regular basis.

In accordance with this policy the following table represents the level of gender diversity within the Company and changes from the prior year.

	No of Employees - Female 30 June 2019	No of Employees - Total 30 June 2019	% of Females	No of Employees - Female 1 July 2018	No of Employees - Total 1 July 2018	% of Females
Board	2	6	33.3%	1	4	25.0%
Senior Executives	1	6	16.7%	1	7	14.3%
Middle Management	6	28	21.4%	4	25	16.0%
Store Managers	222	381	58.3%	227	380	59.7%
All Team Members	3,745	5,595	66.9%	3,523	5,296	66.5%

Senior Executives includes the General Management team reporting to the Acting Chief Executive Officer (excludes Board). Middle Management includes Management reporting to the General Management team or equivalent (excludes Board & Senior Executives). All Team Members as included in the table above includes all employees of The Reject Shop with the exception of the Board.

On 1st of June 2019, The Reject Shop lodged its annual public report with the Workplace Gender Equality Agency. A copy of this report can be found on the Company's website at [www.rejectshop.com.au](http://www.rejectshop.com.au).

## Remuneration and Nominations Committee

The Remuneration and Nominations Committee Charter outlines the composition and responsibilities of the Remuneration and Nominations Committee.

### Composition of the Remuneration and Nominations Committee

Under the Remuneration and Nominations Charter, and consistent with the Corporate Governance Council recommendations, the Committee consists of at least three members, a majority of which must be Non-Executive Directors, with the chairperson of the Committee being a Non-Executive Director. During this Board renewal period, the committee functions have been separated, and the Charters will be amended in 2019-2020 to reflect this.

Each member of the Committee must also be independent of the management of the Company and free from any relationship that, in the business judgement of the Board, would interfere with the exercise of their independent judgement as a member of the Committee.

The Remuneration Committee currently comprises the following members:

**Jack Hanrahan** (Chair)  
**William J Stevens**  
**Michele Teague**  
**Selina Lightfoot**  
**Steven Fisher**  
**Zachary Midalia**

The Nominations Committee currently comprises the following members:

**Jack Hanrahan** (Chair)  
**Michele Teague**  
**Steven Fisher**

### Role of the Remuneration and Nominations Committee

The role of the Remuneration and Nominations Committee is to review and make recommendations to the Board regarding:

- The remuneration and appointment of Senior Executives and Non-Executive Directors;
- Policies for remuneration and compensation programs of the Company; and
- All equity-based compensation plans.

To adequately fulfil their role, the Remuneration and Nominations Committee obtains and considers all relevant advice and information including industry trends in remuneration policy, market rates for the positions of Acting Chief Executive Officer, other senior executives and Non-Executive Directors, and movements in general wage rates.

Information regarding director and key management personnel remuneration is provided in the Directors' Report and on pages 70 to 73 of this annual report.

## Environmental and Social Statement

The Company is committed to being responsible for the impact it has on our environment and where possible engaging with our community, to research and implement positive environmental outcomes.

The Company is committed to reducing our environmental footprint and our greenhouse gas emissions. Our focus is on the provision of a more sustainable and holistic approach to energy usage, waste disposal, recycling and the positive education of our team members in relation to the environment.

### Energy Efficiency Initiatives

#### Lighting

In mid-2015, with increasing electricity costs and usage in its store network, the Company commenced a multi-million investment into an energy saving project to insure itself against ongoing price rises and to bring down operating costs; consistent with our objective of reducing our environmental footprint.

As of 30 June 2019, we have installed high-efficiency LED lighting and automated energy management systems into 302 stores, including 21 Tasmanian stores completed in May 2019. This equipment regulates lighting levels, run times and air conditioning usage. In addition, the energy management system will allow the Company to individually control power usage at each store and therefore manage its energy costs. This energy reduction equipment now forms part of our standard fit out, and will be rolled out to all new stores in future.

In addition, the Company is also actively managing supply contracts with energy retailers on an annual basis to ensure we are obtaining the lowest unit tariff charges to support the above investment.

### **Air Conditioning**

The Company continues with a stringent maintenance plan to ensure all equipment is running efficiently and to Australian Standards. The Company also continues to work with landlords to maximise servicing within any contractual agreements. Integration of company-controlled air-conditioning units with the nationwide electricity optimisation program is also driving some significant benefits.

### **Reducing Waste and Recycling**

The Company is increasing its engagement with its contracted waste company in order to improve its recycling capabilities. Increased plastic and cardboard recycling across the store network has been a focus. Further reductions in the usage of plastic and cardboard are also being sought further up the supply chain.

### **Sustainable Awareness and Fit-Out**

The Company continues to review more sustainable material options for use in building, fitting out and refurbishing our stores. Multiple programs to increase the efficiency of stock delivery and reducing packaging wastage are currently being reviewed.

## **Community Engagement**

### **The Reject Shop Charity Foundation**

The Reject Shop Foundation is a not-for-profit foundation committed to helping kids in need, by contributing funds to Australian programs that support kids at a time they need it most, as set out on page 10.

### **Local Community Support**

The Company allocates funds from its annual budgets which are used to support local charities and sporting organisations, either by way of cash or gift card donations.

### **Ethical Sourcing Policy**

The Company has developed an Ethical Sourcing Policy which is available within the Investors (Corporate Governance) Section of the Company website ([www.rejectshop.com.au](http://www.rejectshop.com.au)).

The policy incorporates both environmental and socioeconomic criteria for all imported products sourced directly or through agents. The policy encourages trade partners and agents to improve their social and environmental practices, and protect our corporate reputation and that of our individual businesses and brands.

# Directors' Report

Your directors present their report on the Company and its subsidiaries for the financial period ended 30 June 2019.

## Directors

The directors of The Reject Shop Limited during the whole of the financial period and up to the date of this report, unless otherwise stated below, were:

### William J Stevens

Non-Executive Director

Chairman of the Board, Member of the Remuneration Committee and Member of the Audit and Risk Committee.

### Ross Sudano

(Resigned 23 May 2019)

Managing Director and Chief Executive Officer

### Kevin J Elkington

(Resigned 28 February 2019)

Non-Executive Director

Chairman of the Audit and Risk Committee and Member of the Remuneration Committee.

### Michele Teague

Non-Executive Director

Member of the Audit and Risk Committee and Member of the Remuneration and Nominations Committee.

### Selina Lightfoot

(Appointed 23 August 2018)

Non-Executive Director

Chairman of the Audit and Risk Committee and Member of the Remuneration Committee.

### Jack Hanrahan

(Appointed 12 December 2018)

Non-Executive Director

Member of the Audit and Risk Committee and Chair of the Remuneration and Nominations Committee.

### Matthew Campbell

(Appointed 12 December 2018 and

Resigned 17 April 2019)

Non-Executive Director

Member of the Audit and Risk Committee and Member of the Remuneration Committee.

### Steven Fisher

(Appointed 14 June 2019)

Non-Executive Director

Member of the Audit and Risk Committee and Member of the Remuneration and Nominations Committee.

### Zachary Midalia

(Appointed 14 June 2019)

Non-Executive Director

Member of the Audit and Risk Committee and Member of the Remuneration Committee.

Details of the experience and expertise of the directors and the Company Secretary are outlined on pages 6 to 8 of this annual report.

## Meetings Of Directors

The number of meetings of the Board of directors and Committees held during the period ended 30 June 2019 and the number of meetings attended by each director were:

Director	Director Meetings		Audit and Risk Committee Meetings		Remuneration and Nominations Committee Meetings	
	A	B	A	B	A	B
WJ Stevens	22	22	4	4	3	3
R Sudano	17	18	XX	XX	2	2
KJ Elkington	14	15	4	4	1	1
M Teague	22	22	4	4	3	3
S Lightfoot	19	20	2	2	2	2
J Hanrahan	13	13	2	2	2	2
M Campbell	7	7	2	2	1	1
S Fisher	2	2	0	YY	1	1
Z Midalia	2	2	0	YY	1	1

A – Number of meetings attended.

B – Number of meetings held during the time the director held office during the period.

XX - Not a member of relevant Committee.

YY – No meetings held during the time the director held office during the period.

## Principal Activities

The principal activities of the consolidated entity during the financial period were the retailing of discount variety merchandise and no significant change in the nature of these activities occurred during the period.

## Operating and Financial Review

The Operating and Financial Review, forms part of the Directors' Report, on pages 19 to 23.

## Significant Changes in the State of Affairs

There has been no material change in the state of affairs of the Company or the consolidated entity.

## Matters Subsequent to the End of the Financial Period

No other matters or circumstances have arisen since the end of the financial period which significantly affect or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

## Likely Developments and Expected Results of Operations

Likely developments in the operations of the consolidated entity and the expected results of those operations in future financial periods are contained in the Operating and Financial Review on pages 19 to 23 of this annual report.

## Environmental Regulation

The Company is not involved in any direct activities that have a marked influence on the environment within its

area of operation. As such, the directors are not aware of any material issues affecting the Company or its compliance with the relevant environmental agencies or regulatory authorities.

## Dividends – The Reject Shop Limited

Dividends paid to members during the financial period were:

A final ordinary dividend for the financial period ended 1 July 2018 of 11.0 cents per share totalling \$3,179,896 was paid on 15 October 2018.

An interim ordinary dividend for the financial period ended 30 June 2019 of 10.0 cents per share totalling \$2,890,815 was paid on 8 April 2019.

Since the end of the financial period, no dividend has been declared.

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

## Insurance of Officers

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

During the financial period, the Company paid a premium of \$324,626 to insure the directors and officers of the Company.

## Proceedings on Behalf of the Company

No proceedings have been brought or intervened in on behalf of the company with leave of the court under section 237 of the *Corporations Act 2001*.

## Rounding of Amounts

The Company is a kind referred to in *ASIC Corporations (rounding in financial/directors' report) Instrument 2016/191*, 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 specified cases, to the nearest dollar.

## Overview of Operations

The company operates in the discount variety retail sector in Australia.

The company's strategy is focussed on building on the core strengths of the business that have been put in place over time to maximise leverage of the existing assets to provide an appropriate level of return for all stakeholders. The four major goals that the company is measuring itself on are;

1. Providing our customers with a clearly differentiated offer that is delivered conveniently via our existing store network, new stores and new store formats,
2. Building sustainable comparable store sales growth driven by increasing customer transactions,
3. Focusing to improve our efficiency of operations to reduce our Cost of Doing Business (CODB) to fund our sales growth and to deliver improved returns to shareholders,
4. Providing a safe, challenging and rewarding environment to attract and retain great people and to engage and support the communities in which we serve.

FY2019 saw the Board and Management team evaluate the strategic direction of the Company and some short and long term strategic initiatives were set. We have made progress on many of our short term strategic initiatives and are starting to see the benefits of these within the business.

Our operational focus is built on extensive work done with both customers and non-customers; to better understand who our key customers are and what they are looking for from us. This work is ongoing, and forms the basis of all our thinking as we develop our promise of;

**“Always get more for your money through the fun and excitement of discovering a bargain”.**

The ongoing development of product ranges to meet these customer needs is key to this promise, and we are focussed on building on these changes to further grow our sales in coming years.

An important element of our focus on customers is developing our capability to communicate key messages, both in and out of store. We are developing a mix of media for out of store communication that is a blend of traditional media such as commercial television and catalogues, as well as an increasing focus on digital channels. In store we are communicating a sense of urgency, discovery and regular convenience to our customers.

We are also improving the in-store experience for our customers. This remains a significant element for the business moving forward.

Our store locations continue to be one of the key strengths of the company providing our customers with convenient access to our offer.

We expect to continue to open new stores in locations that provide access to new customers and close non-profitable locations. We continue to focus on capturing improved lease terms and new store locations for the Company to ensure we are well positioned to meet the needs of our customers into the future.

The Company opened fourteen new stores during the year and closed eight, resulting in a national store footprint totalling 357 stores by the end of the year.

## Overview Of Financial Performance

\$ Amounts are \$'000 / %'s are to Sales	FY19	FY18
Sales	793,687	800,306
Gross Profit (i)	42.2%	43.3%
Cost of doing business (i)	39.9%	38.0%
EBITDA (i)	18,209	42,932
Impairment charge / (Reversal of impairment)	21,941	(551)
Depreciation and Amortisation	19,603	19,178
EBIT (i)	(23,335)	24,305
Net Interest Expense	738	563
(Loss) / Profit Before Tax	(24,073)	23,742
Income Tax (Benefit) / Expense	(7,174)	7,165
Net (Loss) / Profit After Tax	(16,899)	16,577

(i) Non IFRS measure and unaudited.

## Sales Performance

Overall sales decreased in FY2019 by \$6.6 million or (0.8%) on the prior period, which reflects the net of:

- A decline in Comparable Store Sales (First half: negative 2.6%; Second half: negative 2.5%), with Western Australia, ACT and Queensland stores most affected, reducing Comparable Store performance; and
- Lift in sales coming from the Net positive effect of the openings and closures in FY2019 and FY2018.

## Gross Margin

Gross margin, as a percentage of sales, decreased by (1.1%) of sales. This was primarily the result of a significant increase in shrinkage post completion of stocktakes and reduced margins through discounting and clearance activity in response to a competitive environment and changes to the merchandise strategy. This margin erosion was partially offset by increases in rebates and favourable outcomes of foreign exchange management.

## Cost of Doing Business (CODB)

CODB (consisting of store and administrative expenses but excluding depreciation and amortisation) increased by 1.9% to sales, which primarily reflects the increased costs of running the national retail network as well as the impact of negative comparable store sales in FY2019.

Store expenses rose by 1.7% to 36.2% of sales which was indicative of increased store operating costs over the following categories:

- Store Wages (incl. on-costs) rose 0.80% to sales, primarily due to the significant impacts of the company EBA increases, which has been partially offset by workers compensation premium savings. In addition, a greater level of investment was made into Store Management training and Retail Leadership & Development training programs.
- Occupancy Costs increased by 0.7% of sales which reflects the impact of fixed price increases and IFRS lease straight lining combined with the impact of negative comparable sales growth moderated by:
  - net cash reductions from renewed leases
  - positive effect of closing underperforming stores FY2019;
- Light and Power savings of \$1 million, reflects a reduction -0.1% of sales over FY2019. The efficiencies realised are consistent with the installation of the high-efficiency LED lighting throughout the store portfolio which forms an ongoing investment into energy savings throughout the store network;
- Advertising Costs increased by \$1.2 million or 0.2% of sales, on the back of investment into one additional

catalogue and a pre-Christmas Television Branding Campaign in the first half of FY2019. Other marketing activity over and above the prior year was through Spend & Save 4 Day Deals and clearance campaigns to help drive sales activity within the second half of FY2019 as well as specific marketing into products such as Bees Knees and the Peter Morrissey home/manchester range.

Administrative expenses have risen slightly on prior year to 5.7% of sales, primarily reflecting the impact of operational costs of a number of strategic projects that have been launched throughout FY2019 compounded by a lower sales base.

During the year, the Company booked a total of \$21.9 million of Asset Impairment charges. Of these charges, \$6.9 million was a specific impairment provision that relates to underperforming stores whilst \$15.0 million relates to a Corporate Asset Impairment charge. This was recognised as a result of an assessment of the net present value of the Company's future cash flows which was not found sufficient to support the carrying value of the Company's working capital and fixed assets.

## Earnings

The Company has a reported EBIT of negative (\$23.3) million, a decrease of (196%) on the prior year.

This EBIT represents (2.9%) return on sales, well down on the 3.0% to sales in the prior year. This is the result of a \$21.9m impairment expense, a decrease in Gross Margin % and the increased Cost of Doing Business.

However, when the effects of impairment are excluded from FY2019 and FY2018, the EBIT recorded in FY2019 is (\$1.4m), reflecting an EBIT to sales ratio of (0.2%), and a fall in underlying EBIT of approximately 106%.

## Impact of New Leases Accounting Standard (AASB 16 Leases)

AASB 16 *Leases* will be effective for the Company on 1st July 2019 and it will supersede the current Standard AASB 117 *Leases*.

Consistent with the prior year, the Company has performed a detailed analysis of its operating lease book, which includes stores, distribution centres and Head Office in preparation for adopting the standard in the new financial period.

As disclosed in further detail on page 51 of these accounts, the adoption of the new standard will have a material impact on the balance sheet. It will have minor impacts on lease expenses in each year of the lease term, albeit the cash flows of the business will not be impacted at all.

If the Company was to adopt the new standard effective on 30th June 2019, taking account of current (and likely) operating lease arrangements during FY2020, it estimates the impact on the financial statements as follows:

- Right of Use Liabilities of approximately \$246 million;
- Right of Use Assets of the same amount;
- Existing IFRS and lease incentive provisions of \$17 million will be offset against the balance of right of use assets on transition, and will be returned to profit over the remainder of the lease terms;
- Nil impact on retained earnings upon adoption of AASB 16, and
- NPAT would reduce in the range of \$3.5 million to \$4.5 million in the year of adoption. This adverse impact for the leases taken to account on adoption will reverse over the remaining life of the existing leases, when compared to treatment under the current standard.

## Dividends

The fall in total dividends paid/payable to 10.0 cents per share comparable to FY2018: 35.0 cents per share; reflects the significant challenges the Company has had with the decline in its sales performance and underlying profitability.

The Company decided not to declare a final dividend at year-end mainly due to the second half loss and the decline in the Earnings per Share. The Company has historically had a 60% payout ratio within recent years.

## Financial Position and Capital Investment

The Company's Gearing has remained in a Net Cash position at year-end of \$6.8 million (2018: Net Cash \$14.8 million).

The Company expects to increase Net Debt during the first half of FY2020, in line with regular trading patterns, to cover the stock costs in preparation for the Christmas period. However, the Company projects it will be in a significant Net Cash position by the end of the first half of FY2020.

Net interest expense increased by \$0.2 million in FY2019, this was the result of increased average level of borrowings held during the period due to the disappointing sales performance.

## Investments for Future Growth

The Company will continue to restructure its store portfolio. Currently, seven new stores are planned for FY2020, and an expected five closures. The Company will also look to perform refurbishments on selected stores.

In addition, the Company has a number of projects that will require expenditure. The main goal is to drive sales growth via changes in the merchandise offering.

This includes investing in marketing initiatives such as improvements to the company website and other digital platforms to support brand awareness.

Notwithstanding these ongoing investments for future profit growth, the Company does anticipate a reduced Capital Expenditure program in FY2020.

## Overview of Retail Industry Trends

The Discount Variety sector remains very competitive. There are many regionally based chains, as well as a multitude of single owner-operator businesses.

Price competition continues to be a challenge, particularly with the Regional based Discount Variety chains, the larger national supermarket chains and some of the larger National Discount Department stores often engaging in direct competition with the Company on certain product offerings. This competition has certainly intensified, which has challenged the sales growth and margin profile, in particular within our fast-moving consumer goods categories. The Company remains determined to be a leader on providing everyday low prices on its core merchandise offerings.

Overall, the gap between Business Confidence (High) and Consumer Confidence (Low) remains a challenge for all retailers. Without a point of difference or compelling offer, all retailers must be operating at or near their optimums to achieve a respectable sales outcome.

## Outlook

With a clear and focused merchandise strategy, the Company expects to see a progressive improvement in the comparable sales growth trajectory throughout the first half of FY2020. Current indicators of the first seven

weeks trading of FY2020 are positive with comparable sales sitting at -0.5%, which is a significant improvement on the -2.5% recorded in FY2019.

Notwithstanding the ongoing sales challenges, there are a number of positives that are expected to assist in increasing underlying profitability of the business. These include:

- Improvement to First Sales Margins, which will be supported by a continued focus on our FX Hedging Position;
- Continued emphasis on optimising contractual obligations within Occupancy Costs, where we have over 100 stores up for renewal in FY2020;
- Continued pursuit of other Cost-out opportunities;
- Improving efficiencies coming from the overall supply chain of the business;
- Implementing a clearance program to support sales growth and improve our current stock position;
- Identify areas within the Company to reduce discretionary spend;

## Business Risks

There are a number of factors, both specific to the Company and of a general nature, which may threaten both the future operating and financial performance of the Company and the outcome of an investment in the Company. There can be no guarantee that the Company will achieve its stated objectives, that it will meet trading performance expectations, or that any forward-looking statements contained in this report will be realised or otherwise eventuate.

The operating and financial performance of the Company is influenced by a

variety of general economic and business conditions, including levels of consumer spending, inflation, interest and exchange rates, access to debt and capital markets and government fiscal, monetary and regulatory policies. A prolonged deterioration in general economic conditions, including increases in interest rates or a decrease in consumer and business demand, may have an adverse effect on the Company's business or financial position.

The specific material business risks faced by the Company, and how the Company manages these risks, are set out below.

- **Competition** – The Company operates a retail model where price and value are critical to the customers it serves. The Company closely monitors price and quality against a range of retailers to ensure it maintains its competitive stance.
- **Consumer Discretionary Spending** – The Company is exposed to consumer spending patterns but operates an everyday low-price proposition and positions itself in convenient locations to maximise sales potential at all times.
- **Increased Cost of Doing Business** – The Company has established Enterprise Agreements for its store and distribution centre staff and has lease agreements for both stores and DC's – all of which have inbuilt annual cost escalations. The Company's increasing scale as well as improving operating efficiencies and strong lease negotiations have to some extent offset some of these cost increases.
- **Property Portfolio Management** – The Company's stores are leased and therefore subject to negotiation at the end of each lease term. The Company actively manages its portfolio against established financial

and operational criteria which must be met for both new and existing stores. There is no guarantee any store will be renewed at the end of each lease on terms acceptable to the Company, however the potential impact of a single store closure is mitigated by the number of stores the Company now operates. The Company has demonstrated during the past three years that it is prepared to either close or relocate a store that it believes it cannot operate at an acceptable level of commercial return.

- **Exchange Rate** – The Company relies significantly on imported products (either directly purchased by the Company or indirectly through local or overseas wholesalers) and as a result the cost of product and retail sales price can be subject to movements in Exchange Rates. The Company mitigates against movements in exchange rates using forward cover.
- **Product Liability Exposure** – The Company purchases and sells over 20,000 different products on an annual basis, all of which must be fit for purpose and in compliance with Australian Consumer Legislation. The Company has a Quality Assurance function that has the responsibility of ensuring all products sold by the Company adhere to legal requirements. The Company is subject to an external review of its Compliance function by an independent Compliance firm on an annual basis, with any recommendations noted and implemented as soon as possible. In addition, the Company's legal advisors run an annual update session at which changes to relevant Consumer law are discussed.
- **Occupational Health & Safety (OH&S)** – The Company has over 5,500 employees across its stores

and Distribution Centre network, as well as thousands of customers who visit its stores nationally. The Company has structured a Workplace Health & Safety function, supported by technical specialists in appropriate geographic locations to oversee the application of safety policies and procedures across the network. The sustained focus and attention on preventing injury and returning injured workers back into their workplaces more quickly; has resulted in reduced levels of Worker Compensation premiums during the past three years and the lowest number of serious injuries resulting in Lost Time since 2013/14. In addition, there has been a 14% decline in customer incidents recorded from FY2018 to FY2019.

## Remuneration Report

The remuneration report is set out in the following sections and includes remuneration information for The Reject Shop Limited's Non-Executive Directors, Executive Directors and key management personnel:

A – Principles used to determine the nature and amount of remuneration

B – Details of remuneration

C – Service agreements

D – Share-based compensation

E – Additional information

The information provided in this remuneration report has been audited as required by section 308 (3C) of the *Corporations Act 2001*.

### A – Principles Used to Determine the Nature and Amount of Remuneration

The objective of the Company's Remuneration and Nominations Committee is to ensure that directors and executives are remunerated fairly and within accepted market and industry ranges. The composition, role and responsibility of this Committee is outlined in the Corporate Governance Statement on page 16 of this annual report.

#### Officers and Executive Remuneration Structure

The executive remuneration and reward framework has four components:

- Base pay and benefits;
- Other remuneration such as superannuation payments;
- Short-term cash rewards and;

- Long-term rewards via participation in the Company's Performance Rights Plan.

The framework seeks to align executive reward with achievement of strategic objectives and the creation of value for shareholders and emphasises cross-functional collaboration. The objective of the Company's executive reward framework is to ensure every payment, either monetary or in the form of equity, is on the basis of reward for performance and is appropriate for the results delivered. The Board ensures the Company follows appropriate corporate governance in establishing executive remuneration including reference to external remuneration consultants and/or available market information.

#### Base Pay and Benefits

Executive salaries are structured as a total employment cost package which may be delivered as a mix of cash and non-monetary benefits at the executive's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure competitiveness with the market. There are no guaranteed base pay increases in any senior executive's contracts. The Company has a formal process by which the performance of all senior executives is reviewed. An executive's pay is also reviewed on promotion.

Executive benefits made available are car allowances, private use of Company owned vehicles (disclosed as non-monetary benefits) and salary sacrifice superannuation arrangements.

#### Short Term Cash Rewards (STR)

For FY2019, the Remuneration and Nominations Committee has determined that 0% of contracted short-term rewards will be payable to Key Management Personnel on the basis that the Company did not achieve the targets for FY2019.

STR for key management personnel consists of a weighting of 90% on offer for achievement of budgeted EBIT, and an additional 10% of the STR based on the achievement of improved safety metrics. If these STR targets are achieved, payments of between 22% - 30% of total Fixed Remuneration (varying by executive) are made. The audited financial report remains the basis for measuring achievement against the financial performance targets.

#### Long Term Rewards

##### Performance Rights Plan

The Company implemented the Performance Rights Plan on 27 April 2004, to form the basis of The Reject Shop's ongoing long-term incentive scheme for selected senior employees. These performance rights involve the payment of a total of \$1.00 exercise price for each tranche granted and exercised on a particular day, regardless of the number of rights exercised on that day.

The financial criteria upon which the performance rights are eligible to vest consist of the following hurdles, which are independently measured over a three-year period:

- Weighting of 50% - Earnings Per Share compound growth of at least 10% per annum;
- Weighting of 25% - Improved Earnings Before Interest, Income Tax, Depreciation and Amortisation (EBITDA) of at least 0.15% to sales per annum; and

- Weighting of 25% - Return on Average Capital Employed of at least 20% per annum.

The Board retain the right to assess all aspects of the vesting conditions for future performance rights grants.

The number of performance rights issued is based on a percentage of between 22.5% and 30% of the total fixed remuneration (varying by executive) divided by the weighted average share price for the period 30 days before and 31 days after the end of the financial period in which the rights are granted. For financial reporting purposes the value of each right granted at grant date is measured using a Black-Scholes option pricing model. The audited financial report is the basis for measuring achievement against the financial performance targets.

For the performance rights tranche granted in respect of the 2016 financial year and due to vest 30th June 2019, the Remuneration and Nominations Committee has determined in August 2019 that none of the performance rights will vest. This is on the basis that the Company has not achieved the performance criteria as set out above.

## B – Details of Remuneration

### Directors' Fees

The current aggregate limit for directors' fees is \$950,000 per annum with a base fee payable (including superannuation) to the Chairman of \$206,205p.a. (FY2018: \$201,175) and to a Non-Executive Director currently \$120,438 p.a. (FY2018: \$117,443). The Chairman's remuneration is inclusive of Committee fees while Non-Executive Directors who take on additional responsibilities receive additional fees (Chairman of Audit and Risk Committee \$6,180 (FY2018: \$6,180), Chairman of Remuneration and Nominations Committee \$5,150 (FY2018: \$5,150).

The Managing Director does not receive directors' fees.

Directors' fees are reviewed annually, with external remuneration consultants providing advice, as the need arises, to ensure fees reflect market rates. There are no guaranteed annual increases in any directors' fees. Any increase in the aggregate limit for directors' fees must be approved at the company's Annual General Meeting.

Non-Executive Directors do not participate in the short or long term incentive schemes.

### Executive Remuneration

The following executives along with the directors, as detailed on page 18 of the Directors' report, were the key management personnel with the responsibility and authority for planning, directing and controlling the activities of the Company and the consolidated entity, during the financial period.

#### Ross Sudano

Managing Director &  
Chief Executive Officer  
(Resigned on 23 May 2019)

#### Allan Molloy

General Manager, Retail Operations  
(Resigned 28 February 2019)

#### Allan J Penrose

General Manager, Marketing

#### Brendon Short

General Manager, Retail Operations  
(Commenced 12 March 2019)

#### Danielle Aquilina

Acting Chief Executive Officer  
(Commenced on 23 May 2019)  
General Manager, Supply Chain and Planning

#### Darren R Briggs

Chief Financial Officer and Company Secretary

#### Ed Tollinton

Chief Information Officer  
(Resigned 1 March 2019)

#### Kelvin Chand

General Manager, Property  
(Resigned 31 July 2018)

#### Peter Barry

General Manager, Buying  
(Commenced 9 July 2018 and  
resigned 24 May 2019)

#### Robert d'Andrea

General Manager, Human Resources

#### Steve Williamson

General Manager, Buying (Acting)  
(Commenced 1 June 2019)

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 30 June 2019 and the period 1 July 2018 unless otherwise stated.

During the year a review of the key management personnel was conducted. The Board has determined that from 1 July 2019 under a review of the management structure which is in progress, that not all general manager roles will meet the definition of key management personnel.

All remuneration details have been disclosed in this report for all individuals previously considered key management personnel. In the Annual Report for 2019/2020 it is proposed that remuneration details will be provided for only those individuals that meet the determination in the new structure.

Details of the remuneration of the directors and other key management personnel of The Reject Shop Limited and the consolidated entity, including related parties, for the current and prior financial periods are set out in the following tables:

## 2019

2019

Name	Short-Term Benefits			Post-Employment Benefits	Other Benefits	Share-Based Benefits		Total \$	Proportion of Annualised Remuneration as Performance Related %
	Cash Salary and Fees \$	Cash Rewards \$	Non-monetary Benefits \$	Super-annuation \$	Other \$	Performance Rights \$	Other \$		
Non-Executive Directors									
WJ Stevens	188,315	-	-	17,890	-	-	-	206,205	-
M Teague	109,989	-	-	10,449	-	-	-	120,438	-
KJ Elkington (i)	77,362	-	-	7,349	-	-	-	84,711	-
S Lightfoot (ii)	96,014	-	-	9,132	-	-	-	105,146	-
M Campbell (iii)	39,125	-	-	3,717	-	-	-	42,842	-
J Hanrahan (iv)	68,015	-	-	-	-	-	-	68,015	-
S Fisher (v)	4,628	-	-	440	-	-	-	5,067	-
Z Midalia (v)	5,656	-	-	-	-	-	-	5,656	-
Total Non-Executive Directors	589,103	-	-	48,977	-	-	-	638,080	-
Executive Directors									
R Sudano (vi)	752,318	-	41,259	20,531	473,659	(88,363)	-	1,199,404	-
Total Executive Directors	752,318	-	41,259	20,531	473,659	(88,363)	-	1,199,404	-

The remuneration in the table above only reflects the amounts paid to the individuals for the time they were key management personnel.

(i) KJ Elkington ceased being a Director on 28th February 2019.

(ii) S Lightfoot was appointed a Director on 23rd August 2018.

(iii) M Campbell was appointed a Director on 12th December 2018; Ceased being a Director on 17th April 2019.

(iv) J Hanrahan was appointed a Director on 12th December 2018.

(v) S Fisher and Z Midalia were appointed as Directors on 14th June 2019.

(vi) R Sudano was the CEO until 23rd May 2019. As a result, R Sudano was paid in cash \$74,644 of annual leave entitlements (which are excluded from the table above); \$277,065 in lieu of a contracted notice period and a grossed up motor vehicle fringe benefit of \$196,594 paid out upon his resignation which are included in 'other benefits' above.

## 2019

2019

	Short-Term Benefits			Post-Employment Benefits	Other Benefits	Share-Based Benefits			Proportion of Annualised Remuneration as Performance Related %
Name	Cash Salary and Fees \$	Cash Rewards \$	Non-monetary Benefits \$	Super-annuation \$	Other \$	Performance Rights \$	Other \$	Total \$	
Other Key Management Personnel									
DR Briggs	332,866	-	854	20,531	-	(5,382)	-	348,870	-
D Aquilina	355,270	-	4,733	20,531	-	(6,128)	-	374,406	-
AJ Penrose	253,912	-	7,448	20,531	-	(4,134)	-	277,758	-
R d'Andrea	305,176	-	6,278	20,531	-	(4,178)	-	327,808	-
E Tollinton (vii)	212,760	-	-	15,399	-	(30,298)	-	197,861	-
K Chand (viii)	334,211	-	2,277	1,711	-	-	-	338,199	-
A Molloy (ix)	273,333	-	4,532	-	-	(36,992)	-	240,872	-
B Short (x)	106,184	-	985	6,844	-	-	-	114,013	-
P Barry (xi)	353,016	-	-	20,531	63,412	-	-	436,959	-
S Williamson (xii)	25,643	-	-	1,711	-	-	-	27,354	-
Total Other Key Management Personnel	2,552,372	-	27,108	128,321	63,412	(87,111)	-	2,684,101	-
Total	3,893,793	-	68,366	197,829	537,070	(175,474)	-	4,521,585	-

The remuneration in the table above only reflects the amounts paid to the individuals for the time they were key management personnel.

(vii) E Tollinton was the CIO until 1st March 2019. E Tollinton was paid in cash \$11,241 annual leave entitlements which are excluded from the table above.

(viii) K Chand was the General Manager of Property until 31st July 2018. K Chand was paid in cash \$15,194 annual leave entitlements which are excluded from the table above. From 1st August 2018 K Chand was employed as a contractor and was paid \$308,000 for the remainder of the financial year.

(ix) A Molloy was the General Manager of Operations until 28th February 2019. A Molloy was paid in cash \$39,829 annual leave entitlements which are excluded from the table above.

(x) B Short was appointed the General Manager of Operations on 12th March 2019.

(xi) P Barry was the General Manager of Buying until 24th May 2019. As a result, P Barry was paid in cash \$25,772 of annual leave entitlements which are excluded from the table above and \$63,412 in lieu of a three month notice period paid out upon his resignation which is included in 'other benefits' above.

(xii) S Williamson was appointed Acting General Manager of Buying on 1st June 2019.

**2018**

2018	Short-Term Benefits			Post-Employment Benefits	Other Benefits	Share-Based Payments		Total \$	Proportion of Annualised Remuneration as Performance Related %
	Cash Salary and Fees \$	Cash Rewards \$	Non-monetary Benefits \$	Superannuation \$	Other \$	Performance Rights \$	Other \$		
Name									
Non-Executive Directors									
WJ Stevens	183,721	-	-	17,454	-	-	-	201,175	-
KJ Elkington	113,212	-	-	10,755	-	-	-	123,967	-
DR Westhorpe (i)	89,379	-	-	8,491	-	-	-	97,870	-
M Teague (ii)	84,607	-	-	8,038	-	-	-	92,645	-
Total Non-Executive Directors	470,919	-	-	44,738	-	-	-	515,657	-
Executive Directors									
R Sudano	733,951	113,100	29,015	20,049	-	18,096	-	914,211	14.4
Total Directors	1,204,870	113,100	29,015	64,787	-	18,096	-	1,429,868	-
Other Key Management Personnel									
DR Briggs	319,851	38,239	-	20,049	-	6,603	-	384,742	11.7
D Aquilina	329,951	39,375	-	20,049	-	6,649	-	396,024	11.6
E Tollinton	309,552	37,080	-	20,049	-	5,088	-	371,769	11.3
AJ Penrose	247,701	30,122	5,163	20,049	-	4,461	-	307,496	11.2
K Chand	315,014	37,695	4,500	20,049	-	(20,479)	-	356,779	4.8
R d'Andrea	297,714	35,749	4,013	20,049	-	5,530	-	363,055	11.4
A Molloy (iii)	400,000	45,000	3,839	-	166,666	21,908	-	637,413	11.7
C Tomlinson (iv)	183,327	-	-	9,760	87,500	-	-	280,587	-
Total Other Key Management Personnel	2,403,110	263,259	17,515	130,054	254,166	29,760	-	3,097,864	-
Total	4,078,899	376,359	46,530	239,579	254,166	47,856	-	5,043,389	-

The remuneration in the table above only reflects the amounts paid to the individuals for the time they were key management personnel.

(i) DR Westhorpe passed away on 2nd April 2018.

(ii) M Teague was appointed a Director on 18th September 2017.

(iii) In accordance with contract terms, A Molloy was paid a service bonus of \$100,000 in November 2017. In addition, after three years' service in 2019, Mr. Molloy will receive an additional \$100,000 service bonus, payable in cash or shares.

(iv) C Tomlinson was General Manager, Buying until 14th December 2017. As a result, C Tomlinson was paid in cash \$5,626 of annual leave entitlements which are excluded from the table above and \$87,500 (in lieu of a three-month notice period paid out upon his resignation) which is included in 'other benefits' above.

For Remuneration report purposes, the amount reported as "Share Based Payments" represents the expenses recognised under the following basis:

- The percentage of the fair value of the Performance Rights granted in a particular year for each of the years in the vesting period to the extent that such Performance Rights remain available for vesting; less
- Any value previously reflected as remuneration in regard to Performance Rights, where those Performance Rights have lapsed or have been forfeited and will not vest with the employee.

The 'fair value' is determined using a Black Scholes model and will generally be different to the "volume weighted average market price (VWAP)" which is used to determine the number of rights that are granted. No adjustment to the reported remuneration amounts is made in the event that actual market price of shares on the vesting of Performance Rights exceeds the fair value of those Performance Rights on their grant date. Similarly, no reduction is made to remuneration where the market price of shares on the vesting of Performance Rights is lower than the market price of shares on the date that Performance Rights are granted.

No other long term or remuneration benefits were paid or are payable with respect to the current and prior period.

## C – Service Agreements

All key management personnel are on employment terms consistent with the remuneration framework outlined in this report.

In addition, all key management personnel have service agreements which provide that a period of notice of three months is required by the Company or the senior executive to terminate employment.

## D – Share-based Compensation

The number of performance rights over shares in the Company granted to executive directors and other key management personnel during the current financial period, together with prior period grants which vested during the period is set out below:

2019	Grant Date	Number of Rights Granted During the Period	Date Exercisable	Expiry Date	Total Fair Value of Performance Rights at Grant Date \$	Number of Performance Rights Granted in Prior Periods Vested During the Period
<b>Executive Directors</b>						
R Sudano	18 Oct 2018	80,200	1 Jul 2021	17 Oct 2022	147,178	16,100
<b>Other Key Management Personnel</b>						
DR Briggs	18 Oct 2018	27,200	1 Jul 2021	17 Oct 2022	49,916	5,600
D Aquilina	18 Oct 2018	28,000	1 Jul 2021	17 Oct 2022	51,384	5,600
E Tollinton	18 Oct 2018	26,300	1 Jul 2021	17 Oct 2022	48,264	6,000
AJ Penrose	18 Oct 2018	21,400	1 Jul 2021	17 Oct 2022	39,272	4,800
K Chand	18 Oct 2018	-	1 Jul 2021	17 Oct 2022	-	5,100
R d'Andrea	18 Oct 2018	25,400	1 Jul 2021	17 Oct 2022	46,613	5,400
A Molloy	18 Oct 2018	32,000	1 Jul 2021	17 Oct 2022	58,725	-
B Short	N/A	-	N/A	N/A	-	-
P Barry	18 Oct 2018	30,400	1 Jul 2021	17 Oct 2022	55,788	-
S Williamson	N/A	-	N/A	N/A	-	-
<b>Total</b>		<b>270,900</b>			<b>497,140</b>	<b>48,600</b>

The fair value of performance rights on 18 October 2018 (grant date) with an expiry date of 17 October 2022 was \$1.8351. The fair value of performance rights vested on 23 August 2018 was \$5.41.

All performance rights granted during the current period will vest on the exercise dates above provided the required performance hurdles are achieved and the employee remains employed with the Company at the vesting date. The total payable on the exercise of one or more performance rights on a particular day is \$1.00 regardless of the number exercised on that day. The minimum possible value to be received by executive directors or other key management personnel under each grant of performance rights is \$Nil.

Subsequent to period end there has been no grant of performance rights to key management personnel. In addition, no performance rights granted to key personnel in prior years vested subsequent to period end. These performance rights were not vested on the basis that the elements of the criteria relevant to that tranche were not achieved.

### Shares Issued to Directors and Other Key Management Personnel on Exercise of Options or Performance Rights

The number of shares issued to executive directors and other key personnel on exercise of performance rights during the current year are outlined in the following tables.

2019	Type	Date Granted	Date Vested and Exercised	No of Shares Issued	Exercise Price
<b>Executive Directors</b>					
R Sudano	Rights	15 Oct 2015	23 Aug 2018	16,100	-
<b>Other Key Management Personnel</b>					
DR Briggs	Rights	15 Oct 2015	23 Aug 2018	5,600	-
D Aquilina	Rights	15 Oct 2015	23 Aug 2018	5,600	-
E Tollinton	Rights	15 Oct 2015	23 Aug 2018	6,000	-
AJ Penrose	Rights	15 Oct 2015	23 Aug 2018	4,800	-
K Chand	Rights	15 Oct 2015	23 Aug 2018	5,100	-
R d'Andrea	Rights	15 Oct 2015	23 Aug 2018	5,400	-
<b>Total</b>				<b>48,600</b>	<b>-</b>

## E – Additional information

### Cash Incentives and Performance Rights

For each cash incentive and grant of performance rights included in the table below, the percentage of the grant that vested, in the financial period, and the percentage that was forfeited because the performance criteria were not achieved or the person did not meet the service criteria is as listed. The performance rights vest over several years provided the vesting conditions are met. No performance rights will vest if the conditions are not satisfied, hence the minimum value of each performance right yet to vest is \$Nil. The maximum value of performance rights yet to vest has been determined as the total number of performance rights still to vest multiplied by the fair value of each performance right at grant date. The fair value for accounting purposes is determined using the Black-Scholes option pricing model.

**2019**

2019

	Cash Incentive			Performance Rights					
	Paid %	Forfeited %	Date Granted	Vested %	Forfeited #	Forfeited %	Financial Periods In Which Rights May Vest	Maximum Total Number of Rights May Vest	Maximum Total Value of Grants May Vest \$
Executive Directors									
R Sudano	0	100	FY2019	0	80,200	100	FY2022	-	
			FY2018	0	109,000	100	FY2021	-	-
			FY2017	0	32,700	100	FY2020	-	-
Other Key Management Personnel									
DR Briggs	0	100	FY2019	0	-	0	FY2022	27,200	49,916
			FY2018	0	-	0	FY2021	36,900	142,308
			FY2017	0	12,200	100	FY2020	-	-
D Aquilina	0	100	FY2019	0	-	0	FY2022	28,000	51,384
			FY2018	0	-	0	FY2021	38,000	146,550
			FY2017	0	12,900	100	FY2020	-	-
AJ Penrose	0	100	FY2019	0	-	0	FY2022	21,400	39,272
			FY2018	0	-	0	FY2021	29,100	112,227
			FY2017	0	9,400	100	FY2020	-	-
R d'Andrea	0	100	FY2019	0	-	0	FY2022	25,400	46,613
			FY2018	0	-	0	FY2021	34,500	133,052
			FY2017	0	10,700	100	FY2020	-	-
E Tollinton	0	100	FY2019	0	26,300	100	FY2022	-	-
			FY2018	0	35,800	100	FY2021	-	-
			FY2017	0	11,800	100	FY2020	-	-
K Chand	0	100	FY2019	0	-	0	FY2022	-	-
			FY2018	0	-	0	FY2021	-	-
			FY2017	0	-	0	FY2020	-	-
A Molloy	0	100	FY2019	0	32,000	100	FY2022	-	-
			FY2018	0	43,400	100	FY2021	-	-
			FY2017	0	14,800	100	FY2020	-	-
Peter Barry	0	100	FY2019	0	30,400	100	FY2022	-	

# Performance rights vesting conditions are tested each year and to the extent that the conditions are not expected to be met, the Committee has the discretion to cancel or forfeit the performance rights yet to vest.

## Performance Rights Holdings

Non-Executive Directors do not participate in long term incentives and have not been granted performance rights in any period.

The number of performance rights over shares in the Company held during the current and prior financial period by each executive director and other key management personnel of The Reject Shop Limited and the consolidated entity, including related parties, are set out below:

	Balance at the Start of the Period	Performance Rights Granted During the Period	Performance Rights Vested & Exercised During the Period	Other Changes During the Period	Balance at End of the Period
<b>2019</b>					
<b>Executive Directors</b>					
R Sudano (i)	157,800	80,200	(16,100)	(221,900)	-
<b>Other Key Management Personnel</b>					
DR Briggs	54,700	27,200	(5,600)	(12,200)	64,100
D Aquilina	56,500	28,000	(5,600)	(12,900)	66,000
AJ Penrose	43,300	21,400	(4,800)	(9,400)	50,500
R d'Andrea	50,600	25,400	(5,400)	(10,700)	59,900
E Tollinton (ii)	53,600	26,300	(6,000)	(73,900)	-
K Chand (iii)	5,100	-	(5,100)	-	-
A Molloy (iv)	58,200	32,000	-	(90,200)	-
Peter Barry (v)	-	30,400	-	(30,400)	-
B Short	-	-	-	-	-
S Williamson	-	-	-	-	-
<b>Total</b>	<b>479,800</b>	<b>270,900</b>	<b>(48,600)</b>	<b>(461,600)</b>	<b>240,500</b>

(i) R Sudano resigned during the year and all non-vested performance rights were lapsed prior to end June 2019.

(ii) E Tollinton resigned during the year and all non-vested performance rights were lapsed prior to end June 2019.

(iii) K Chand resigned during the year and all non-vested performance rights were lapsed prior to end June 2019.

(iv) A Molloy resigned during the year and all non-vested performance rights were lapsed prior to end June 2019.

(v) P Barry resigned during the year and all non-vested performance rights were lapsed prior to end of June 2019.

Subsequent to period end there have been no performance rights granted or vested to key management personnel.

## Share Holdings

The number of shares in the Company held during the current and prior financial period by each director and other key management personnel of The Reject Shop Limited and the consolidated entity, including related parties, is set out below:

2019	Balance at the Start of the Period	Received During the Period on the Exercise of Performance Rights	Other Changes During the Period	Balance at End of the Period
<b>Directors</b>				
WJ Stevens	6,500	-	-	6,500
M Teague	-	-	-	-
KJ Elkington (i)	11,000	-	(11,000)	-
S Lightfoot (ii)	-	-	5,500	5,500
M Campbell (iii)	-	-	-	-
J Hanrahan (iv)	-	-	5,000	5,000
S Fisher (v)	-	-	-	-
Z Midalia (vi)	-	-	4,040	4,040
<b>Executive Director</b>				
R Sudano (vii)	-	16,100	(16,100)	-
<b>Other Key Management Personnel</b>				
DR Briggs	-	5,600	(5,600)	-
D Aquilina	-	5,600	(5,600)	-
AJ Penrose	2,000	4,800	(4,800)	2,000
R d'Andrea	1,000	5,400	(5,400)	1,000
E Tollinton (viii)	-	6,000	(6,000)	-
K Chand (ix)	-	5,100	(5,100)	-
A Molloy (x)	-	-	-	-
P Barry (xi)	-	-	-	-
B Short (xii)	-	-	-	-
S Williamson (xiii)	-	-	-	-
<b>Total</b>	<b>20,500</b>	<b>48,600</b>	<b>(45,060)</b>	<b>24,040</b>

- (i) KJ Elkington ceased being a Director on 28th February 2019, hence his shareholdings are shown as nil at year end.
- (ii) S Lightfoot was appointed a Director on 23rd August 2018.
- (iii) M Campbell was appointed a Director on 12th December 2018; Ceased being a Director on 17th April 2019.
- (iv) J Hanrahan was appointed a Director on 12th December 2018.
- (v) S Fisher was appointed a Director on 14th June 2019.
- (vi) Z Midalia was appointed a Director on 14th June 2019.
- (vii) R Sudano resigned as CEO on the 23rd May 2019.
- (viii) E Tollinton resigned as CIO on the 1st March 2019.
- (ix) K Chand resigned as General Manager of Property on the 31st July 2018.
- (x) A Molloy resigned as General Manager of Operations on the 28th February 2019.
- (xi) P Barry resigned as General Manager of Buying on the 24th May 2019.
- (xii) B Short was appointed the General Manager of Operations on the 12th March 2019.
- (xiii) S Williamson was appointed Acting General Manager of Buying on the 1st June 2019.

2018	Balance at the Start of the Period	Received During the Period on the Exercise of Performance Rights	Other Changes During the Period	Balance at End of the Period
<b>Non-Executive Directors</b>				
WJ Stevens	6,500	-	-	6,500
KJ Elkington	11,000	-	-	11,000
DR Westthorpe (i)	5,000	-	(5,000)	-
M Teague (ii)	-	-	-	-
<b>Executive Director</b>				
R Sudano	-	-	-	-
<b>Key Management Personnel</b>				
DR Briggs	-	-	-	-
D Aquilina	1,350	-	(1,350)	-
AJ Penrose	3,276	-	(1,276)	2,000
K Chand	1,600	-	(1,600)	-
E Tollinton	-	-	-	-
R d'Andrea	1,000	-	-	1,000
A Molloy	-	-	-	-
C Tomlinson (iii)	-	-	-	-
<b>Total</b>	<b>29,726</b>	<b>-</b>	<b>(9,226)</b>	<b>20,500</b>

(i) DR Westthorpe passed away on 2nd April 2018 and hence his shareholdings have been shown as Nil at year-end.

(ii) M Teague was appointed a Director on 18th September 2017.

(iii) C Tomlinson resigned during the year and hence his shareholdings have been shown as Nil at year-end.

#### Loans to or Other Transactions with Key Management Personnel

No loans were made to or from directors of The Reject Shop Limited or to or from other key management personnel of the consolidated entity, including related parties or are outstanding as of 30 June 2019 (FY2018 - \$Nil).

No other transactions were undertaken with directors or other key management personnel, including related parties during the period (FY2018 - \$Nil).

## Company Performance

The Acting Chief Executive Officer and other key management personnel have an at-risk component of their remuneration based on a number of criteria including the Company's overall financial performance and shareholder returns. Refer to the performance rights plan on page 24 for the performance rights criteria.

The following table outlines the Company's earnings and share performance over the last ten years:

Period	NPAT	NPAT Growth	EPS Cents Per Share	EPS Growth	Share Price at Start of Period	Share Price at End of Period	Share Price Growth	Ordinary & Special Dividends Paid or Declared Per Share
FY2010	\$23.4m	22.90%	90	22.30%	\$11.62	\$16.42	41.30%	\$0.67
FY2011	\$16.2m	-30.80%	62.1	-31.00%	\$16.42	\$11.66	-29.00%	\$0.31
FY2012(i)(ii)	\$21.9m	35.60%	84.1	35.40%	\$11.66	\$9.15	-21.50%	\$0.42
FY2013	\$19.5m	-11.00%	73.4	-12.70%	\$9.15	\$17.19	87.90%	\$0.37
FY2014	\$14.5m	-25.40%	50.3	-31.50%	\$17.19	\$8.82	-48.70%	\$0.30
FY2015	\$14.2m	-1.90%	49.4	-1.80%	\$8.82	\$5.40	-38.80%	\$0.30
FY2016(i)	\$17.1m	20.10%	59.3	20.00%	\$5.40	\$12.45	130.60%	\$0.44
FY2017	\$12.3m	-28.10%	42.8	-27.80%	\$12.45	\$4.16	-66.60%	\$0.24
FY2018	\$16.6m	34.30%	57.4	34.10%	\$4.16	\$5.68	36.50%	\$0.35
<b>FY2019</b>	<b>(\$16.9m)</b>	<b>-201.9%</b>	<b>-58.5</b>	<b>-202.00%</b>	<b>\$5.68</b>	<b>\$1.83</b>	<b>-68.00%</b>	<b>\$0.10</b>

(i) 53-week period.

(ii) In FY2012 a special dividend of 8.5 cents was also paid.

A detailed review of performance and operations can be found in the Operating and Financial review on pages 19 to 23 of this annual report.

### Shares Under Performance Rights

Unissued ordinary shares of the Company under performance rights at the date of this report are as follows:

Date of Grant	Expiry Date	Vesting Date	Value at Grant Date \$	Exercise Price* \$	Total Number on Issue	Number on Issue to Key Management Personnel
19 Oct 2017	18 Oct 2021	1 Jul 2020	3.86	-	138,500	138,500
18 Oct 2018	17 Oct 2022	1 Jul 2021	1.84	-	102,000	102,000

\*Nominal exercise price of \$1.00 is payable each exercise.

Subsequent to period end, the Board has not granted any further performance rights under the Performance Rights Plan.

### Shares issued and the Exercise of Options and Performance Rights

There were no shares issued during the period between 1st July 2019 and the date of this report as a result of the exercise of performance rights.

### Remuneration of Auditors

	Consolidated Entity	
	2019 \$	2018 \$
During the period the following fees for services were paid or payable to PricewaterhouseCoopers Australia and its related parties as the auditor:		
Audit and Accounting Related Services		
Audit and review work	374,000	380,000
Other Assurance services	50,613	38,332
	<b>424,613</b>	<b>418,332</b>
Tax Compliance and Consulting Services		
Tax compliance	40,500	45,666
Tax consulting advice (i)	59,400	15,300
	<b>99,900</b>	<b>60,966</b>
<b>Total Remuneration</b>	<b>524,513</b>	<b>479,298</b>

(i) Additional tax consulting fees were paid in FY2019 in respect of services associated with consulting for deferred tax balances and research and development tax services.

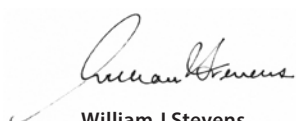
## Independence of Auditors

PricewaterhouseCoopers was appointed auditor in FY2002 and whilst their main role is to provide audit services to the Company, the Company does employ their specialist advice where appropriate. In each instance, the Board has considered the nature of the advice sought in the context of the audit relationship and in accordance with the advice received from the Audit and Risk Committee, does not consider these services compromise the auditor's independence requirements of the Corporations Act for the following reasons:

- No non-audit services provided to the Company and reviewed by the Board were considered to impact upon the impartiality and objectivity of the auditor; and
- None of the services undermined the general principles relating to auditor independence as set out in APES 110 – *Code of Ethics for Professional Accountants*, including not reviewing or auditing the auditor's own work, not acting in a management or a decision making capacity for the Company, not acting as advocate for the Company or not jointly sharing economic risk or rewards.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is contained on page 40 of this annual report.

This report is made in accordance with a resolution of the directors:



**William J Stevens**  
Chairman

22 August 2019

# Auditor's Independence Declaration



## *Auditor's Independence Declaration*

As lead auditor for the audit of The Reject Shop Limited for the 52 week period ended 30 June 2019, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Sam Loble'.

Sam Loble  
Partner  
PricewaterhouseCoopers

Melbourne  
22 August 2019

.....  
**PricewaterhouseCoopers, ABN 52 780 433 757**  
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

# Consolidated Statement of Comprehensive Income

For the 52 Week Period Ended 30 June 2019

		Consolidated Entity	
	Note	2019 \$'000	2018 \$'000
<b>Revenue from continuing operations</b>			
Sales revenue	2	793,687	800,306
Other revenue	2	51	44
		793,738	800,350
<b>Expenses</b>			
Cost of sales		462,556	457,462
Store expenses		287,692	276,300
Administrative expenses		44,833	42,790
Impairment expenses / (gains)		21,941	(551)
		817,022	776,001
Finance costs	3	789	607
<b>(Loss) / Profit before income tax</b>		(24,073)	23,742
Income tax (benefit) / expense	4	(7,174)	7,165
<b>(Loss) / Profit for the period attributable to shareholders of The Reject Shop Limited</b>		(16,899)	16,577
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to Profit or Loss</i>			
Changes in the fair value of cash flow hedges		(3,379)	8,580
Income tax relating to components of other comprehensive income		1,014	(2,574)
Other comprehensive (loss) / income for the period, net of tax		(2,365)	6,006
<b>Total comprehensive (loss) / income attributable to shareholders of The Reject Shop Limited</b>		(19,264)	22,583
<b>Earnings per Share</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	26	(58.5)	57.4
Diluted earnings per share	26	(58.5)	56.7

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

# Consolidated Balance Sheet

**As at 30 June 2019**

		Consolidated Entity	
	Note	2019 \$'000	2018 \$'000
<b>Current Assets</b>			
Cash	5	26,308	14,754
Inventories	6	110,791	105,087
Tax assets		2,696	-
Derivative financial instruments	21	2,107	5,487
Other	7	2,245	3,423
<b>Total Current Assets</b>		<b>144,147</b>	<b>128,751</b>
<b>Non Current Assets</b>			
Property, plant and equipment	8	60,975	92,513
Deferred tax assets	9	20,196	11,749
<b>Total Non Current Assets</b>		<b>81,171</b>	<b>104,262</b>
<b>Total Assets</b>		<b>225,318</b>	<b>233,013</b>
<b>Current Liabilities</b>			
Payables	10	43,826	44,096
Borrowings	11	19,500	-
Tax Liabilities		-	1,602
Provisions	12	10,341	10,564
Other	13	10,606	9,481
<b>Total Current Liabilities</b>		<b>84,273</b>	<b>65,743</b>
<b>Non Current Liabilities</b>			
Provisions	12	2,930	2,079
Other	14	12,793	14,205
<b>Total Non Current Liabilities</b>		<b>15,723</b>	<b>16,284</b>
<b>Total Liabilities</b>		<b>99,996</b>	<b>82,027</b>
<b>Net Assets</b>		<b>125,322</b>	<b>150,986</b>
<b>Equity</b>			
Contributed Equity	15	46,247	46,247
Reserves	16	6,218	8,913
Retained Profits	17	72,857	95,826
<b>Total Equity</b>		<b>125,322</b>	<b>150,986</b>

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

# Consolidated Statement of Changes in Equity

## For the 52 Week Period Ended 30 June 2019

### Consolidated Entity 2019

	Contributed Equity \$'000	Capital Profits \$'000	Share Based Payments \$'000	Hedging Reserve \$'000	F/X Translation Reserve \$'000	Retained Earnings \$'000	Total \$'000
Balance as at 01 July 2018	46,247	739	4,321	3,841	12	95,826	150,986
Loss for the period	-	-	-	-	-	(16,899)	(16,899)
Other comprehensive (loss) / income	-	-	-	(2,365)	-	-	(2,365)
Foreign exchange translation	-	-	-	-	(13)	-	(13)
Transaction with owners in their capacity as owners:							
Dividends Paid	-	-	-	-	-	(6,070)	(6,070)
Share based remuneration	-	-	(178)	-	-	-	(178)
Current tax – (debited) directly to equity	-	-	(139)	-	-	-	(139)
<b>Balances as at 30 June 2019</b>	<b>46,247</b>	<b>739</b>	<b>4,004</b>	<b>1,476</b>	<b>(1)</b>	<b>72,857</b>	<b>125,322</b>

### Consolidated Entity 2018

	Contributed Equity \$'000	Capital Profits \$'000	Share Based Payments \$'000	Hedging Reserve \$'000	F/X Translation Reserve \$'000	Retained Earnings \$'000	Total \$'000
Balance as at 02 July 2017	46,247	739	4,157	(2,165)	-	86,175	135,153
Profit for the period	-	-	-	-	-	16,577	16,577
Other comprehensive income	-	-	-	6,006	-	-	6,006
Foreign exchange translation	-	-	-	-	12	-	12
Transaction with owners in their capacity as owners:							
Dividends Paid	-	-	-	-	-	(6,926)	(6,926)
Share based remuneration	-	-	48	-	-	-	48
Current tax – credited directly to equity	-	-	116	-	-	-	116
<b>Balances as at 01 July 2018</b>	<b>46,247</b>	<b>739</b>	<b>4,321</b>	<b>3,841</b>	<b>12</b>	<b>95,826</b>	<b>150,986</b>

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

# Consolidated Statement of Cash Flows

For the 52 Week Period Ended 30 June 2019

	Note	Consolidated Entity	
		2019 \$'000	2018 \$'000
<b>Cash Flow from Operating Activities</b>			
Receipts from customers (inclusive of goods and services tax)		873,056	880,337
Payments to suppliers and employees (inclusive of goods and services tax)		(858,738)	(836,542)
Interest received		51	44
Borrowing costs paid		(789)	(610)
Income tax paid		(4,750)	(6,812)
<b>Net cash inflow from operating activities</b>	<b>20</b>	<b>8,830</b>	<b>36,417</b>
<b>Cash flow from investing activities</b>			
Payments for property, plant and equipment		(10,706)	(17,353)
<b>Net cash (outflow) from investing activities</b>		<b>(10,706)</b>	<b>(17,353)</b>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings		247,500	119,000
Repayment of borrowings		(228,000)	(132,000)
Dividends paid	25	(6,070)	(6,926)
<b>Net cash inflow / (outflow) from financing activities</b>		<b>13,430</b>	<b>(19,926)</b>
<b>Net increase / (decrease) in cash held</b>			
		11,554	(862)
<b>Cash at the beginning of the financial period</b>		<b>14,754</b>	<b>15,616</b>
<b>Cash at the end of the period</b>	<b>20</b>	<b>26,308</b>	<b>14,754</b>

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

# Notes to Consolidated Financial Statements

## Note 1: Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity, consisting of The Reject Shop Limited and its subsidiaries.

### (a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Reject Shop Limited is a for-profit entity for the purpose of preparing financial statements.

As at 30 June 2019, the Group made a net loss after tax of \$16,899,000. Additionally, as at 30 June 2019, the Group did not meet its fixed charge cover ratio covenant required under the existing lending agreement with its bank, Australia and New Zealand Banking Group (ANZ). However, the Group received a waiver of this covenant breach on 5 July 2019.

The ongoing funding requirements of the Group is dependent on the Group's ability to access financing over the 12 month period from the date of the financial report. The current ANZ facilities are due to mature on 30 September 2019. Subsequent to year end, the Group has received notice from the ANZ of its intention to renew all the facilities through to 31 August 2020, subject to compliance with certain covenants. Importantly, the renewal notice from the ANZ requests the Group to complete refinancing of the funding

facility with a different lender, ideally by 30 April 2020, but by no later than 31 August 2020.

The Directors advise that a process has been initiated in respect of refinancing for FY2021. In preparing the financial report, the Directors have applied judgement over the Group's ability to obtain refinancing at acceptable terms with a different lender, assessing forecast cash flows for the period of 12 months from the date of this report and forecast compliance with bank covenants.

### Compliance with IFRS

The financial report of The Reject Shop Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

### Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed further in note 1 (aa).

### (b) Principles of Consolidations

#### (i) Subsidiaries

The consolidated financial statements incorporate all the assets and liabilities of the subsidiaries of The Reject Shop Limited as at 30 June 2019 and the results of the subsidiaries for the period.

The Reject Shop Limited and its subsidiaries are referred to in this financial report as the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The Reject Shop Limited has a 100% owned non-operating subsidiary, TRS Trading Group Pty Ltd, which has not traded since 2003.

The Reject Shop Limited has a 100% owned operating subsidiary TRS Sourcing Co. Limited, which is domiciled in Hong Kong. This subsidiary provides procurement services to the group.

#### (ii) Employee Share Trust

The Reject Shop Limited has formed a trust to administer the Company's Performance Rights Plan. This trust is consolidated, as it is controlled by the group.

**(c) Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the senior management personnel. The Reject Shop Limited has only one operating business segment. Refer to note 29 for information.

**(d) Income Tax**

The income tax expense for the period is the tax payable on the current period's taxable income based on the current 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.

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 and liabilities 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

The head entity, The Reject Shop Limited, and the controlled entity in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group

continues to be a standalone taxpayer in its own right.

**(e) Inventories**

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a moving average basis and include an appropriate proportion of freight inwards, logistics, discounts and supplier rebates.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**(f) 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 capitalised leased assets, is depreciated on a straight-line basis over their estimated useful lives. The useful life for each class of asset is:

Class of Fixed Asset	Useful Life
Leasehold Improvements and Office Equipment	5 – 12 years
Fixtures and Fittings	5 – 12 years
Motor vehicles	3 – 5 years
Computer Equipment	3 years

**(g) 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 inception of the lease at the lower of the fair value of the leased asset 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 cost. 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 lease term and the asset's useful life.

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, generally between three and eight years.

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

**Onerous Lease Contracts**

If an entity has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision.

AASB 137 Provisions, Contingent Liabilities and Contingent Assets defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

The amount of the liability shall be recognised as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. It should be based on the excess of the cash flows for the unavoidable costs in meeting the obligations under the lease over the unrecognised estimated future economic benefits from the lease.

## (h) Employee Benefits

### (i) Wages 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.

### (ii) Long service leave

The liabilities for long service leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

### (iii) Superannuation

Contributions are made by the consolidated entity to employee personal superannuation funds and are charged as expenses when incurred. The consolidated entity does not have any Defined Benefit Fund obligations.

### (iv) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised when there is a contractual or constructive 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 has created a constructive 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 are provided to selected employees via the Performance Rights Plan.

The fair value of performance rights granted is 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 shares, adjusted for the fair value of any rights which do not ultimately vest.

The fair value at grant date is determined using a Black-Scholes options pricing model that takes into account:

- the exercise price;
- the term of the Performance Rights;
- the vesting and performance criteria;
- the impact of dilution;
- the non-tradeable nature of the Performance Rights;
- 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 Performance Rights.

The fair value of the Performance 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 vest. At each balance sheet date, the entity revises its estimates of the number of Performance Rights that are expected to vest, net of any Performance Rights

that have been forfeited throughout the period. The employee benefit expense recognised each period takes into account the most recent estimate.

## (i) Cash

For presentation of statement of cash flows, cash includes cash on hand and at call, short-term deposits with banks and financial institutions, and investments in money market instruments maturing within two months, net of bank overdrafts. Bank overdrafts are shown with borrowings in current liabilities on the balance sheet.

## (j) Revenue Recognition

Revenue from the sale of goods is recognised at the point of sale (i.e. at a point in time). All revenue is stated net of the amount of goods and services tax (GST), returns and staff discounts.

## (k) Derivatives

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 the cash flows of highly probable forecast transactions (cash flow hedges).

The consolidated entity documents at the inception of the transaction the relationship between the hedging instrument 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 effective in offsetting changes in 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 transferred out of equity and included in the cost of the hedged item when the forecast purchase that is hedged takes place.

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.

**(l) Foreign Currency Translation****(i) Functional and presentation currency**

Items included in the financial statements of the consolidated entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is The Reject Shop Limited's functional and presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

**(m) Trade and Other Payables**

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

**(n) Borrowing Costs**

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs incurred for the construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

**(o) Impairment of Property, Plant and Equipment**

Assets that are subject to amortisation are reviewed for impairment at each reporting date when 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).

**(p) 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.

**(q) 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.

**(r) Contributed Equity**

Ordinary shares are classified as equity.

**(s) 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 Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during 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 (including performance rights) and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(t) 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 or development of an asset, in which case they are capitalised and amortised over the useful life which is generally three years.

**(u) Restoration Costs**

An expense is provided for in the period in which the legal or constructive obligation arises, usually on lease inception. The provision is measured at the present value of management's best estimate of make-good costs with a corresponding asset added to the cost of the fit out.

**(v) Store Opening Costs**

Non-capital costs associated in the setup of a new store are expensed in the period in which they are incurred.

**(w) Training Subsidies**

Government subsidies for employees undertaking external traineeships are treated as income in the period they are received and after all costs to which they relate have been incurred.

**(x) Cost of Sales**

The Group includes the full amount of its warehousing and logistics costs as part of its "Cost of Sales" line in the Consolidated Statement of Comprehensive Income.

The Group considers that all costs associated with getting stock to stores ready for sale is a cost attributable to the sale of such inventory.

**(y) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

**(z) Rounding of Amounts**

The Group is a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191*, 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.

**(aa) Critical Accounting Estimates and Judgements**

For the 30 June 2019 reporting period certain accounting estimates and judgements were made in relation to the following:

**(i) Provisioning for shrinkage expense**

The group provides for shrinkage expense for the period by applying an

estimated shrink loss percentage to the sales since the date of the last stock count to period-end, on a store-by-store basis. Stock counts are performed across stores to calculate the estimated shrink loss percentage for the whole store network. This estimate includes stock count information obtained from counts performed during the financial period and those completed post period-end. Factors that could impact the estimated provision include the length of the time period since a store last completed a stock take or a change in the actual stocktake results ultimately recognised. As at 30 June 2019 this particular provision had a carrying amount of \$10,401,065 (FY2018 - \$9,099,803).

**(ii) Impairment of store assets**

The Group offers a wide range of discount merchandise through its network of 357 stores and store assets represents one of the largest amounts on the Consolidated Balance Sheet.

The assessment of impairment on store assets is a critical judgement. A test for impairment is triggered by a change in a number of indicators, both internal and external. These indicators include, but are not limited to, physical damage to the asset, declining economic performance of the asset, technological changes, market or economic changes and plans to discontinue or restructure operations.

Impairment testing can only be done for an individual asset that generates cash inflows that are largely independent of cash inflows from other assets.

A 'cash generating unit' (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Group has defined each individual store as a cash generating unit as the cash inflows from an individual store are largely independent from the inflows of any other store. Accordingly, the assessment of the carrying value of the relevant assets is on an individual store basis for store fixtures and fittings.

The recoverable amount is defined as the higher of the assets fair value less costs of disposal or its value in use. The Group determines value in use by making

certain assumptions including forecast future cash flows and discount rates. The assumptions on future cash flows have been developed based on past performance and expectations in relation to the future. The discount rate has been determined using market information relevant to the industry in which the Group operates.

Impairment assessments are sensitive to the judgements made in the impairment test and assumptions outlined above. Changes to these assumptions could result in a different outcome or impairment of assets for other cash generating units in the future. Refer to note 8 for details.

**(iii) Impairment of corporate and distribution centre assets**

Due to impairment indicators at the end of the financial period, corporate and distribution centre assets are tested for impairment using a value in use discounted cash flow model. The Group determines value in use by making certain assumptions over forecast cash flows, giving regard to external industry forecasts and board approved budgets, and estimating the present value of these cash flows using a discount rate reflecting the Group's cost of capital.

Impairment assessments are sensitive to the judgments made in the impairment test, including the assumptions outlined above. Changes to these assumptions could result in a different outcome or impairment of assets in the future.

**(iv) Onerous lease provisions**

Onerous lease provisions have been recognised for the excess of the unavoidable cost, being the least of the cost to fulfil the contract and compensation or penalties for early exit, over the economic benefits expected to be received. The Group uses a discounted cash flow model to determine the estimated future economic benefits. For some leases the estimated exit costs could be dependent on the outcome of negotiations.

**(v) Net realisable value of inventory**

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell. The key assumptions require the use of management judgement. These key assumptions are the variables affecting the expected selling price. Any reassessment of the selling price in a particular period will affect the cost of goods sold.

This provision is calculated by applying an assumed percentage markdown to the inventory on hand at year end. The specific write-down amount depends, in part, on the age of the inventory and incorporates information on known loss-making products. The judgement on this estimate is further informed by:

- The Group's view of current inventory profile and historical data on the margins achieved
- Inventory items held at year end which have been sold below cost during the period ended 30 June 2019 or after 30 June 2019 and prior to finalising the financial statements
- The impact on estimated selling price of planned mark downs or other strategies to clear slow moving inventory during 2019/20.

There are no other accounting estimates or judgements within these accounts which have a significant effect on the amounts recognised in the financial report.

**(ab) New standards and interpretations adopted by the Group**

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- AASB 9 Financial Instruments
- AASB 15 Revenue from Contracts with Customers

The Group has not had to make significant changes to its accounting policies or make certain retrospective adjustments following the adoption of AASB 9 and AASB 15. There was not any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

**(ac) New standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting period and have not been early adopted by the Group.

The Group's assessment of the impact of these new standards and interpretations is set out opposite:

Title of Standard	Nature of Change	Impact of Change	Mandatory Application Date
AASB 16 Leases	<p>AASB 16 Leases was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay future rentals are recognised. The only qualifying exceptions under the standard relate to short-term and low-value leases, which the Group has elected to continue expensing under the current accounting regime. All property and motor vehicle leases for the Group will fall within the scope of the new standard.</p> <p>For those leases that do fall within the scope of the new standard, it is only the rental components associated with the “financing” of the property or vehicle that are included in the calculation of the right of use asset and liability values, with all other service or variable rental components, such as property outgoings, vehicle operating expenses, variable rent components, etc., will continue to be expensed in line with the current treatment.</p> <p>For the Consolidated Balance Sheet, the right of use asset and liability values on adoption date are based on the net present value of the relevant future rental payments for each of the leases. Any existing IFRS or lease incentive provisions on adoption date can be applied to reduce the right of use asset on adoption. As with finance leases, the right of use liability is reduced over the life of the lease as rents are paid, incurring an interest component, whilst the right of use asset is depreciated over the life of the lease.</p> <p>For the Consolidated Statement of Comprehensive Income, the relevant rental payments currently reflected in rent expense will instead be allocated to depreciation and interest. This will have a significant impact on the EBITDA measure, as expenses previously accounted for as operating expenses will in future be reclassified as below-the-line expenses. It is noted that the adoption of this standard is likely to initially create an adverse impact to profit after tax as the interest component is higher in the early stages of the lease and lower in the later stages of the lease.</p> <p>For the Consolidated Statement of Cash Flows, the relevant rental payments will be reclassified from the Operating Activities section of the report to the Interest and Financing Activities sections of the report.</p>	<p>The standard will primarily affect the accounting for the Group’s operating leases.</p> <p>It is noted that the adoption of this standard does not in any way impact or change the Group’s cash flows.</p> <p>The Group has analysed its current lease arrangements and estimates that on the adoption date of 1 July 2019, the right of use liabilities to be taken to the balance sheet on adoption date will be approximately \$246 million and the right of use assets to be taken to the balance sheet will initially be the same amount. The existing IFRS and lease incentive provisions of \$17 million will be offset against the balance of right of use assets on transition, and will be returned to profit over the remainder of the lease terms. Under these assumptions there will be no impact on retained earnings upon adoption of the standard. The Group estimates that, as a result of adopting the standard on 1 July 2019, net profit after tax for the 2020 financial period will be adversely impacted in the range of \$3.5 million to \$4.5 million. Our analysis shows that the profit impact in the first financial period will be reversed over the remaining life of the existing leases. The Group estimates that approximately \$107 million of expenses previously designated as lease rentals will be reclassified and reported as interest and depreciation, increasing EBITDA by an equivalent amount.</p> <p>The Group notes that the above estimates are based on the leases in existence at 30 June 2019 plus expected new sites and closures to occur during the 2020 financial period. These openings and closures of sites are calculated per their specific arrangements. In addition, expected replacement of leases has been taken into account and assumes a standard lease period, rent uplift rate and incremental borrowing rate. The Group notes that these calculations assume an adoption date of 1 July 2019, and that the actual values for the 2020 financial period may be different. This difference will be due to: (i) the actual terms and conditions of replacement leases for those leases expiring during the 2020 financial period being different to those assumed in the above analysis, and (ii) the rate of rollout of new stores and the terms and conditions thereof are different to those included in the above analysis.</p>	<p>Mandatory for financial periods commencing on or after 1 January 2019.</p> <p>At this stage, the Group does not intend to adopt the standard before its effective date.</p> <p>The Group intends to apply the simplified Modified Retrospective at Transition approach on adoption of the standard and will not restate comparative amounts for the year prior to first adoption.</p>

**Note 2: Revenue from Continuing Operations and Other Income**

	Consolidated Entity	
	2019 \$'000	2018 \$'000
Revenues from continuing operations		
Sales of goods	793,687	800,306
Interest	51	44
	793,738	800,350

**Note 3: Expenses**

		Consolidated Entity	
	Note	2019 \$'000	2018 \$'000
(Loss) / Profit before income tax expense includes the following expenses:			
Interest and finance charges paid / payable		789	607
Depreciation & amortisation expenses are included in:			
Cost of sales		3,606	3,593
Store expenses		13,634	13,573
Administrative expenses		2,363	2,012
		19,603	19,178
Impairment			
Impairment of Corporate Cash Generating Unit Assets			
- Property, Plant and Equipment		15,000	-
Impairment / (reversal of impairment) of Store Cash Generating Unit Assets			
- Property, Plant and Equipment		6,941	(551)
	8	21,941	(551)
Asset write offs on store closures			
		413	799
Rental expenses relating to operating leases			
Minimum lease payments		121,545	116,910
Provision/(reversal) for onerous leases		273	(145)
Provision for rent escalation		1,595	2,754
Rent paid on percentage of sales basis		(28)	(335)
Employee benefits expense		172,958	164,095
New store opening costs		1,291	1,373

## Note 4: Income Tax Expense

		Consolidated Entity	
	Note	2019 \$'000	2018 \$'000
<b>(a) Income tax expense</b>			
Current tax		521	5,697
Deferred tax		(7,743)	1,425
Under provided in prior years		48	43
		(7,174)	7,165
Deferred income tax expense included in income tax expense comprises:			
(Increase) / Decrease in net deferred tax assets	9	(7,743)	1,425
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>			
(Loss) / Profit before income tax expense		(24,073)	23,742
Tax at the Australian tax rate of 30% (2018 – 30%)		(7,222)	7,122
Tax effect of amounts which are not deductible in calculating taxable income:			
Other		-	-
Income tax expense		(7,222)	7,122
Under provided in prior years		48	43
Income Tax Expense		(7,174)	7,165
<b>(c) Amounts recognised directly in equity</b>			
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		(139)	116
<b>(d) Income tax relating to items of other comprehensive income</b>			
Cash flow hedges		1,014	(2,574)

## Note 5: Current Assets - Cash

	Note	Consolidated Entity	
		2019 \$'000	2018 \$'000
Cash on hand	20	1,643	2,139
Cash at bank	20	24,665	12,615
		<b>26,308</b>	<b>14,754</b>

**Note 6: Current Assets – Inventories**

	<b>Consolidated Entity</b>	
	<b>2019 \$'000</b>	<b>2018 \$'000</b>
Inventory at cost	107,675	104,080
Inventory at net realisable value	3,116	1,007
	<b>110,791</b>	<b>105,087</b>

Inventories recognised as an expense during the period ended 30 June 2019 amounted to \$393,922,000 (FY2018: \$392,369,000). These were included in the cost of sales. Writedowns of inventories to net realisable value amounted to \$2,337,000 (FY2018: \$2,240,000). These were recognised as an expense during the period ended 30 June 2019 and included in cost of sales.

**Note 7: Current Assets – Other**

	<b>Consolidated Entity</b>	
	<b>2019 \$'000</b>	<b>2018 \$'000</b>
Prepayment	1,486	1,380
Other current assets	759	2,043
	<b>2,245</b>	<b>3,423</b>

**Note 8: Non-Current Assets - Property, Plant and Equipment**

	<b>Consolidated Entity</b>	
	<b>2019 \$'000</b>	<b>2018 \$'000</b>
<b>Leasehold improvements</b>		
At cost	84,894	82,250
Less accumulated depreciation and impairment	(60,754)	(46,052)
	<b>24,140</b>	<b>36,198</b>
<b>Plant and equipment*</b>		
At cost	161,954	156,520
Less accumulated depreciation and impairment	(125,119)	(100,205)
	<b>36,835</b>	<b>56,315</b>
<b>Total Property, Plant and Equipment</b>	<b>60,975</b>	<b>92,513</b>

\* Plant & equipment includes fixtures, fittings and motor vehicles as well as \$1,104 (FY2018: \$Nil) of work in progress costs.

## Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial period are as follows:

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
<b>Balance at 01 July 2018</b>	<b>36,198</b>	<b>56,315</b>	<b>92,513</b>
Additions at cost	4,812	6,627	11,439
Asset write offs for store closures	(512)	(921)	(1,433)
Impairment	(8,667)	(13,274)	(21,941)
Depreciation/amortisation expense	(7,691)	(11,912)	(19,603)
<b>Balance at 30 June 2019</b>	<b>24,140</b>	<b>36,835</b>	<b>60,975</b>

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
<b>Balance at 02 July 2017</b>	<b>35,048</b>	<b>59,538</b>	<b>94,586</b>
Additions at cost	8,707	8,646	17,353
Asset write offs for store closures	(231)	(568)	(799)
Impairment	215	336	551
Depreciation/amortisation expense	(7,541)	(11,637)	(19,178)
<b>Balance at 1 July 2018</b>	<b>36,198</b>	<b>56,315</b>	<b>92,513</b>

The Group's property, plant and equipment assets comprise assets located at specific stores, distribution centres and at the corporate office. The Group assesses these assets for indicators of impairment at each reporting date in accordance with AASB 136 *Impairment of Assets*. During the period, there were indicators of impairment due to declining market conditions within the retail sector, operating performance of the business, and a deficiency of the market capitalisation position to net assets as at 30 June 2019.

The Group performed the test for impairment first at the CGU level consisting of individual stores as this is the smallest group of assets for which independent cash flows can be determined (the "stores CGU"). For testing at the individual stores level, the Group calculated the recoverable amount of the CGU using a value-in-use (VIU) discounted cash flow model. The model uses cash flow projections based on forecasts approved by management covering a period equivalent to the lease term of the individual store.

For testing of the distribution and corporate assets, the Group determined a CGU comprising these assets along with the store assets as it is only at this level that independent cash flows can be determined (the "corporate CGU"). For testing at the corporate CGU level, the Group calculated the recoverable amount using a VIU discounted cash flow model. The model uses cash flow projections based on forecasts approved by the Company covering a period of five years. Cash flows beyond the five year period were extrapolated using a terminal growth rate.

As a result of the impairment testing for the stores CGU, the Group recognised an aggregate impairment expense of \$6,941,000 (2018: reversal of \$551,000). As a result of the impairment testing for the corporate CGU, the Group recognised a further impairment expense of \$15,000,000 (2018: nil). These amounts will be carried as a provision, separate to ongoing accumulated depreciation.

In addition to store impairment, six stores were closed, and associated costs with carrying amount of \$407,994 (FY2018: \$799,206) were written off.

The key assumptions used in the corporate CGU models were:

Key assumption	2019	Approach to determine value
Pre-tax discount rate	14.47%	The pre-tax discount rate is calculated from observable market information and is risk adjusted relative to the risks associated with the net pre-tax cash flows being achieved.
Terminal growth rate	1.40%	The terminal growth rate estimated by the Group and is consistent with long-term industry and economic forecasts.
Sales growth rate	1.53%	The sales growth rate is based on the board-approved five year forecast, which reflects past performance and the Company's expectations, as well as relevant external information such as industry reports and economic forecasts.
Average first margin over 5 year forecast period	51.16%	The average first margin is based on past performance and the Company's expectations. The assumption incorporates anticipated market conditions and the Company's expectations of first margin improvement and future cost saving initiatives.

The assumptions used to record the impairment remain appropriate to use for the assessment at the end of the financial reporting period. Therefore the recoverable amount continues to approximate carrying value, and any adverse movement in these assumptions may lead to further impairment. The recoverable amount is highly sensitive to changes in the key assumptions. The impact of these changes in key assumptions is shown in the table below and has been calculated in isolation from other changes.

Key assumption	Sensitivity applied	Impact of Sensitivity on Corporate CGU impairment
Discount rate	Increased by 50 bp	Additional impairment of \$3,274,000
Terminal growth rate	Decreased by 50 bp	Additional impairment of \$2,589,000
Sales growth rate	Decreased by 25 bp	Additional impairment of \$20,076,000
Average first margin	Decreased by 10 bp	Additional impairment of \$5,960,000

**Note 9: Non-Current Assets – Deferred Tax Assets**

	Consolidated Entity	
	2019 \$'000	2018 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
<i>Amounts recognised in profit or loss</i>		
Employee benefits	3,683	3,730
Lease escalation	3,027	3,506
Inventories	1,800	1,647
Lease incentives	2,042	1,909
Depreciation and Impairment	11,267	2,776
Other provisions and accruals	736	650
Employee share trust	29	339
Tax Losses	291	-
Sundry items	-	(438)
	<b>22,875</b>	<b>14,119</b>
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:		
Depreciation	(1,981)	(724)
Receivables	(66)	-
Hedging reserve	(632)	(1,646)
Net deferred tax assets	<b>20,196</b>	<b>11,749</b>
Net deferred tax assets expected to be recovered within 12 months	6,794	4,725
Net deferred tax assets expected to be recovered after more than 12 months	13,402	7,024
Net deferred tax assets	<b>20,196</b>	<b>11,749</b>

Movements – Consolidated	Employee Benefits \$'000	Inventories \$'000	Hedging Reserve \$'000	Other \$'000	Total \$'000
<b>At 02 July 2017</b>	3,409	1,627	928	6,818	12,782
(Charged) / credited					
- to profit or loss	321	20	-	1,084	1,425
- to other comprehensive income	-	-	(2,574)	-	(2,574)
- direct to equity	-	-	-	116	116
<b>At 01 July 2018</b>	3,730	1,647	(1,646)	8,018	11,749
(Charged) / credited					
- to profit or loss	(47)	153	-	7,637	7,743
- to other comprehensive income	-	-	1,014	-	1,014
- direct to equity	-	-	-	(310)	(310)
<b>At 30 June 2019</b>	3,683	1,800	(632)	15,345	20,196

## Note 10: Current Liabilities – Payables

	Consolidated Entity	
	2019 \$'000	2018 \$'000
Unsecured liabilities		
Trade payables	39,783	41,243
Sundry payables and accruals	4,043	2,853
	<b>43,826</b>	<b>44,096</b>

## Note 11: Current Liabilities – Borrowings

		Consolidated Entity	
	Note	2019 \$'000	2018 \$'000
Loan Facility - Cash advance (i)	20	19,500	-
		<b>19,500</b>	<b>-</b>

(i) A fixed interest rate of 2.245% (2018: Nil) is applied to the cash advance.

All secured liabilities listed within note 11 and 21 including Bank overdraft and bank loans, finance purchases and hire purchase agreements are secured by a Cross Guarantee and Indemnity between The Reject Shop Limited and TRS Trading Group Pty Ltd supported by:

First Registered Company Charge (Mortgage Debenture) over all the assets and undertakings of The Reject Shop Limited this is a fixed and floating charge over all present and future assets, undertakings (including goodwill); and unpaid/uncalled capital of the Company.

First Registered Company Charge (Mortgage Debenture) over all the assets and undertakings of TRS Trading Group Pty Ltd this is a fixed and floating charge over all present and future assets, undertakings (including goodwill); and unpaid/uncalled capital of the Company.

Letter of Set Off by and on account of The Reject Shop Limited and TRS Trading Group Pty Ltd.

The Group is required to maintain a fixed charge cover ratio of 1.20 as at the balance dates ending 31 December, 31 March, 30 June and 30 September through the term of its financing facility. The Group's fixed charge cover ratio as at the compliance date of 30 June 2019 was marginally below 1.20 and therefore the Group breached its covenant requirements. On 5 July 2019, the Group obtained a waiver of the fixed charge cover ratio for the 30 June 2019 and 30 September 2019 compliance dates. Notwithstanding the breach and waiver received after the end of the reporting period, all borrowing facilities are short-term in nature and remain classified as current on the balance sheet.

**Note 12: Liabilities – Provisions**

	Consolidated Entity					
	Current \$'000	2019 Non-Current \$'000	Total \$'000	Current \$'000	2018 Non-Current \$'000	Total \$'000
Onerous leases	174	206	380	74	33	107
Employment entitlements	10,167	2,724	12,891	10,490	2,046	12,536
	10,341	2,930	13,271	10,564	2,079	12,643

**Amounts not expected to be settled within the next 12 months**

The current provision for employee entitlements includes annual leave, long service leave and bonus accruals. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision for annual leave is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. The provision for long service leave has both a current and non-current portion. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. Expected future payments are discounted using appropriate market yields at the end of the reporting period that match, as closely as possible, the estimated future cash outflows. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

	Consolidated Entity	
	2019 \$'000	2018 \$'000
Leave obligations expected to be settled after 12 months	5,484	4,868

**Note 13: Current Liabilities - Other**

	Consolidated Entity	
	2019 \$'000	2018 \$'000
Accrued expenses	6,435	5,594
Deferred income (Note 1(g))	2,203	1,516
Rent escalation	1,968	2,371
	10,606	9,481

**Note 14: Non-Current Liabilities – Other**

	Consolidated Entity	
	2019 \$'000	2018 \$'000
Deferred income (Note 1(g))	4,671	4,891
Rent escalation	8,122	9,314
	12,793	14,205

**Note 15: Contributed Equity****Movements in ordinary share capital:**

<b>Date</b>	<b>Details</b>	<b>Number of Issued Shares</b>	<b>Issue Price Per Share \$</b>	<b>Contributed Equity \$'000</b>
02 July 2017	Balance	28,859,548	-	46,247
01 July 2018	Balance	28,859,548	-	46,247
23 August 2018	Exercise of performance rights	48,600	-	-
<b>30 June 2019</b>	<b>Balance</b>	<b>28,908,148</b>	<b>-</b>	<b>46,247</b>

All shares carry one vote per share and rank equally in terms of dividends and on winding up. Ordinary shares have no par value and the Group does not have a limited amount of authorised capital.

## Note 16: Equity – Reserves

	Consolidated Entity	
	2019 \$'000	2018 \$'000
Capital profits reserve	739	739
Share-based payments reserve (i)	4,004	4,321
Hedging reserve – cash flow hedges (ii)	1,476	3,841
Foreign currency translation reserve (iii)	(1)	12
	<b>6,218</b>	<b>8,913</b>
Movements:		
<i>Share based payments reserve (i)</i>		
Balance at beginning of period	4,321	4,157
Performance Rights expense	(178)	48
Deferred tax – share based payments	(139)	116
<b>Balance at end of period</b>	<b>4,004</b>	<b>4,321</b>
<i>Hedging reserve – cash flow hedges (ii)</i>		
Balance at beginning of period	3,841	(2,165)
Transfer to inventory	(3,841)	2,165
Revaluation of cash flow hedges	1,476	3,841
<b>Balance at end of period</b>	<b>1,476</b>	<b>3,841</b>
<i>Foreign currency translation reserve (iii)</i>		
Balance at beginning of period	12	-
Currency translation differences	(13)	12
<b>Balance at end of period</b>	<b>(1)</b>	<b>12</b>

### Nature and Purpose of Reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of performance rights issued.

(ii) Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 21. Amounts accumulated in equity are included in the cost of the hedged item when the forecast purchase that is hedged takes place.

(iii) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

**Note 17: Equity – Retained Profits**

	Consolidated Entity	
	2019 \$'000	2018 \$'000
Retained profits at the beginning of the financial period	95,826	86,175
Net (loss) / profit attributable to members of the consolidated entity	(16,899)	16,577
Dividends provided for or paid	(6,070)	(6,926)
<b>Retained profits at end of financial period</b>	<b>72,857</b>	<b>95,826</b>

**Note 18: Commitments**

	Consolidated Entity	
	2019 \$'000	2018 \$'000
<b>Operating Lease Commitments</b>		
Non cancellable operating leases contracted for but not capitalised in the financial statements payable:		
Not later than one year	104,799	100,618
Later than one year and not later than five years	163,712	174,128
Later than five years	12,358	21,062
	<b>280,869</b>	<b>295,808</b>

Operating leases primarily relate to retail stores over a two to seven-year time period and contain varying terms and escalation clauses.

This does not include any rental payments payable as a percentage of sales contingent on achieving sales thresholds contained within existing operating leases ('percentage rent') as these amounts cannot be reliably measured for future periods. The amount accrued as at 30 June 2019 for percentage rent was \$83,461 (FY2018: \$163,374).

**Capital Commitments**

The consolidated entity has capital commitments totalling \$5,368,090 (FY2018: \$1,009,749) all payable within one year.

**Note 19: Contingent Liabilities**

As at 30 June 2019, the Group has no contingent liabilities (1 July 2018: \$Nil).

**Note 20: Consolidated Statement Of Cash Flow Information**

	<b>Consolidated Entity</b>	
	<b>2019 \$'000</b>	<b>2018 \$'000</b>
<b>Reconciliation of cash flow from operating activities with (loss) / profit after income tax from ordinary activities</b>		
(Loss) / Profit from ordinary activities after Income Tax	(16,899)	16,577
Non-cash items in (loss) / profit from ordinary activities		
Depreciation	19,603	19,178
Impairment of corporate assets	15,000	-
Impairment / (Reversal of impairment) of store assets	6,941	(551)
Asset write offs on store closures	413	799
Provision for onerous leases	273	(145)
Non cash share-based expense	(178)	48
Tax (debited) / credited directly to equity	(139)	116
<b>Changes in assets and liabilities:</b>		
Decrease / (Increase) in receivables and other asset	1,178	(1,007)
(Increase) in inventories	(5,704)	(12,181)
Increase in trade, other creditors and other provisions	1,087	10,514
(Decrease) / Increase in income tax payable	(4,298)	2,036
(Increase) / Decrease in deferred tax	(8,447)	1,033
<b>Net cash provided by operations</b>	<b>8,830</b>	<b>36,417</b>
<b>Reconciliation of Cash</b>		
Cash at the end of the financial period as shown in the statements of cash flows is reconciled to the related items in the consolidated balance sheets as follows:		
Cash on hand	1,643	2,139
Cash at bank	24,665	12,615
	<b>26,308</b>	<b>14,754</b>

### Credit Standby Arrangement and Loan Facilities

The ongoing funding requirements of the Group, reviewed annually, are provided under the terms of a facility agreement. The key facilities and their utilisation are as follows:

	2019		2018	
	Limit \$'000	Utilised \$'000	Limit \$'000	Utilised \$'000
Interchangeable Facility (i)	25,000	19,500	30,000	-
Foreign Currency Settlement	-	-	-	-
Other Facilities	800	471	800	471
<b>Total Facilities</b>	<b>25,800</b>	<b>19,971</b>	<b>30,800</b>	<b>471</b>

A seasonal facility of \$20,000,000 was utilised from 1 October 2018 and repaid in full by 31 December 2018. Other facilities include an ANZ Bank indemnity guarantee of \$800,000 of which \$470,897 was utilised in relation to property leases at 30 June 2019.

(i) The interchangeable facility may be allocated to the following sub-facilities - overdraft facility, documentary credit Issuance/ documents surrendered facility, foreign currency overdraft facility and loan facility.

### Note 21: Financial Instruments and Financial Risk Management

	Consolidated Entity	
	2019 \$'000	2018 \$'000
<b>Derivative Financial Instruments</b>		
<b>Current assets and (liabilities)</b>		
Forward foreign exchange contracts – cash flow hedges	2,107	5,487

#### Forward Exchange Contracts – Cash Flow Hedges

The consolidated entity imports product from overseas. In order to protect against exchange rate movements, the consolidated entity enters into forward exchange contracts to purchase foreign currency for all overseas purchases. These contracts are hedging contracts for highly probable forecast purchases for the ensuing financial period. The contracts are timed to mature when payments for shipments of products are scheduled to be made.

At balance date, the details of outstanding forward exchange contracts to be settled within 12 months are:

		Average Exchange Rate			
Sell	Buy	2019 \$'000	2018 \$'000	2019 \$	2018 \$
Australian Dollars	United States Dollars	115,976	133,101	0.72	0.77
Australian Dollars	Euros	817	311	0.61	0.64
Australian Dollars	Pounds Sterling	-	-	-	-

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the cash flows occur, the consolidated entity adjusts the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity.

At the balance date the revaluation of these contracts to fair value resulted in an asset of \$2,107,361 (FY2018 – asset of \$5,486,538).

During the period \$3,840,576 (FY2018 – \$2,165,381) was removed from equity and included in the acquisition cost of goods and a net gain of \$Nil (FY2018 – net \$Nil) was transferred to the consolidated profit and loss.

## Exposure to Foreign Currency Risk

The Group's exposure to foreign currency risk at the end of the reporting period was as follows:

	2019 USD \$'000	2018 USD \$'000
Cash at bank	1,323	256
Trade payables	8,275	5,776

## Forward Exchange Contracts – Balance Date Sensitivity Analysis

The following table summarises the sensitivity of the consolidated entity as at balance date to movements in the value of the Australian Dollar compared to the United States Dollar, the principal currency that the consolidated entity has an exposure to. The sensitivity analysis as at balance date relates to the conversion of the United States Dollar foreign currency bank account and foreign currency payables and the impact on other components of equity arises from foreign forward exchange contracts designated as cash flow hedges as follows:

Sensitivity Analysis – Foreign Exchange AUS/USD	Consolidated Entity	
	2019 \$'000	2018 \$'000
For every 1c increase in AUD:USD rate, total exposures decrease by		
Income Statement	139	100
Equity	(1,664)	(1,851)
For every 1c decrease in AUD:USD rate, total exposures (increase) by		
Income Statement	(143)	(102)
Equity	1,712	1,902

## Interest Rate Risk

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

2019	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing Within 1 Year	Fixed Interest Rate Maturing 1 to 5 Years	Non-Interest Bearing	Total
		\$'000	\$'000	\$'000	\$'000	\$'000
<i>Financial Assets</i>						
Cash	0.23	22,148	-	-	4,159	26,308
Receivables and other debtors	-	-	-	-	-	-
<b>Total Financial Assets</b>		22,148	-	-	4,159	26,308
<i>Financial Liabilities</i>						
Bank loans and overdrafts	2.92	-	19,500	-	-	19,500
Trade, sundry and other creditors	-	-	-	-	49,814	49,814
<b>Total Financial Liabilities</b>		-	19,500	-	49,814	69,314

2018	Weighted Average Effective Interest Rate	Floating Interest Rate \$'000	Fixed Interest Rate Maturing Within 1 Year \$'000	Fixed Interest Rate Maturing 1 to 5 Years \$'000	Non-Interest Bearing \$'000	Total \$'000
<i>Financial Assets</i>						
Cash	0.40	10,643	-	-	4,111	14,754
Receivables and other debtors	-	-	-	-	-	-
<b>Total Financial Assets</b>		<b>10,643</b>	<b>-</b>	<b>-</b>	<b>4,111</b>	<b>14,754</b>
<i>Financial Liabilities</i>						
Bank loans and overdrafts	-	-	-	-	-	-
Trade, sundry and other creditors	-	-	-	-	49,299	49,299
<b>Total Financial Liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>49,299</b>	<b>49,299</b>

The following table summarises the sensitivity of the consolidated entity to movements in interest rates by applying changes in interest rates to the average levels of financial assets and liabilities carried by the consolidated entity over the last two reporting periods. The table illustrates the impact of a change in rates of 100 basis points, a level that management believes to be a reasonably possible movement.

Sensitivity Analysis – Interest Rates	Consolidated Entity	
	2019 \$'000	2018 \$'000
For every 100 basis points increase in interest rates		
Income Statement	(66)	(46)
Equity	-	-
For every 100 basis points decrease in interest rates		
Income Statement	(59)	(21)
Equity	-	-

### Credit Risk

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

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

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

## Capital Risk Management

The consolidated entity's objectives when managing capital are to safeguard the ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2019, the Group's strategy, which was unchanged from 2018, was to maintain a gearing ratio at or below 30%. The gearing ratio at 30 June 2019 and 01 July 2018 were as follows:

	Consolidated Entity	
	2019 \$'000	2018 \$'000
Net debt/ (cash)	(6,808)	(14,754)
Total equity	125,322	150,986
Net debt to equity ratio (i)	0%	0%

(i) The group has no net debt so debt to equity ratio is not applicable.

## Liquidity Risk

The consolidated entity manages liquidity risk by continuously monitoring forecast and actual cashflow and matching the maturity profiles of financial assets and liabilities. Such cashflow forecasting ranges from daily to weekly to monthly, with an annual forecast to ensure funding facilities are sufficient to service the business.

The tables below analyse the consolidated entity's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The consolidated and parent entity has no financial liabilities maturing in greater than five years.

Consolidated Risk – At 30 June 2019	Less Than 6 Months \$'000	6 – 12 Months \$'000	Between 1 and 2 Years \$'000	Between 2 and 5 Years \$'000	Total Contractual Cash Flows \$'000	Carrying Amount (Assets) / Liabilities \$'000
<b>Non-Derivatives</b>						
Non-interest bearing	54,346	-	-	-	54,346	54,346
Variable rates	-	-	-	-	-	-
Fixed rate	19,500	-	-	-	19,500	19,500
<b>Total Non-Derivatives</b>	<b>73,846</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73,846</b>	<b>73,846</b>
<b>Derivatives</b>						
Net settled						
Gross settled	-	-	-	-	-	-
- (inflow)	(115,352)	(3,548)	-	-	(118,900)	-
- outflow	113,220	3,573	-	-	116,793	(2,107)
<b>Total Derivatives</b>	<b>(2,132)</b>	<b>25</b>	<b>-</b>	<b>-</b>	<b>(2,107)</b>	<b>(2,107)</b>

Consolidated Risk – At 01 July 2018	Less Than 6 Months \$'000	6 – 12 Months \$'000	Between 1 and 2 Years \$'000	Between 2 and 5 Years \$'000	Total Contractual Cash Flows \$'000	Carrying Amount (Assets) / Liabilities \$'000
<b>Non-Derivatives</b>						
Non-interest bearing	51,676	-	-	-	51,676	51,676
Variable rates	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	-
<b>Total Non-Derivatives</b>	<b>51,676</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,676</b>	<b>51,676</b>
<b>Derivatives</b>						
Net settled						
Gross settled	-	-	-	-	-	-
- (inflow)	(115,756)	(23,143)	-	-	(138,899)	-
- outflow	111,089	22,323	-	-	133,412	(5,487)
<b>Total Derivatives</b>	<b>(4,667)</b>	<b>(820)</b>	<b>-</b>	<b>-</b>	<b>(5,487)</b>	<b>(5,487)</b>

### Net Fair Values

For other assets and other liabilities the net fair value approximates their carrying value.

### Fair Value Measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

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

The following table presents the entity's assets and liabilities measured and recognised at fair value at 30 June 2019.

	2019 \$'000	2018 \$'000
	Level 2	Level 2
Derivatives used for hedging	2,107	5,487

Net Debt Reconciliation	2019 \$'000
Cash and cash equivalents	26,308
Borrowings repayable within 1 year (including overdraft)	(19,500)
<b>Net cash / (debt)</b>	<b>6,808</b>

Cash and liquid investments	26,308
Gross debt – fixed interest rate	(19,500)
<b>Net cash / (debt)</b>	<b>6,808</b>

	Borrowings Due Within 1 Year \$'000
<b>Balance as at 2 July 2017</b>	<b>(13,000)</b>
Cash flows	13,000
Foreign exchange adjustments	-
<b>Balance at 1 July 2018</b>	<b>-</b>
Cash flows	(19,500)
Foreign exchange adjustments	-
<b>Balance at 30 June 2019</b>	<b>(19,500)</b>

## Note 22: Key Management Personnel Disclosures

### Non-Executive Directors

William J Stevens	Chairman
Kevin J Elkington	(Resigned 28 February 2019)
Michele Teague	
Selina Lightfoot	(Appointed 23 August 2018)
Jack Hanrahan	(Appointed 12 December 2018)
Matthew Campbell	(Appointed 12 December 2018 and Resigned 17 April 2019)
Steven Fisher	(Appointed 14 June 2019)
Zachary Midalia	(Appointed 14 June 2019)

### Executive Directors

Ross Sudano	Managing Director (Resigned 23 May 2019)
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All of the above persons were directors of The Reject Shop Limited for the entire period ended 30 June 2019, unless otherwise stated.

### Other Key Management Personnel

The following persons had authority and responsibility for planning, directing, and controlling the activities of the consolidated entity directly or indirectly during the financial period:

Allan Molloy	General Manager, Retail Operations (Resigned 28 February 2019)
Allan J Penrose	General Manager, Marketing
Brendon Short	General Manager, Retail Operations (Commenced 12 March 2019)
Danielle Aquilina	General Manager, Supply Chain and Planning (Acting Chief Executive Officer)
Darren R Briggs	Chief Financial Officer and Company Secretary
Ed Tollinton	Chief Information Officer (Resigned 1 March 2019)
Kelvin Chand	General Manager, Property (Resigned 31 July 2018)
Peter Barry	General Manager, Buying (Commenced 9 July 2018, Resigned 24 May 2019)
Robert d'Andrea	General Manager, Human Resources
Steve Williamson	General Manager, Buying (Acting) (Commenced 1 June 2019)

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 30 June 2019 unless otherwise stated.

During the year a review of the key management personnel was conducted. The Board has determined that from 1 July 2019 under a review of the management structure which is in progress, that not all general manager roles will meet the definition of key management personnel. All remuneration details have been disclosed in this report for all individuals previously considered key management personnel. In the Annual Report for 2019/2020 it is proposed that remuneration details will be provided for only those individuals that meet the determination in the new structure.

## Remuneration of Directors and Key Management Personnel

	Consolidated Entity	
	2019 \$	2018 \$
Short-term cash rewards	-	376,359
Short-term employee benefits	3,962,160	4,125,429
Post-employment benefits	197,829	239,579
Termination benefits	537,070	87,500
Other	-	166,666
Share-based payments	(175,474)	47,856
	<b>4,521,585</b>	<b>5,043,389</b>

No other long term or termination benefits were paid or payable with respect to the current or prior period.

## Note 23: Share-Based Payments

### Performance Rights Plan (PRP)

The PRP is the basis of The Reject Shop Limited's long-term reward scheme for selected senior employees. In summary, eligible employees identified by the Board may be granted performance rights, which is an entitlement to a share subject to satisfaction of exercise conditions on terms determined by the Board.

The details of all grants made and outstanding for each financial period are detailed in the tables below:

2019									
Date of Grant	Expiry Date	Date Exercisable	Fair Value at Grant Date \$	Balance at Start of Period	Granted During the Period	Exercised During the Period	Lapsed During the Period	Balance at End of the Period	Vested and Exercisable at the End of the Period
14 Oct 2015	14 Oct 2019	1 Jul 2018	8.62	48,600	-	(48,600)	-	-	-
20 Oct 2016	19 Oct 2020	1 Jul 2019	6.58	104,500	-	-	(104,500)	-	-
19 Oct 2017 (i)	18 Oct 2021	1 Jul 2020	3.86	326,700	-	-	(188,200)	138,500	-
18 Oct 2018 (ii)	17 Oct 2022	1 Jul 2021	1.84	-	270,900	-	(168,900)	102,000	-
<b>Total</b>				<b>479,800</b>	<b>270,900</b>	<b>(48,600)</b>	<b>(461,600)</b>	<b>240,500</b>	<b>-</b>

There were no other changes to performance rights granted during the period.

(i) The performance rights that will vest if targeted criteria are met will be 69,100. The additional 69,400 will only be issued to key management personnel if targeted criteria are overachieved.

(ii) The performance rights that will vest if targeted criteria are met will be 51,000. The additional 51,000 will only be issued to key management personnel if targeted criteria are overachieved.

## 2018

Date of Grant	Expiry Date	Date Exercisable	Fair Value at Grant Date \$	Balance at Start of Period	Granted During the Period	Exercised During the Period	Lapsed During the Period	Balance at End of the Period	Vested and Exercisable at the End of the Period
14 Oct 2015	14 Oct 2019	1 Jul 2018	8.62	191,300	-	-	(142,700)	48,600	48,600
20 Oct 2016 (i)	19 Oct 2020	1 Jul 2019	6.58	114,900	12,900	-	(23,300)	104,500	-
19 Oct 2017 (ii)	18 Oct 2021	1 Jul 2020	3.42	-	401,000	-	(74,300)	326,700	-
<b>Total</b>				<b>306,200</b>	<b>413,900</b>	<b>-</b>	<b>(240,300)</b>	<b>479,800</b>	<b>48,600</b>

There were no other changes to performance rights granted during the period.

- (i) The performance rights that will vest if targeted criteria are met will be 52,400. The additional 52,100 will only be issued to key management personnel if targeted criteria are overachieved.
- (ii) The performance rights that will vest if targeted criteria are met will be 163,500. The additional 163,200 will only be issued to key management personnel if targeted criteria are overachieved.

The Company, effective from 14 October 2015 onwards, has changed the vesting conditions for all performance rights granted thereafter. The proportion of performance rights grants that ultimately vest will be determined by the following financial criteria, measured over a three-year period post issue:

- Earnings Per Share compound growth of at least 10% per annum (50% weighting);
- Improved Earnings Before Interest, Income Tax, Depreciation and Amortisation (EBITDA) of at least 0.15% to sales per annum (25% weighting); and
- Return on Average Capital Employed of at least 20% per annum (25% weighting).

The total exercise price payable on the exercise of one or more performance rights on a particular day is \$1.00, regardless of the number of performance rights exercised on that day.

The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the annual allocation amount is included in remuneration.

For the grants made on 18 October 2018 the fair value was determined using Black-Scholes option pricing model taking into account the following inputs:

- (a) Performance rights are granted for no consideration, all grants are exercisable provided the relevant EPS hurdle rate is met and the executive remains employed on the exercise date;
- (b) exercise price: \$1.00 in total for all performance rights exercised;
- (c) share price at grant date: \$2.63;
- (d) expected volatility of the Company's shares: 37.56%;
- (e) expected dividend yield: 13.31% and
- (f) risk-free interest rate: 2.50%

The expected price volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

Performance rights do not carry voting or dividend entitlements.

Subsequent to period end, the Board has not granted any further performance rights under the PRP.

**Remuneration Expense / (Income) Arising from Share-based Payment Transactions**

	Consolidated Entity	
	2019 \$	2018 \$
Performance rights granted	(177,440)	47,856

**Note 24: Remuneration of Auditors**

	Consolidated Entity	
	2019 \$	2018 \$
<b>During the period the following fees for services were paid or payable to PricewaterhouseCoopers Australia and its related parties as the auditor:</b>		
<b>Audit and Assurance Related Services</b>		
Audit and review work	374,000	380,000
Other assurance services	50,613	38,332
	<b>424,613</b>	<b>418,332</b>
<b>Tax Compliance and Consulting Services</b>		
Tax compliance	40,500	45,666
Tax consulting advice (i)	59,400	15,300
	<b>99,900</b>	<b>60,966</b>
<b>Total Remuneration</b>	<b>524,513</b>	<b>479,298</b>

(i) Additional tax consulting fees were paid in FY2019 in respect of services associated with consulting for deferred tax balances and research and development tax services.

**Note 25: Dividends**

	Consolidated Entity	
	2019 \$'000	2018 \$'000
Dividend declared subsequent to the period end.	-	3,180
Balance of franking account at period end 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 periods based on a tax rate of 30%	51,328	51,234

**Dividends Recognised During the Reporting Period:**

Dividends paid to members during the financial period was an interim ordinary dividend for the financial period ended 30 June 2019 of 10.0 cents per share (2018: 24.0 cents per share) totalling \$2,890,815 (2018: \$6,926,292), paid on 8 April 2019 (2018: 09 April 2018). There was a final ordinary dividend paid for the financial period ended 1 July 2018 of 11.0 cents per share totalling \$3,179,896.

**Note 26: Earnings Per Share**

	Consolidated Entity	
	2019 Cents	2018 Cents
Basic earnings per share	(58.5)	57.4
Diluted earnings per share	(58.5)	56.7
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	28,901,072	28,859,548
Adjustments for dilutive portion of performance rights	-	382,867
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	28,901,072	29,242,415

Performance Rights granted under the Performance Rights Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share but to the extent they are not anti-dilutive. Details relating to the performance rights are set out in note 23.

**Note 27: Net Tangible Assets**

	Consolidated Entity	
	2019 Cents	2018 Cents
Net tangible asset backing per ordinary share	433.5	523.2

**Note 28: Parent Entity Financial Information**

	Parent Entity	
	2019 \$'000	2018 \$'000
<b>(a) Summary financial information</b>		
The individual financial statements for the parent entity show the following aggregate amounts:		
<b>Balance Sheet</b>		
Current assets	144,355	126,319
Total assets	225,415	230,438
Current liabilities	85,677	64,326
Total liabilities	101,397	80,609
Shareholders' equity		
Issued capital	46,247	46,247
Reserves	6,202	8,901
Retained earnings	71,569	94,681
	124,018	149,829
(Loss) / Profit for the financial period	(17,101)	16,435
Total Comprehensive Income for the financial period	(19,466)	22,441
<b>(b) Guarantees entered into by the parent entity</b>		
Carrying amount included in current liabilities	-	-

Refer to note 18 and 19 for disclosures concerning contingent liabilities and contractual commitments for the parent entity.

## Note 29: Segment Information

The Reject Shop operates within one reportable segment (retailing of discount variety merchandise). Total revenues of \$793,687,248 all relate to the sale of discount variety merchandise in the Group's country of domicile (Australia), in this single reportable segment. The Group is not reliant on any single customer.

## Note 30: Subsidiaries

The Reject Shop Limited has a 100% owned operating subsidiary based in Hong Kong, TRS Sourcing Co. Limited. This subsidiary provides procurement services for TRS Limited and charges a fee for those services.

	2019 \$'000	2018 \$'000
Fees paid to TRS Sourcing Co. Limited	2,355	1,352

The Reject Shop Limited has a 100% owned non-operating subsidiary, TRS Trading Group Pty Ltd incorporated in Australia. There were no transactions between the parent entity and its subsidiary during the period (2018: Nil).

In addition, The Reject Shop Limited has effective control over The Reject Shop Limited Employee Share Trust which administers shares issued through the Company's Performance Rights Plan. This entity is also consolidated.

## Note 31: Matters Subsequent to the End of the Financial Period

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

## Note 32: Related Party Transactions

No related party transactions were entered into during the period ended 30 June 2019.

# Directors' Declaration

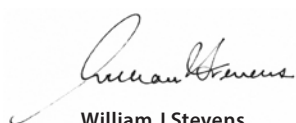
In the directors' opinion:

- (a) The financial statements and notes set out on pages 41 to 75 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 30 June 2019 and of its performance for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable.

The directors draw attention to Note 1(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Acting Chief Executive Officer and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors:



**William J Stevens**

Chairman

22 August 2019

# Independent Auditor's Report to the Members of The Reject Shop Limited



## *Independent auditor's report*

To the members of The Reject Shop Limited

### *Report on the audit of the financial report*

#### *Our opinion*

In our opinion:

The accompanying financial report of The Reject Shop Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the 52 week period ended 30 June 2019
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *What we have audited*

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2019
- the consolidated statement of comprehensive income for the 52 week period ended 30 June 2019
- the consolidated statement of changes in equity for the 52 week period ended 30 June 2019
- the consolidated statement of cash flows for the 52 week period ended 30 June 2019
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

#### *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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Liability limited by a scheme approved under Professional Standards Legislation.



We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



#### **Materiality**

- For the purpose of our audit we used overall Group materiality of \$0.4 million, which represents approximately 5% of the Group's adjusted weighted average profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- This benchmark was considered appropriate, because, in our view profit/loss is the metric against which the performance of the Group is most commonly measured. A weighted average of the current and two previous years was used due to fluctuations in profit/loss. We adjusted for impairment in the current period as it is an unusual or infrequently occurring item impacting profit and loss.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

#### **Audit Scope**

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group is principally involved in retailing through discount department stores across Australia. The accounting processes are structured around the group finance function at the Group's head office in Melbourne.
- Our scope reflected the Group's business model, with standardised systems and controls. Accordingly our audit evidence was derived through combination of:
  - developing an understanding of the control environment and tests of specific automated and manual business process controls; and
  - substantive procedures such as use of data analysis techniques, together with analytical review and tests of detail.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit



procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	How our audit addressed the key audit matter
<p><b>Refinancing of bank facilities and ongoing funding requirements of the Group</b> (Refer to note 1(a) and note 11)</p> <p>As described in the financial report, the financial statements have been prepared on a going concern basis, which contemplates that the Group will continue to meet its commitments, realise its assets and settle its liabilities in the normal course of business.</p> <p>As at 30 June 2019 the Group has drawn down \$19,500,000 on its current bank facilities with the Australia and New Zealand Banking Group (ANZ). The ANZ facilities are due to mature and are due for repayment within 12 months from balance date and have been classified as current liabilities at balance date.</p> <p>At 30 June 2019, the Group had breached its fixed charge cover ratio covenant requirement under the ANZ facilities. A waiver of this breach was obtained on 5 July 2019.</p> <p>Subsequent to year end, the Group received notice from the ANZ bank of its intention to renew its lending facilities with the Group, subject to compliance with certain covenants. The renewal notice requests the Group to complete refinancing of the funding facility with a different lender by 30 April 2020, but by no later than 31 August 2020.</p> <p>Assessing the basis of preparation of the financial report was a key audit matter due to its importance to the financial report and the level of judgement involved in assessing the Group's ability to obtain refinancing at acceptable terms with a different lender and assessing forecast cash flows for a period of at least 12 months from the date of the financial report.</p>	<p>In assessing the appropriateness of the Group's going concern basis of preparation for the financial report, we performed the below procedures, amongst others:</p> <ul style="list-style-type: none"> <li>• Enquired of management and the Board of Directors as to its knowledge of events or conditions that may cast significant doubt on the Group's ability to continue as a going concern</li> <li>• Read the terms associated with the existing debt agreement and other correspondence with the Group's lender and assessed the amount and terms, including maturity date, of the facility available</li> <li>• Considered selected assumptions in management's cash flow forecasts for a period of at least 12 months from balance date</li> <li>• Requested written representations from management regarding their plans for future action and the feasibility of these plans</li> <li>• Evaluated whether, in view of the requirements of Australian Accounting Standards, the financial report provide adequate disclosures about these events or conditions.</li> </ul>
<p><b>Carrying value of Head Office and Distribution Centre assets</b> (Refer to note 8) \$60,975,000</p> <p>The Group operates three (3) Distribution Centres ("DCs") servicing the 357 store network and a Head Office located in Melbourne, Australia which functions as</p>	<p>Our audit procedures, amongst others, included:</p> <ul style="list-style-type: none"> <li>• Assessing the appropriateness of the model by comparing it to the requirements of the Australian Accounting Standards</li> <li>• Tested the mathematical accuracy of the</li> </ul>



#### Key audit matter

#### How our audit addressed the key audit matter

a shared-service centre for the Group. Fixed assets at the DCs and Head Office are material to the consolidated balance sheet.

Due to impairment indicators at the period end, the Group has tested DC and Head Office assets for impairment. The Group has recognised a \$15,000,000 impairment charge in the period ended 30 June 2019.

The Group assesses impairment of DC and Head Office assets by preparing a model which estimates future cash flows discounted to their present value ("the model").

This was a key audit matter because of:

- The financial significance of the DC and Head Office assets to the consolidated balance sheet
- The judgemental factors involved in the Group assessing impairment, in particular estimating Group sales growth rate, profit margins and corporate costs.

model

- Assessing the key inputs in the model such as the sales growth rate, first margins, store operating costs and corporate costs by comparing them to board approved budgets, industry forecasts and historical performance of the Group
- Assessed if the discount rate assumption was reasonable by comparing it to market data, comparable companies and industry research, with the assistance of our valuation specialists
- Assessing the appropriateness of disclosures in the financial report in accordance with Australian Accounting Standards.

#### Carrying value of store assets (Refer to note 8) \$60,975,000

Our audit procedures, amongst others, included:

The Group offers a wide range of discount merchandise through its network of 357 stores and store assets represent one of the largest assets on the consolidated balance sheet.

Given the challenging trading conditions in the Australia retail market in recent years and the below budget trading performance of the Group for the period ended 30 June 2019, there is a risk that the carrying value of certain store assets may be higher than their recoverable amount. The Group has recognised a \$6,941,000 impairment charge in the period ended 30 June 2019.

The Group assesses impairment of store assets on a store-by-store basis, by preparing models with estimates future cash flows discounted to their present value ("the models").

This was a key audit matter because of:

- The financial significance of store assets to the

- Evaluated the Group's assessment of the determination of cash generating units (CGU)
- Assessing the appropriateness of the models by comparing them to the requirements of the Australian Accounting Standards
- Tested the mathematical accuracy of the model
- Assessing the key inputs in the models such as the sales growth rate and margins by comparing them to board approved budgets, historical performance of the stores and the overall Group's sales growth rate, and considered other known risk factors
- Considering the appropriateness of the period over which cash flows were projected based on our knowledge of the business and the Group's lease portfolio management strategy


**Key audit matter**
**How our audit addressed the key audit matter**

consolidated balance sheet

- The judgemental factors involved in the Group assessing impairment, in particular estimating future sales growth rate and cash flow projection period.

- Assessed if the discount rate assumption was reasonable by comparing it to market data, comparable companies and industry research, with the assistance of our valuation specialists.

**Inventory valuation & provision - net realisable value (NRV)**  
*(Refer to note 1(aa)(v))*

A provision was recognised as at 30 June 2019 in the financial report to provide for inventory expected to be sold below cost.

The Group undertakes a process to identify period –end inventory which is likely to be sold below cost. The provision is then recognised by applying the expected markdown required to clear this inventory.

The identification of the provision depends, in part, on sales sold below cost throughout the financial period and incorporates information on known loss making products as well as the impact of planned markdowns.

This was a key audit matter because of:

- The financial significance of the inventory balance and therefore the potential effect of net realisable value provision on the consolidated statement of comprehensive income and the consolidated balance sheet
- The subjective nature of the provision calculation due to the judgement involved in estimating the ultimate selling price of inventory.

Our audit procedures, amongst others, included:

- Obtaining an understanding of how the Group determined the NRV provision
- Considering the appropriateness of the provision having assessed:
  - a) Aggregate total of inventory sold below cost during the financial period
  - b) Aggregate total of inventory wastage incurred during the financial period
  - c) Inventory written-off subsequent to the end of the financial period and up to the completion of our audit.

**Inventory provision – shrink**  
*(Refer to note 1(aa)(i)) \$10,401,065*

At period-end, the Group recognised a provision against stock for estimated losses related to shrinkage, being physical losses of inventory at each store since the date of the last stock count at that store of \$10,401,065 (2018: \$9,099,803).

The provision is calculated by applying an estimated

Our audit procedures, amongst others, included:

- Obtaining an understanding of how the Group determined the shrinkage provision
- Comparing the shrink loss percentage applied against available historical data on the Group's shrinkage results
- Attending the stock counts for selected store



#### Key audit matter

#### How our audit addressed the key audit matter

shrink loss percentage to the sales since the date of the last stock count to period-end, on a store-by-store basis.

The Group performs stock counts across stores to calculate the estimates shrink loss percentage for the whole store network. This estimate includes stock count information obtained from counts performed during the financial period and those completed post period-end.

This was a key audit matter because of:

- The financial significance of the inventory balance and therefore the potential effect of shrinkage provision on the consolidated statement of comprehensive income and the consolidated balance sheet
- The subjective nature of the provision calculation due to the judgement involved in estimating stock count information obtained from counts performed during the financial period and those completed post period-end.

locations and developing an understanding the Group's process for reviewing stock count results for other stores

- Comparing the shrink loss percentage applied against the results of the stock count completed subsequent to the end of the financial period.

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the 52 week period ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial



report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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#### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

#### *Report on the remuneration report*

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##### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 24 to 37 of the directors' report for the 52 week period ended 30 June 2019.

In our opinion, the remuneration report of The Reject Shop Limited for the 52 week period ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

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##### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A stylized, handwritten signature in dark ink, likely belonging to a representative of PricewaterhouseCoopers.

PricewaterhouseCoopers

A stylized, handwritten signature in dark ink, likely belonging to Sam Lobley.

Sam Lobley  
Partner

Melbourne  
22 August 2019

# Shareholder Information

## As at 31st July 2019

The shareholder information set out below was applicable as at 31 July 2019.

### (a) The Distribution of Shareholding was as follows:

Size of Shareholding	Shareholders
1 - 1,000	3,509
1,001 - 5,000	1,913
5,001 - 10,000	384
10,001 - 100,000	259
100,001 and over	18

### (b) 1,230 shareholders hold less than a marketable parcel of shares, being a market value of less than \$500

### (c) Substantial Shareholders Based on Notifications to The Company were:

Shareholder	Number	% Held
Allensford Pty Ltd	5,492,576	19.00%

### (d) The fully paid issued capital of the Company consisted of 28,908,148 shares held by 6,083 shareholders. Each share entitles the holder to one vote.

### (e) Unquoted Equity Securities

Unquoted Equity Securities	Number on Issue	Number of Holders
Performance Rights issued under The Reject Shop Performance Rights Plan	240,500	4

**(f) Twenty Largest Shareholders**

Shareholder	Number	% Held
ALLENSFORD PTY LTD	5,492,576	19.00%
CITICORP NOMINEES PTY LIMITED	2,336,290	8.08%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,086,167	3.76%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	911,551	3.15%
BNP PARIBAS NOMINEES PTY LTD	692,011	2.39%
ACE PROPERTY HOLDINGS PTY LTD	600,000	2.08%
WYONG RUGBY LEAGUE CLUB LTD	255,000	0.88%
TEN LUXTON PTY LTD	250,095	0.87%
NCH PTY LTD	243,109	0.84%
NATIONAL NOMINEES LIMITED	203,218	0.70%
BNP PARIBAS NOMS PTY LTD	191,558	0.66%
SOUTH LAKE PTY LTD	180,000	0.62%
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	169,117	0.59%
UBS NOMINEES PTY LTD	150,868	0.52%
CITICORP NOMINEES PTY LIMITED	118,256	0.41%
BAN FAM PTY LTD	117,850	0.41%
MRS PHILIPPA JANE DICKSON & MR ALEXANDER JOHN DICKSON	101,318	0.35%
MR ROSS BIRD	101,110	0.35%
MR GORDON DENBY COAD	100,000	0.35%
MR PHILIP WEINMAN & MS ROCHELLE WEINMAN & MR DEAN WEINMAN	100,000	0.35%
COAD AND PRATT SUPERFUND PTY LTD	100,000	0.35%
MR BRENDAN FRANCIS NICLASSEN & MRS CORA LYN NICLASSEN	95,000	0.33%

The twenty members holding the largest number of shares together held a total of 47.03% of the issued capital.

**(g) Restricted Shares**

There are no restricted shares on issue.

# Corporate Directory

## Directors

### **William J Stevens**

Non-Executive Chairman

### **Michele Teague**

Non-Executive Director

### **Selina Lightfoot**

Non-Executive Director

### **Jack Hanrahan**

Non-Executive Director

### **Steven Fisher**

Non-Executive Director

### **Zachary Midalia**

Non-Executive Director

## Company Secretary

### **Darren R Briggs**

## Principal

### **Registered Office**

245 Racecourse Road  
Kensington Vic 3031  
Phone: (03) 9371 5555

## Share Registry

### **Link Market Services Ltd**

Tower 4, 727 Collins Street  
Melbourne Vic 3008

## Auditors

### **PricewaterhouseCoopers**

2 Riverside Quay  
Southbank Vic 3006

## Lawyers

### **Lander and Rogers**

Level 12  
600 Bourke Street  
Melbourne Vic 3000

## Stock Exchange Listing

The Reject Shop Limited shares are listed on the Australian Securities Exchange (ASX code: TRS).

## Website

[www.rejectshop.com.au](http://www.rejectshop.com.au)



**THE REJECT SHOP**

245 Racecourse Road Kensington Vic 3031 Phone: (03) 9371 5555