# Appendix 4E

# The Reject Shop Limited

(ABN 33 006 122 676)

## Consolidated preliminary final report

**For the 52 week financial period ended 2 July 2023**
**Compared to the 53 week financial period ended 3 July 2022**

**Results for announcement to the market**

| | | Percentage Change % | | Amount $'000 |
|---|---|---|---|---|
| Sales revenue from continuing operations | up | 3.9% | to | 819,340 |
| Profit from continuing operations after tax attributable to shareholders of The Reject Shop | up | 30.5% | to | 10,310 |
| Net profit for the period attributable to shareholders of The Reject Shop | up | 30.5% | to | 10,310 |

| **Dividends** | Amount per share | Franked amount per share |
|---|---|---|
| Interim dividend | nil | nil |
| Final dividend | 6.5 cents | 6.5 cents |
| Special dividend | 9.5 cents | 9.5 cents |
| **Total dividends** | **16.0 cents** | **16.0 cents** |

| | |
|---|---|
| Record date for determining entitlements to final dividend | Friday, 20 October 2023 |
| Dividend payment date | Friday, 3 November 2023 |

Commentary on the Group's trading results is included in the FY23 result announcement and FY23 results presentation, as well as in the annual report enclosed.

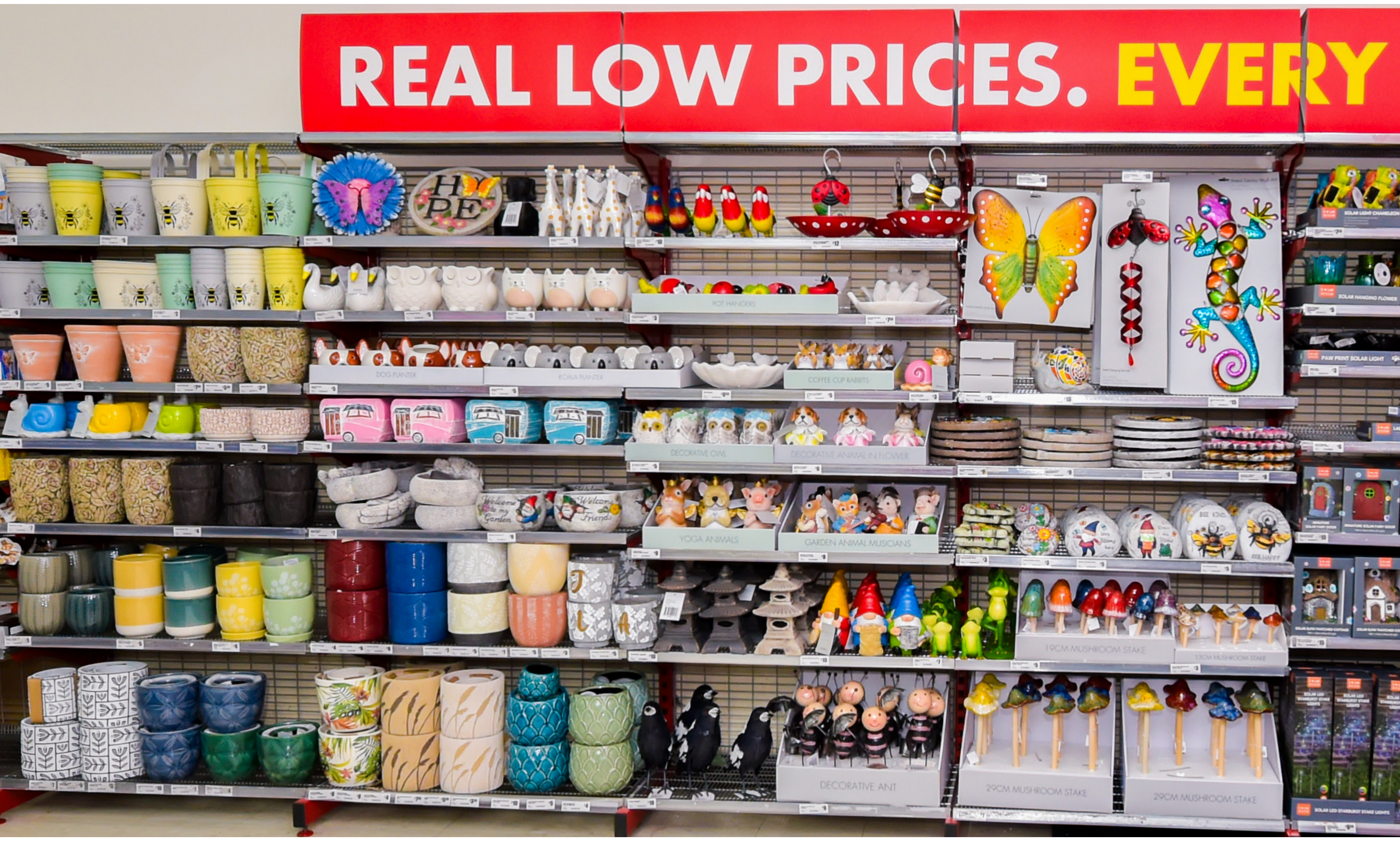
THE REJECT SHOP

# Annual Report

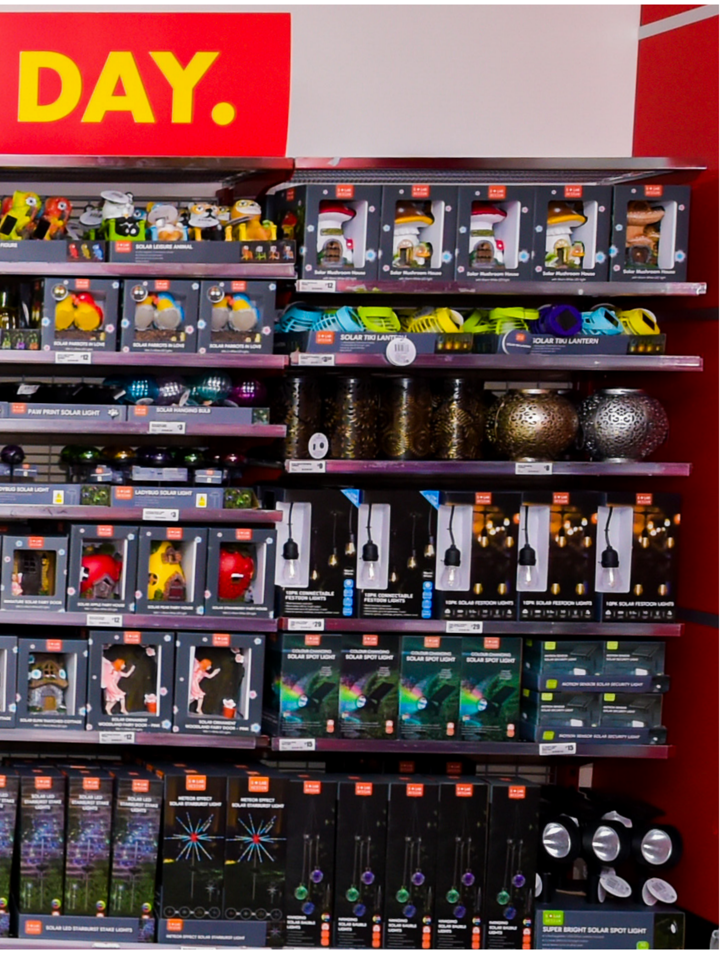
FY2023

## About The Reject Shop

The Reject Shop has been delivering value and amazing prices to shoppers for over 40 years. The Reject Shop helps all Australians save money every day by offering our customers the lowest everyday prices on household essentials as well as unique and exciting products at compelling value for every event and occasion in approximately 380 convenient store locations across Australia.

# Contents

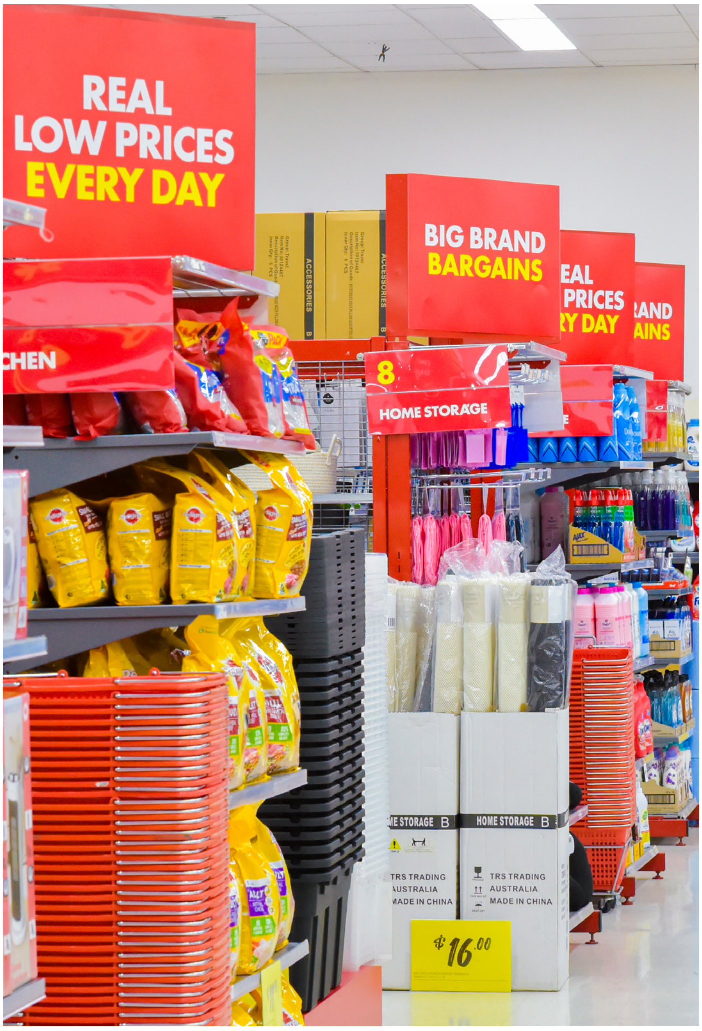



Notice of Annual General Meeting: 9.30 am, 18 October 2023

The Reject Shop Limited ("The Reject Shop" or "Company") (Australian Business Number 33 006 122 676) is a company limited by shares, incorporated and domiciled in Australia.

The address of the Company's registered office is 245 Racecourse Road, Kensington, Victoria, Australia, 3031.

These financial statements are presented in Australian currency and were authorised for issue by the directors of the Company on 24 August 2023. The Company has the power to amend and re-issue these financial statements.


REAL
LOW PRICES
EVERY DAY
BIG BRAND
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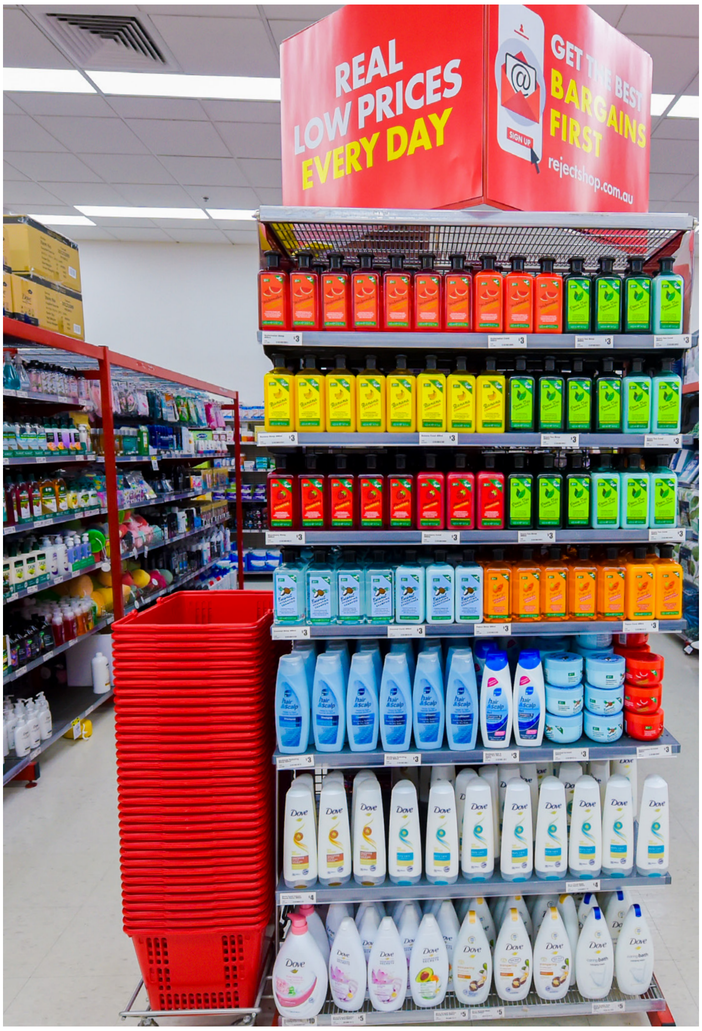
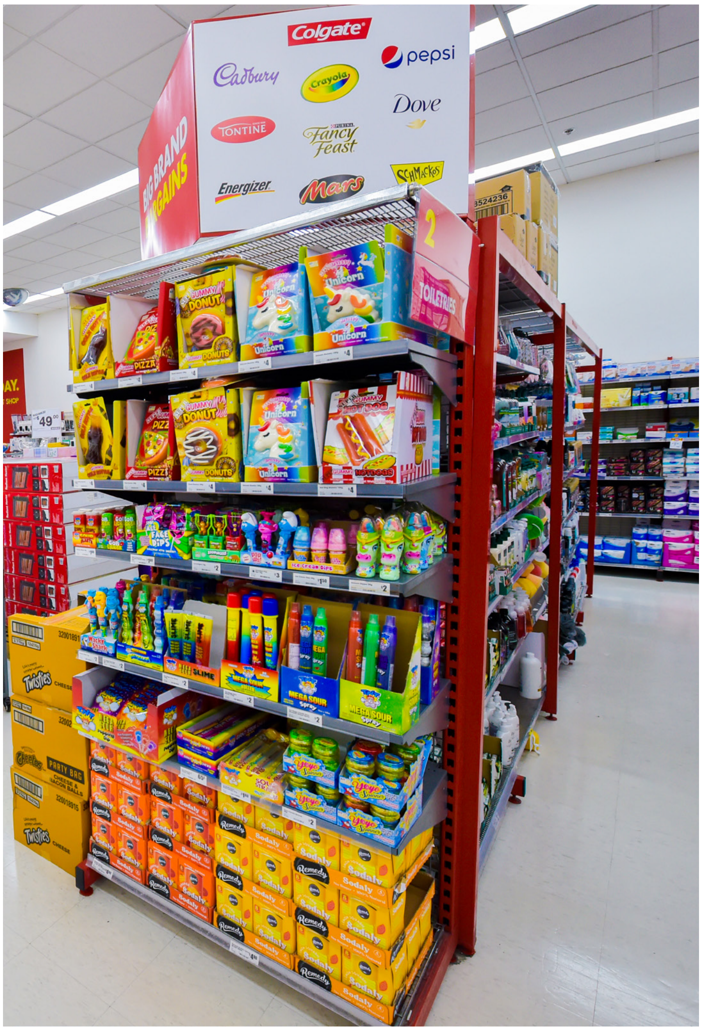
8
HOME STORAGE
HOME STORAGE B
TRS TRADING
AUSTRALIA
MADE IN CHINA
$16.00


REAL
LOW PRICES
EVERY DAY
GET THE BEST
BARGAINS
FIRST
rejectshop.com.au


$2
SAVE
HERE
OUR PRICE
$2
SAVE $1
MAJOR SUPERMARKET PRICE
$3


Colgate
pepsi
Cadbury
Crayola
Dove
TONTINE
Fancy Feast
Energizer
Mars
BIG BRAND
BARGAINS

# Chair's Review

Dear Shareholders,

The FY23 financial year saw the Company deliver a strong result in the midst of challenging macroeconomic conditions.

The Company delivered sales of $819.3 million through an improving merchandise offer, which is now more closely aligned to the Company's core customer. Management is working hard to further implement the new merchandise strategy. The new strategy is primarily focused on offering customers low prices on branded household essentials as well as more newness and greater variety, at lower price points, across the general merchandise range and seasonal offering.

I want to reiterate that The Reject Shop has an important role to play in helping Australians save money in a high cost of living environment. The Company is well positioned for growth with an improved cost base, strong balance sheet and growing national store network.

I am confident the Company will make further progress in the period ahead under the leadership of our new Chief Executive Officer, Clinton Cahn, and the Company's experienced and talented executive leadership team. The Board selected Clinton to lead the Company having regard to his track record as a leader of The Reject Shop over the past three years as well as his experience, skill and knowledge which all position him well to implement the Company's growth strategy, further embed the Company's culture and create value for customers and shareholders.

The Company recorded earnings before interest and tax ("EBIT") of $20.8 million and net profit after tax ("NPAT") of $10.3 million.

The Company's balance sheet is strong with $77.3 million in cash at year end with no drawn debt.

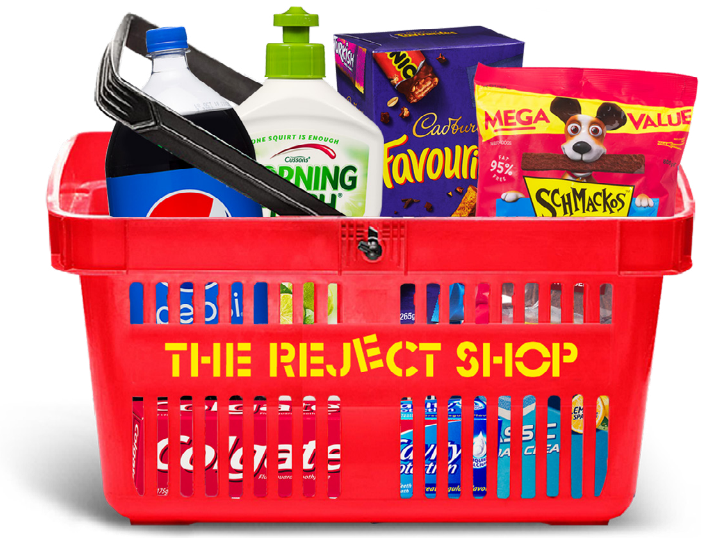
Having regard to the Company's strong balance sheet, the Board has decided that it is the appropriate time to declare a final dividend and a special dividend while also undertaking a further on-market share buy-back as outlined in the announcement to the market dated 24 August 2023.

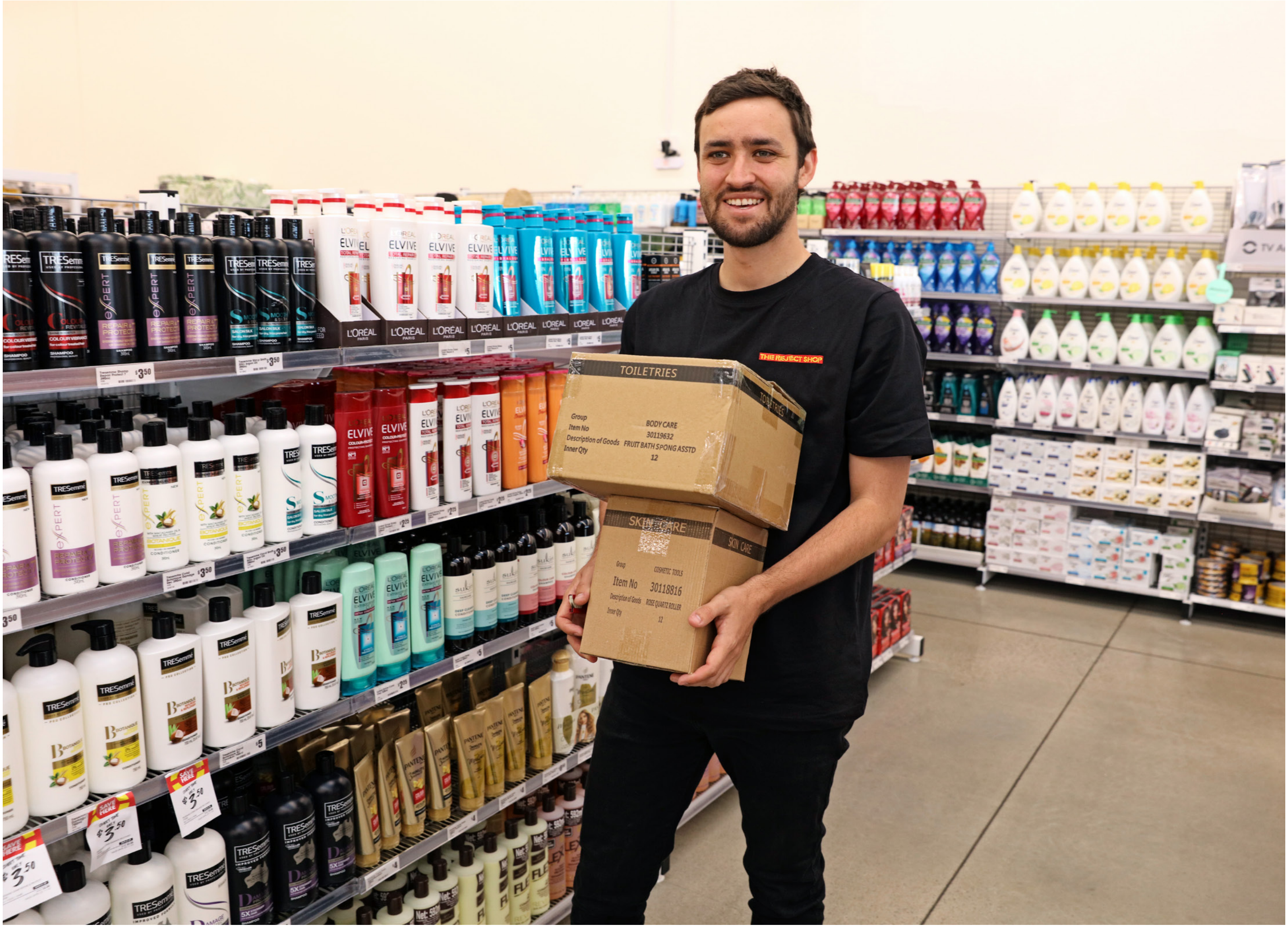
On behalf of the Board, I would like to take the opportunity to thank our committed and passionate team members for their work in delivering this year's results.

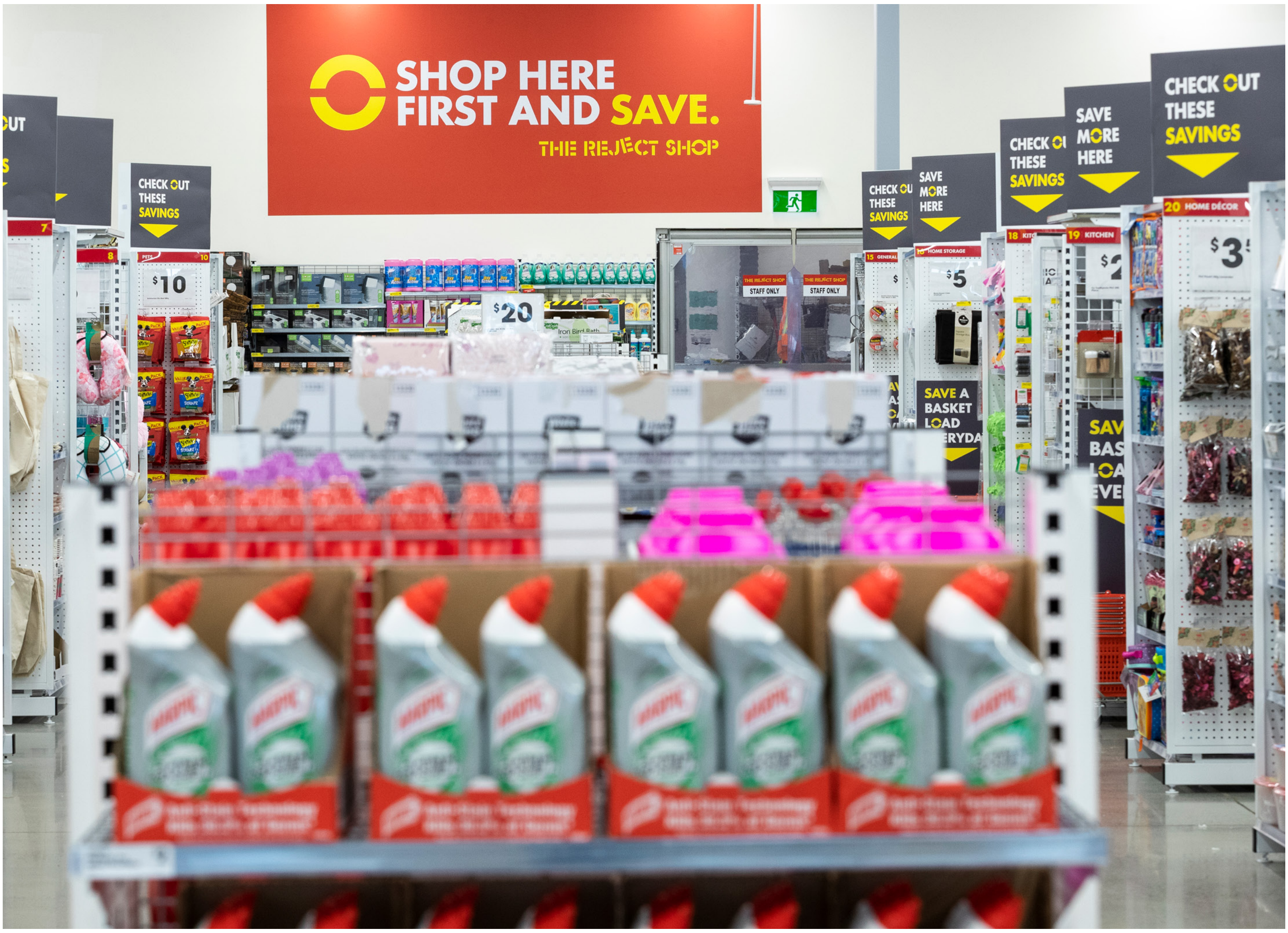
Finally, I would like to express my gratitude to my Board colleagues, our shareholders, customers, suppliers and other stakeholders for your continued support and encouragement throughout the year.

Yours sincerely,

Steven Fisher
Non-executive Chair




TOILETRIES
SKIN CARE


SHOP HERE FIRST AND SAVE.
THE REJECT SHOP
CHECK OUT THESE SAVINGS
SAVE MORE HERE
CHECK OUT THESE SAVINGS
SAVE MORE HERE
CHECK OUT THESE SAVINGS
$10
$20

# CEO's Update

WE ARE HERE TO HELP ALL AUSTRALIANS SAVE MONEY EVERY DAY

Dear Shareholders,

It is a privilege to be given the opportunity to lead a team of over 4,000 dedicated team members across our stores, distribution centres and store support centre. I look forward to spending even more time with our team members and customers to listen and learn as we continue to evolve our merchandise offering to more closely align to the wants and needs of our core customer.

The Company achieved its strongest profit result in the last five financial years, delivered comparable store sales growth for the year and resumed the payment of dividends. Each of our team members have played a key part in delivering the FY23 results for our shareholders and remain committed to bringing joy to our customers on every visit to The Reject Shop while also helping them save money. I would like to thank each and every one of our team members for their contribution and hard work during FY23.

The macroeconomic environment is challenging and the Company, like most Australian retailers, is facing a number of cost pressures. While we are focused on managing the challenges associated with operating in a rising cost environment, we also recognise the important role that The Reject Shop plays in helping our customers save money during a time when so many Australians and their families are facing significant cost of living pressures. In addition, our strong balance sheet positions us well to navigate through the uncertain macroeconomic and consumer environment.

The Company's priorities in FY24 are simple: continue growing sales by executing our new merchandise strategy and continuing to expand our national store network all underpinned by a strong culture that is closely aligned to the Company's purpose and values. As usual, the Company will continue to work hard to improve gross profit margin and manage the cost of doing business, particularly having regard to the high inflation environment that presently exists. During the period ahead, we will also continue to explore and invest in strategic projects across the business, particularly in supply chain and technology, to minimise risk and enable efficiencies and growth.

As Australia's largest discount variety retailer, and with a track record of helping customers save money for over 40 years, we are committed to ensuring that every visit to The Reject Shop brings joy and savings to our customers. I would like to invite all Australians, including our shareholders and customers, to shop at any one of our more than 380 stores across Australia to experience our new product offering and save money.

And to our shareholders, thank you for your patience and long-term commitment to our business. We are determined to continuously improve The Reject Shop's performance and deliver sustainable long-term value for all of our shareholders.

Yours sincerely,

**Clinton Cahn**
Chief Executive Officer and Chief Financial Officer

# Board of Directors

**Steven Fisher**
Non-Executive Chair
*Bachelor of Accounting, Chartered Accountant (South Africa)*

Steven Fisher 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 practising chartered accountant having qualified with a Bachelor of Accounting degree in South Africa.

Steven joined the Board of The Reject Shop in June 2019.

During the last three years, Steven has served as a director of the following other listed companies:

- Breville Group Limited (director 2004 to 2021)
- Laybuy Group Holdings Limited (director since 2020, and the entity was delisted in March 2023) #
- BWX Limited (director December 2022 to April 2023)

**David Grant**
Non-Executive Director
*Bachelor of Commerce, Chartered Accountant (Australia & New Zealand) and Graduate of the Australian Institute of Company Directors*

David Grant is a Chartered Accountant with extensive experience in the accounting profession and the commercial sector. David's executive career included roles with Goodman Fielder Limited and Iluka Resources Limited.

David is currently a non-executive director of two other publicly listed entities and is the chair of the audit and risk committee of both of these entities.

David joined the Board of The Reject Shop in May 2020.

During the last three years, David has served as a director of the following other listed companies:

- EVT Limited (director since 2013) #
- Retail Food Group Limited (director since 2018) #
- A2B Australia Limited (director June 2020 to October 2022)

**Nicholas (Nick) Perkins**
Non-Executive Director
*Bachelor of Arts, Bachelor of Laws and Graduate of the Australian Institute of Company Directors*

Nick Perkins is the Managing Director and General Counsel of Kin Group Pty Ltd, which is a substantial shareholder of The Reject Shop. The Kin Group is a diversified, global, long-term focused investor with offices in Melbourne and New York.

Nick has held a variety of roles within the Kin Group, and its subsidiary businesses, for over a period of 19 years, including 10 years as the General Counsel of Pact Group Limited.

Nick joined the Board of The Reject Shop in May 2020.

During the last three years, Nick has not served as a director of any other listed company.

## Mark Ward

Non-Executive Director

*Graduate of the Australian Institute of Company Directors*

Mark Ward is an experienced retailer with more than 40 years of retail experience, including 18 years of senior executive experience at Bunnings and Officeworks.

In 2007, Mark was appointed Managing Director of Officeworks where he transitioned that business into the Wesfarmers group, developing a strong team that reset the strategy and delivered strong growth for over a decade. In 2019, Mark left Officeworks.

Mark is currently a non-executive director of each of the Richmond Football Club (appointed January 2018) and Bunnings Australia & New Zealand (appointed 2019) and acts as a strategic advisor to Bunnings.

During the last three years, Mark has not served as a director of any other listed company.

Mark joined the Board of The Reject Shop in March 2022 and resigned on 2 July 2023.

## Margaret Zabel

Non-Executive Director

*Bachelor of Mathematics, Masters of Business Administration and Graduate of the Australian Institute of Company Directors*

Margaret Zabel is a specialist in customer-centred business transformation, brand strategy, innovation, digital communications, customer experience and change leadership. Margaret has more than 20 years of senior executive experience working across major companies and brands in fast moving consumer goods, food, technology and communications industries, including multinationals, ASX 100 companies and not-for-profits.

Margaret's executive experience includes National Marketing Director for Lion Nathan, Vice President of Marketing for McDonald's Australia and Chief Executive Officer of Advertising Council Australia (formerly known as The Communications Council).

Margaret is currently a non-executive director of two other publicly listed entities and is the chair of the people and culture committee of both of these entities. Margaret has also served as a non-executive board director for mental health charity R U OK? for 5 years and is currently a non-executive director on the board of Collective Wellness Group and Fairtrade AU/NZ.

Margaret joined the Board of The Reject Shop in June 2021.

During the last three years, Margaret has served as a director of the following other listed companies:

- G8 Education Limited (director since 2017) #
- Select Harvest Limited (since 2022) #

# denotes current directorship

# Executive Leadership Team

**Clinton Cahn**
Chief Executive Officer and Chief Financial Officer

Clinton has experience across investment banking at UBS, private equity at TPG Capital and corporate strategy at Crown Resorts.

Clinton Cahn was appointed Chief Financial Officer on 1 May 2020 and was appointed Chief Executive Officer on 24 August 2023. As CFO, Clinton has overseen The Reject Shop's Accounting, Commercial Finance, Supply Chain and Technology teams, and has been responsible for investor relations.

Clinton has held the role of Acting CEO from April 2022 to July 2022 and again from February 2023 to August 2023.

Clinton joined The Reject Shop in March 2020.

**Amy Eshuys**
Chief Operating Officer

Amy Eshuys is an experienced retail professional, with extensive international merchandise experience and deep knowledge of discount variety retail, having worked in both Australia and the United States.

Prior to joining The Reject Shop, Amy held the combined role of Vice President and General Merchandise Manager for Buying, Merchandising & Sourcing at CTS (formerly known as Christmas Tree Shops) based in New Jersey. CTS is a specialty retailer with 80 stores that combines low price every day and seasonal merchandise. In her time with CTS, Amy was responsible for developing and executing a compelling merchandise offer to meet the needs and wants of customers in a very competitive and challenging marketplace.

Amy joined The Reject Shop in April 2022.

**Michael Freier**
General Counsel & Company Secretary

Michael Freier is an experienced legal practitioner with private practice (King & Wood Mallesons in Melbourne and McCullough Robertson in Brisbane) and in-house experience (Repco in Melbourne). In private practice, Michael worked on a wide range of property transactions around the country. Since moving in-house, Michael has demonstrated experience managing property transactions, risk, corporate governance and product safety issues.

Michael has held the role of General Counsel of The Reject Shop since August 2016 and he was appointed Company Secretary on 1 September 2019.

**Paul Calvert**
General Manager, Operations

Paul Calvert has more than 25 years of retail experience in the United Kingdom and Australia. Paul started his retail journey as a team member with his local Asda store where he filled the shelves whilst studying before working his way through the ranks to become a store manager. Paul went on to hold a variety of leadership positions in Sainsburys in both their supermarket and convenience teams.

Paul moved to Australia in November 2015 where he initially worked for Woolworths in Western Australia before moving to Coles where he held several roles both in operations and store support.

Paul joined The Reject Shop in May 2020.

**Kate Lewis**
General Manager, People & Culture

Kate Lewis has more than 25 years of experience working across large supermarket retailers where she has held both operational and human resource positions. Kate has had extensive experience in driving and executing human resource strategy across these large complex businesses. Kate's experience includes developing capability, sourcing great talent, transformation, fostering high performing teams, driving process and organisational improvement as well as achieving results in fast paced environments.

Kate joined The Reject Shop in February 2020.

**Martha O'Sullivan**
General Manager, Technology

Martha O'Sullivan is a technology executive with a diverse range of experience across several sectors, including telecommunications, marketing, utilities, insurance and retail. Martha's retail technology experience involved over seven years at Target Australia.

During her career, Martha has had experience in executing technology strategies and leading technology transformations across infrastructure, software and services functions.

Martha actively uses her experience and background to mentor and encourage others with a view to improving diversity and participation.

Martha joined The Reject Shop in June 2020 and she was promoted to General Manager, Technology in July 2022.

**Paul Rose**
General Manager, Property

Paul Rose is an experienced senior level professional with over 20 years' experience in retail property, working with major retailers and major landlords throughout Australia.

Paul held senior roles for 10 years with leading ASX listed property trusts and commercial agencies in centre management, leasing and development.

Paul then held senior property roles with Wesfarmers-owned Kmart Australia from 2009 and Target Australia from 2016. During this time, Paul was part of the property leadership team that delivered major store network growth to assist with positioning Kmart Australia.

Paul joined The Reject Shop in February 2020.

**Andrew Stein**
Chief Customer Officer

Andrew Stein has more than 25 years of experience in discount variety retail in the United States, New Zealand and Australia.

In the US, Andrew was Chief Marketing Officer at Kmart (US) where he led the brand repositioning, the development of the loyalty program and creating Cannes Lion award winning advertising. At Big Lots (US), Andrew was the Chief Customer Officer and led the brand reinvention, the launch and building of e-commerce, the redevelopment of the loyalty program and several years of comparable store sales growth.

Andrew then moved to the Warehouse Group in New Zealand to lead Customer Strategy and Demand Generation in the new agile structure for The Warehouse, Warehouse Stationery and Noel Leeming brands.

Andrew joined the Reject Shop in March 2022.

**John Bacon**
General Manager, Supply Chain

John Bacon has over 25 years of retail experience having worked at Coles, Coles Liquor, Lovisa and, as a supply chain consultant with a variety of other retailers. As a consultant, John has worked on a variety of supply chain transformation projects with each of Woolworths, Bras N Things and Pillow Talk while also assisting Forever New and Cotton On.

Since 2017, John has developed his skillset to include managing supply chains in domestic and international contexts where he provides proactive leadership to build supply chain capacity, capability and resilience.

John is keen to contribute to the learning and development of the next generation of retailers through education and mentoring. John is a sessional lecturer at the University of Melbourne in e-commerce and supply chain.

John joined The Reject Shop in December 2022.

# Corporate Governance, Environmental and Social Statement

## Corporate Governance

The Company and the Board are committed to maintaining high standards of corporate governance. The Company supports the intent and purpose of the ASX Corporate Governance Council's Principles and Recommendations ("ASX Principles") and complies with the requirements of the 4th Edition, as outlined in the Corporate Governance Statement.

A summary of the Company's corporate governance framework and practices is outlined in the Corporate Governance Statement, which is available in the corporate governance section on the Company's website https://www.rejectshop.com.au/about/corporate-governance

## Environmental and Social Statement

The Company recognises the importance of environmental and social issues and managing the risks associated with those issues. The Company wants to contribute to the community through adopting policies and processes that positively assist customers and the community.

*Reducing Waste and Recycling*

The Company has been focused on initiatives aimed at simplifying its ways of doing business. The 'simple to serve' initiative consists of 'one touch' merchandising and 'pallet to place' for high volume products. In terms of 'one touch' merchandising, a proportion of products are delivered to the Company in shelf-ready trays, which can be easily and quickly put on to shelves while also reducing the packaging requirements for such products. The use of pallets for high volume products further reduces the packaging requirements and simplifies the customer experience. Further reductions in the usage of plastic and cardboard are also being sought in the supply chain.

Since November 2013, the Company has positively responded to the phasing out of single-use plastic bags for customers. Since 2019, the Company estimates that it has supplied customers with approximately 26 million reusable plastic bags, which are made from at least 80% recycled material.

*Energy Efficiency Initiatives*

The Company is committed to being responsible for the impact it has on our environment. The Company is committed to reducing our environmental footprint and our greenhouse gas emissions. Our focus is on providing 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. Since mid-2015, the Company has made a multi-million dollar investment into an energy saving project with a view to reducing our environmental footprint while reducing operating costs.

As of 2 July 2023, the Company has installed high efficiency LED lighting, timers and automated energy management systems into at least 326 stores. This equipment regulates lighting levels and run times. This energy reduction equipment now forms part of our standard fit-out and will be rolled out to all new stores in the future.

*Modern Slavery*

For many years, the Company has sourced products from a variety of locations nationally and internationally. Inherent in our practices has been the objective of sourcing product from suppliers which we believe support workplace safety and ensure appropriate employment conditions are in place (including fair pay).

The Company is committed to respecting human rights with that commitment outlined in our modern slavery statement, which is available at https://www.rejectshop.com.au/about/corporate-governance

# Directors' Report

The directors present their report on The Reject Shop Limited and its subsidiaries ("the Company") for the financial period ended 2 July 2023.

## Directors

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

### Steven Fisher

*Non-Executive Director*

Chair of the Board, Member of the Audit and Risk Committee and Member of the People and Culture Committee.

### David Grant

*Non-Executive Director*

Chair of the Audit and Risk Committee and Member of the People and Culture Committee.

### Nicholas Perkins

*Non-Executive Director*

Member of the Audit and Risk Committee and Member of the People and Culture Committee.

### Mark Ward (resigned on 2 July 2023)

*Non-Executive Director*

Member of the Audit and Risk Committee and Member of the People and Culture Committee.

### Margaret Zabel

*Non-Executive Director*

Chair of the People and Culture Committee and Member of the Audit and Risk Committee.

For the financial period ended 2 July 2023, the details of the experience and expertise of the current 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 2 July 2023, and the number of meetings attended by each director, were:

| Director | Director meetings | | Audit & Risk Committee meetings | | People & Culture Committee meetings | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| S Fisher | 17 | 17 | 4 | 4 | 2 | 2 |
| D Grant | 16 | 17 | 4 | 4 | 2 | 2 |
| N Perkins | 17 | 17 | 4 | 4 | 2 | 2 |
| M Ward | 16 | 17 | 4 | 4 | 2 | 2 |
| M Zabel | 17 | 17 | 4 | 4 | 2 | 2 |

*A – Number of meetings attended*

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

## Principal Activities

The principal activities of the Company 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 13 to 15.

## 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

The Company and the Australia and New Zealand Banking Group (ANZ) have agreed to extend the Company's existing banking facilities to August 2024 (previously August 2023). The limits for the banking facilities are as follows:

- working capital facility: $10 million; and
- seasonal facility: $20 million (the seasonal facility can only be used between October and December each year).

Since the end of the financial period, the directors have declared a final dividend of 6.5 cents per ordinary share and a special dividend of 9.5 cents per ordinary share. The final dividend and the special dividend will be fully franked at a tax rate of 30%.

On 24 August 2023, Clinton Cahn was appointed as Chief Executive Officer of the Company.

Otherwise 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 Company, the results of those operations, or the state of affairs of the Company in future financial periods.

## Likely Developments and Expected Results of Operations

Likely developments in the operations of the Group and the expected results of those operations in future financial periods are contained in the Operating and Financial Review on pages 13 to 14 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.

## Reinstatement of Dividends

No dividends were paid to shareholders during the financial period.

Since the end of the financial period, the directors have declared a final dividend of 6.5 cents per ordinary share and a special dividend of 9.5 cents per ordinary share. The final dividend and the special dividend will be fully franked at a tax rate of 30% and are payable to shareholders registered at 5.00pm on Friday, 20 October 2023. The dividends are due to be paid to shareholders on Friday, 3 November 2023.

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

## Indemnities and Insurance Premiums

The Company's Constitution provides that the Company may indemnify any current or former director, secretary, or officer of the Company against every liability incurred by the person in that capacity (except a liability for legal costs) and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the person becomes involved because of that capacity. The indemnity does not apply to the extent that the Company is forbidden by statute to indemnify the person or the indemnity would, if given, be made void by statute.

In addition, each director has entered into a deed of indemnity and access which provides for indemnity against liability as a director, except to the extent of indemnity under an insurance policy or where prohibited by statute. The deed also entitles the director to access Company documents and records, subject to undertakings as to confidentiality.

Pursuant to the terms of the engagement letter with its auditors, PricewaterhouseCoopers ("PwC"), the Company has agreed to reimburse PwC for any liability (including reasonable legal costs) PwC incurs in connection with any claim by a third party arising from the Company's breach of the terms of the engagement letter. No payment with respect to that obligation has been made to PwC during, or since, the financial year.

The Company has paid premiums for directors' and officers' liability insurance in respect of directors and officers of the Company as permitted by the *Corporations Act 2001* (Cth). During the financial period, the Company paid a premium of $506,000 to insure the directors and officers of the Company.

## Options

No options were issued by the Company during or since the end of the financial year and no director or officer holds options over issued or unissued securities of the Company.

Details of the Performance Rights held by the Key Management Personnel are set out in the Remuneration Report.

## 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' reports) 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 Australian and New Zealand Standard Industrial Classification (ANZSIC) is class 4110 (Supermarket and Grocery Stores).

The ongoing development of a differentiated merchandise offer that strongly appeals to customers continues to be a key focus.

Our store locations continue to be one of the key strengths of the Company, providing our customers with convenient access to our offer. The Company expects to continue to open new stores in locations that reach new customers and close mostly underperforming stores. In general, the Company intends to close stores that are loss-making or where landlords seek rent that does not reflect customer foot traffic.

During the year, the Company opened 15 new stores, representing approximately 4% of the overall portfolio.

## Overview of Financial Performance

| $ Amounts are $m / %s are to Sales | FY23 (52 weeks) Statutory | FY22 (53 weeks) Statutory (i) |
|---|---|---|
| Sales | 819.3 | 788.2 |
| Gross Profit(ii) | 40.9% | 41.4% |
| Cost of doing business(ii) | 25.3% | 25.5% |
| **EBITDA(ii)** | **127.8** | **125.5** |
| Depreciation and Amortisation | (107.0) | (107.9) |
| **EBIT(ii)** | **20.8** | **17.6** |
| Net Interest Expense | (6.2) | (6.4) |
| **Profit Before Tax** | **14.6** | **11.3** |
| Income Tax Expense | (4.3) | (3.4) |
| **Net Profit After Tax** | **10.3** | **7.9** |

*(i) The Company, similar to other retailers, bases its financial year and reporting calendar on a retail calendar, with the annual reporting period ending on the Sunday closest to 30 June. Periodically that reporting calendar results in a 53-week period rather than the usual 52-week period. FY22 was a 53-week period while FY23, like most financial years, was a 52-week period. For context, the FY22 reported results include the positive effects of a 53rd trading week. The Company has determined that the positive impact on its reported Earnings Before Interest and Tax (EBIT) is approximately $2.3 million, reflecting the net of: (a) additional Gross Profit associated with the Sales generated in Week 53 of $13.7 million; and, (b) additional variable costs associated with generating such Sales, which primarily include wages to operate stores as well as variable store operating expenses.*

*(ii) Non IFRS measure and unaudited*

## FY23 Performance

Sales in FY23 were $819.3 million, up 3.9% on the prior period. Excluding the 53rd trading week in FY22, overall sales were up 5.8% on the prior period.

As cost of living pressures increased throughout the year, customers continued to gravitate towards low-priced consumables that represent great value. The Company improved in-store availability and continued to see strong sales performance across a number of consumables categories by offering customers compelling value, particularly on branded products.

The Company was pleased to report its strongest Christmas trading period on record and a new merchandise strategy has been developed with an improved product offer, which is more closely aligned to our core customer. Pleasingly, these new product ranges started to arrive in-store during the second half of FY23 and the customer response has been positive, particularly in relation to the new Easter range.

Gross Profit was $335.3 million or 40.9% of sales, which is down approximately 50 basis points on the prior period. The reduction in gross profit margin was driven by a number of factors, including the shift in sales mix towards low-priced consumables and higher domestic supply chain costs.

The Cost of Doing Business (CODB, which consists of store and administrative expenses but excludes depreciation and amortisation) was $207.5 million and continues to be well managed. The CODB as a percentage of sales in FY23 was lower than the prior period.

The Company generated EBITDA of $127.8 million and EBIT of $20.8 million.

Statutory NPAT was $10.3 million, which compares to $7.9 million in the prior period.

## Outlook

Management is focused on continuing to generate comparable store sales growth in FY24, supported by a new product offering with more great deals on branded consumables as well as new and exciting general merchandise, all at great value. The Company looks forward to offering its customers compelling value, more special buys, improved newness and greater variety throughout FY24. The Company also remains focused on continuing to open new stores.

Management is targeting to improve its profit margin in FY24, noting that, like most Australian retailers, the Company is subject to a number of inflationary headwinds which are putting pressure on its cost base.

## Further On-Market Share Buy-Back

On 23 August 2022, the Company announced an on-market share buy-back of up to $10 million. Between September 2022 and February 2023, the Company purchased 647,222 shares at a total cost of $2,727,948 (average $4.21 per share).

Further to its announcement on 24 August 2023, and given its strong balance sheet, the Company intends to undertake a further on-market share buy-back of up to $10 million. The buy-back is expected to commence in mid-September 2023. The total number of shares to be purchased under the buy-back will be dependent on business and market conditions. The Company may, at its discretion, vary the size of the on-market share buy-back to up to 10% of its issued capital.

## Dividends

No dividends were paid to shareholders during the financial period.

The Company has reinstated its previous dividend policy to maintain a minimum dividend payout ratio of 60% of net profit after tax, subject to the underlying profitability and financial requirements of the Company which will be assessed periodically. Going forward, the Company will retain the flexibility in deciding how much of the dividend is declared as an interim or a final dividend.

The Company has declared a final dividend of 6.5 cents per ordinary share and a special dividend of 9.5 cents per ordinary share (the "Dividends"). The Dividends declared in respect of FY23 total 16.0 cents per ordinary share (compared to nil in FY22), which represents approximately 60% of FY23 NPAT. The Dividends will be fully franked at a tax rate of 30% and are payable to shareholders registered at 5.00pm on Friday, 20 October 2023. The Dividends are due to be paid to shareholders on Friday, 3 November 2023.

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

## Balance Sheet

The Company's balance sheet remains strong with a net cash position at 2 July 2023 of $77.3 million. This compares to a net cash position of $77.5 million at 3 July 2022. As at the balance date, and consistent with the position at 3 July 2022, the Company does not have any drawn debt.

## Store Network Plans

During the period, the Company opened 15 new stores and closed four stores. At the end of the period, The Reject Shop's national store network included 380 stores, up from 369 at the end of FY22, 361 at the end of FY21 and 354 at the end of FY20.

The Company is planning to open approximately 15 new stores, including approximately seven new stores in the first half, and to close 8-10 stores in FY24.

## Class action

The Company is named as the respondent in a class action commenced by a former store manager (the applicant) in the Federal Court of Australia on behalf of store managers and assistant store managers employed by the Company between 24 April 2017 to 18 April 2023. The applicant is represented by Adero Law.

The premise of the proceeding is that the General Retail Industry Award 2010 applied to the relevant store manager's employment and that there were alleged underpayments under that award together with alleged associated contraventions of the *Fair Work Act 2009* (Cth). The applicant is currently considering amending its statement of claim.

The Company is defending the proceeding and filed its defence on 7 July 2023.

## Overview of Retail Industry Trends and Supply Chain

The Australian retail sector continues to be in a state of flux due to challenging economic conditions. It is expected that economic conditions will remain challenging in the short to medium term. Australians are facing significant cost of living pressures driven by interest rate rises and broad-based consumer goods inflation. Within this context, the Australian retail sector is likely to face significant headwinds.

The discount variety sector has an important role to play in helping Australians navigate this difficult economic time and, as Australia's largest discount variety retailer, The Reject Shop can have a meaningful impact by offering our customers both branded consumables as well as exciting new and unique general merchandise at low prices.

The discount variety sector contains a range of challenges. The greatest challenge concerns competitor activity. Competition comes from a range of areas, including:

a) regionally based discount variety chains;
b) a multitude of single owner-operator discount variety businesses;
c) discount department stores;
d) supermarkets, particularly larger national chains; and
e) various e-commerce participants, including international and national businesses.

Competitor activity is focused on price competition and store location. The Company remains determined to be a leader in providing every day low prices on our core merchandise offerings in convenient locations. The Company is well positioned to respond to changing levels of consumer spending amid an economic downturn.

## 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 annual 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 and supply chain impacts. 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:

### 1. New and existing store growth

The growth strategy of the Company is dependent upon its ability to generate growth from its existing stores and to open new stores in accordance with its expansion strategy. Generating growth from existing stores will be dependent on a number of factors, including improving the merchandise offer, supply chain efficiencies, maintaining appropriate inventory levels and scalable technology. The opening of new stores will depend on the availability of suitable sites and the ability of the Company to negotiate acceptable lease terms. These factors will therefore impact on the ability of the Company to successfully implement its growth strategy.

The Company has established an experienced and capable property team to manage its property portfolio, including its growth strategy.

### 2. Competition

The Company operates a retail model where price and value are critical to the customers it serves. The market in which the Company operates is highly competitive and is subject to changing customer demand and preferences, with competition based on a variety of factors including merchandise selection, price, parallel importing, marketing and customer service. The Company closely monitors price and quality to ensure it maintains its competitive stance. The Company's financial performance or operating margins could be adversely affected if its competitors develop competitive advantages over it or engage in aggressive product discounting, if new competitors enter the market or if the Company fails to successfully respond to changes in the market. Market consolidation or future acquisitions could also result in further competition and changes to retail margins and market share, which could negatively impact the Company's financial performance or operating margins.

The Company continues to respond to the competitive environment. The Company's focus in FY24 will be on generating comparable store sales growth, which is expected to be supported by an improved product offering with more great deals on branded consumables as well as new and exciting general merchandise.

### 3. 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. As many of the Company's products are consumable goods, sales levels are sensitive to customer sentiment. The Company's product range and its financial operation and performance may be affected by changes in consumer disposable incomes, confidence and demand, including as a result of changes to economic outlook and interest rates.

As indicated above, a key component of the Company's plans concerns the ongoing development of the merchandise range to meet customer needs and respond to changes in consumer discretionary spending.

## 4. Financial performance and costs

The Company earns the majority of its EBIT and NPAT in the first half of the financial year. This is due mainly to significant sales attributable to the number of high-profile seasonal events in the first half of the financial year. Sustained poor trading performance at any time during major seasonal events, such as Christmas, may have a material impact on the profitability of the Company. A significant proportion of the Company's operating costs are fixed in nature. As a result, a significant shortfall in sales during any period could result in an adverse impact on the Company's profitability. At the same time, the Company is subject to increases in the cost of operating its business, with annual cost escalations generally being built into a range of commercial agreements (eg. lease agreements for both stores and distribution centres). While 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, such increases would also impact on profitability.

The Company's future financial performance is dependent, to a certain extent, on the level of capital expenditure that is required to maintain its business. Any significant unforeseen increase in the capital expenditure would impact its future cash flow.

## 5. Financing risks

Historically, the Company has relied on a working capital facility with the ANZ Bank, which requires an annual review. While the annual review requirement is consistent with the terms on which the Company's bank facilities have been made available in recent years, there is a risk that the financier will not agree to renew its bank facilities with the Company in the future. Likewise, the bank may only renew such bank facilities on terms which are not acceptable to the Company. An inability of the Company to renew these facilities may affect the Company's financial performance and position in the future. Further, should the Company be unable to satisfy the terms, conditions and relevant covenants under its bank facilities, the Company would be in breach of those facilities and, amongst other things, may need to source funding from alternative sources.

The Company and the ANZ Bank have agreed to extend the Company's existing banking facilities to August 2024 (previously August 2023). The limits for the banking facilities are as follows:

- working capital facility: $10 million; and
- seasonal facility: $20 million (the seasonal facility can only be used between October and December each year).

The Company's balance sheet remains strong with a net cash position at 2 July 2023 of $77.3 million. This compares to a net cash position of $77.5 million at end of 3 July 2022. As at the balance date, and consistent with the position at 3 July 2022, the Company does not have any drawn debt.

## 6. Employment laws

The Company is mindful of recent instances in the Australian retail and hospitality sectors where there has been non-compliance with statutory and award obligations (including payment obligations) owed by employers to employees.

The Company has processes in place to monitor compliance with employment laws, including periodic audits with support from external parties as required. The Company takes its employment law obligations to its workforce seriously.

As noted on page 14, the Company is named as a defendant in a class action filed in the Federal Court of Australia on behalf of store managers and assistant store managers employed by the Company between 24 April 2017 to 18 April 2023. The Company intends to defend the proceeding.

## 7. Supply risk

The Company and its suppliers are subject to various risks which could limit the Company's ability to procure sufficient supply of products. As a consequence of the fact that the Company relies significantly on a mixture of Australian sourced and imported products from outside Australia, the Company is exposed to various risks in relation to raw material costs and supply chain delays. Outbreaks of pandemics or diseases may potentially have a detrimental financial impact on the Company's business.

The Company remains focused on risks relating to its international supply chain. During the outbreak of the COVID-19 pandemic in China and other countries, the Company experienced some limited delays or cancellations of orders from international suppliers or manufacturers of products to be purchased by the Company. In FY22 and part of FY23, the Company experienced elevated international shipping costs, which have normalised to pre-COVID-19 levels in recent times.

In FY22 and FY23, the Company experienced elevated domestic fuel costs, which are expected to remain elevated during FY24. The Company continues to monitor the situation.

Other risks include modern slavery, political instability, increased security requirements for foreign goods, elevated costs and delays in international shipping arrangements, imposition of taxes and other charges as well as restrictions on imports.

The Company is also exposed to risks related to geopolitical changes, labour practices, environmental matters, disruptions to production and ability to supply, and other issues in the foreign jurisdictions where suppliers operate. More generally, risks which could limit the Company's ability to procure sufficient supply of products include raw material costs, inflation, labour disputes, union activities, boycotts, financial liquidity, product merchantability, safety issues, natural disasters, disruptions in exports, trade restrictions, currency fluctuations and general economic and political conditions. Any of these risks, individually or collectively, could materially adversely affect the Company's financial and operational performance.

Separately, there is a risk that any change in the Company's relationships with key suppliers (including a supplier seeking to terminate the relevant agreement) may result in the Company being unable to continue to source products from existing suppliers, and in the future, to source products from new suppliers, at favourable prices, on favourable terms, in a timely manner and in sufficient volume. The Company cannot guarantee that its existing arrangements with key suppliers will be renewed, or renewed on terms similar to their current terms. The loss or deterioration of the Company's relationships with suppliers, or an inability to negotiate agreements with new suppliers on terms which are not materially less favourable than existing arrangements, may have a material adverse effect on the Company's financial and operational performance.

### 8. Property portfolio

Lease costs represent a significant proportion of the overall operating cost base of the Company.

The Company's stores and distribution centres are leased and therefore subject to negotiation at the end of each lease term. While the potential impact of a single store closure is mitigated by the number of stores the Company now operates, there is no guarantee any store or distribution centre will be renewed at the end of each lease term on terms acceptable to the Company.

The Company actively manages its store portfolio against established financial and operational criteria which must be met for both new and existing stores.

Each of the Company's distribution centres are operated either by the Company itself or by a third party. In either case, there is a risk that, due to circumstances outside the control of the Company, inventory located at the distribution centre could be damaged, or that access to the distribution centre could be restricted, meaning that such inventory is unable to be retrieved. This could have a material adverse effect on the Company's financial and operational performance.

The Company's property strategy is centred around: renegotiating expired leases to better reflect the current sales opportunity at each location, closing unprofitable stores, opening new stores to replace closures, and building a pipeline of new stores to drive growth in the medium-term. The Company employs experienced leasing and store development teams to support the execution of this strategy.

During the year, the Company extended its lease at its Perth distribution centre (DC) from August 2024 to August 2029. The Company's leases at its Brisbane and Melbourne DCs expire in February 2025 and November 2026 respectively. Management is in the process of developing its long-term plan for its DC network, having regard to its expanding store network and the lease expiry profile of its DCs.

### 9. Weather events

The Company's operations may be adversely impacted by extreme weather events, particularly flood, earthquake, cyclone and bushfire, from time to time. Extreme weather events may impact various aspects of the Company's operations, including international and domestic freight and logistics causing delays, adding costs, impacting product availability and lost sales. The company has plans and insurance in place to manage the risk caused by extreme weather events although there is no guarantee that any mitigation steps and insurance will adequately address that risk. If the frequency and intensity of extreme weather events continue to increase, the Company expects the cost and availability of insurance to be adversely impacted. For context, the Company's distribution centre at Ipswich was subject to flooding in January 2011, and in calendar year 2022 four stores were subject to flooding events.

### 10. Merchandising sourcing and management

The Company relies on its ability to anticipate and meet the needs of its target customers and purchases products accordingly. Misjudgements in demand and trends or changes in consumer preferences could result in overstocked inventory and the sale of products below originally anticipated selling prices, which may in turn have an adverse impact on cash flows and profitability.

### 11. Reliance on key personnel

The Company is reliant on retaining and attracting quality executives and other team members who provide expertise, experience and strategic direction in operating the business. The responsibility of overseeing day-to-day operations and the management of the Company is concentrated amongst a number of key personnel. The loss of the services of any of those key team members (for any reason whatsoever) or the inability to attract new qualified personnel, could adversely affect the Company's operations.

Additionally, successful operation of each of the Company's stores depends on its ability to attract and retain quality team members. The Company has over 4,000 team members across its stores and distribution centre network. Competition within the Australian retail market, as well as other factors such as changing demographics or employment laws could increase the demand for, and cost of employing, quality team members. The Company's financial and operational performance could be materially adversely affected if it cannot attract and/or retain quality team members for its stores.

The Company has an established, experienced and talented executive leadership team to implement the Company's strategy. The Company continues to have success attracting and retaining quality team members to run its operations.

### 12. Exchange rate

The Company relies significantly on imported products (either directly purchased by the business or indirectly through local or overseas wholesalers) the costs of which are denominated in foreign currencies and as a result the cost of product and retail sales prices can be subject to movements in exchange rates.

The Company mitigates against movements in exchange rates through the use of forward cover. If the Company is unable to alter pricing due to uncovered movements in exchange rates, this may have a material impact on its financial performance.

### 13. Product liability exposure

The Company purchases and sells thousands of different products on an annual basis, all of which must be fit for purpose and compliant with the Australian Consumer Law. Notwithstanding the compliance protocols established by the Company and insurance arrangements, there is a risk that a product may breach relevant consumer law, the implication of which could have a material impact on the Company's business and performance.

In May 2023, the Company received an infringement notice from the Australian Competition and Consumer Commission in connection with two button battery products, which resulted in the Company paying a fine of $133,200.

The Company's success in generating profits and increasing its market share is also based on the success of the key brands which it distributes and sells, including third party branded products. Reliance on these key brands has the potential to make the Company vulnerable to brand or reputational damage from any negative publicity, product tampering or recalls. This may also increase the rise of inventory and asset write downs.

### 14. Occupational health and safety

The Company has over 4,000 team members across its stores and distribution centre network, as well as thousands of customers who visit its stores nationwide. The business has a national occupational health and safety ("OH&S") function, supported by OH&S representatives in appropriate geographic locations to oversee the application of OH&S policies and work safe procedures across the business.

Notwithstanding the above, given that the Company operates approximately 380 stores in Australia, there is always a risk that a personal injury claim or otherwise may occur to a customer or team member due to unforeseen circumstances. Any claim relating to an accident which occurs in any of the Company's stores could materially affect the Company's brand and reputation, as well as its businesses, operating and financial performance.

### 15. Information technology

The Company is reliant on technology in a rapidly changing digital environment. To this end, there is a risk that the malfunction of technology, cyber-security breaches, outdated infrastructure, an inability to attract and retain qualified team members may have a detrimental effect on the Company's sales, business efficiencies and brand reputation.

The Company's management information system and other information technology systems are designed to enhance the efficiency of the Company's operations. If any of these systems are not maintained sufficiently or updated when required, or if disaster recovery processes are not adequate, system failures may negatively impact on the Company's business and performance.

In addition, the Company is exposed to the risk of malicious attacks, system failures, network disruptions and other malicious or non-malicious incidents, which could have an adverse impact on the Company's sales, operations and its reputation. The Company actively manages its information technology systems to reduce the risk of system disruption, especially during peak trading periods.

There is a risk that a general technological development will involve costs which are disproportionate to previous generation technologies. The Company continually reviews its information technology systems to ensure that those systems will enable the Company to pursue its strategic plans.

## 16. Markets and Liquidity

The market price of the Company's shares will fluctuate due to various factors, many of which are non-specific to the Company, including the number of potential buyers or sellers of the Company's shares on the Australian Securities Exchange ("ASX") at any given time, recommendations by brokers and analysts, Australian and international general economic conditions, inflation rates, interest rates, changes in government, fiscal, monetary and regulatory policies, commodity prices, global geo-political events and hostilities and acts of terrorism, and investor perceptions. In the future, these factors may cause the Company's shares to trade at a lower price.

In addition, the Company currently has a small number of substantial shareholders on its share register. There is a risk that these shareholders may sell their shares at a future date. This could cause the price of the Company's shares to decline.

There may be few or many potential buyers or sellers of the Company's shares on the ASX at any given time. This may affect the volatility and/or the market price of the Company's shares and/or the prevailing market price at which shareholders are able to sell their shares in the Company.

## 17. Litigation

The Company is subject to the usual business risk that litigation or disputes may arise from time to time in the course of its business activities. These may include claims, disputes, inquiries and investigations involving customers, team members, landlords, suppliers, government agencies/authorities, regulators or other third parties. There can be no assurance that legal claims will not be made against the Company, or that the Company's insurance will be adequate to cover liabilities resulting from any such claims. Any successful claim against the Company may adversely impact its future financial performance or position as well as its reputation and brand.

As noted on page 14, the Company is named as a defendant in a class action filed in the Federal Court of Australia on behalf of store managers and assistant store managers employed by the Company between 24 April 2017 to 18 April 2023. The Company intends to defend the proceeding.

## 18. Reputational risk

The risks that have been identified in this annual report may individually or collectively materially affect the Company's brand and reputation, which may in turn adversely impact on the Company's operating and financial performance. The Company has developed a comprehensive system of managing risk to protect its people, its customers, the environment, the Company's assets and reputation as well as to realise business opportunities. The Company has a very low tolerance for any activities that could materially damage its brand or reputation although the Company accepts that it may periodically have temporary negative publicity.

# Remuneration Report

The directors present The Reject Shop Limited FY23 remuneration report, outlining key aspects of the remuneration policy and framework, and remuneration awarded this year.

Under section 300A of the *Corporations Act 2001* (Cth), listed companies must present a remuneration report to shareholders at every annual general meeting showing the company's policies for determining the nature and amount of remuneration paid to Key Management Personnel (which includes any non-executive director) ("KMP"), the relationship between the policies and company performance, an explanation of performance hurdles and actual remuneration paid to KMP.

The remuneration report is set out in the following sections and includes remuneration information for the Company's non-executive directors (or referred to as "directors") and other KMP:

A – KMP covered in this report

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

C – Details of remuneration

D – Service agreements

E – Share-based compensation

F – Additional information

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

## A – KMP covered in this report

| Non-Executive Directors | Roles | Changes during FY23 |
|---|---|---|
| Steven Fisher | Chair<br>Member, Audit & Risk Committee<br>Member, People & Culture Committee | Nil |
| David Grant | Director<br>Chair, Audit & Risk Committee<br>Member, People & Culture Committee | Nil |
| Nicholas ('Nick') Perkins | Director<br>Member, Audit & Risk Committee<br>Member, People & Culture Committee | Nil |
| Mark Ward | Director<br>Member, Audit & Risk Committee<br>Member, People & Culture Committee | Resigned on 2 July 2023 |
| Margaret Zabel | Director<br>Chair, People & Culture Committee<br>Member, Audit & Risk Committee | Nil |

| Other KMP | Role(s) | Changes during FY23 |
|---|---|---|
| Phillip ('Phil') Bishop | Chief Executive Officer | From 11 July 2022 to 31 January 2023 |
| Clinton Cahn | Chief Financial Officer<br>Acting Chief Executive Officer | <br>Until 10 July 2022, and from 1 February 2023 to 23 August 2023 |
| Amy Eshuys | Chief Operating Officer | Appointed as a KMP from 1 February 2023 |

**Changes since the end of the reporting period**

| Other KMP | Role(s) | Changes during FY24 |
|---|---|---|
| Clinton Cahn | Chief Executive Officer (in addition to the role of Chief Financial Officer) | From 24 August 2023 |

## B – Principles used to determine the nature and amount of remuneration

The objective of the Company's People and Culture 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 10.

### *Director remuneration structure*

Fees for directors are based on the nature of the directors' work and their responsibilities. The remuneration rates reflect the strategic imperatives of the Company and the nature of the Company's business.

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 director's fees.

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

The maximum annual aggregate directors' fee pool is $950,000 per annum, and was approved by shareholders at the annual general meeting on 14 October 2015. The total amount of fees paid to directors in FY23 is within the approved fee pool and no increase to the directors' fee pool is being sought at the FY23 AGM.

### *Executive remuneration structure*

The Company's executive remuneration policies are designed to attract, motivate and retain a qualified, experienced and high performing group of executives with complementary skills.

The executive remuneration and reward framework consists of four components:

| Element | Purpose | Performance metrics | Potential value | Changes for FY23 |
|---|---|---|---|---|
| Base (or fixed) remuneration | Provide competitive market salary including non-monetary benefits | Nil | Positioned at median market rate | Reviewed in line with market positioning, scope of role and performance |
| Other remuneration (such as superannuation payments) | Provide consistent with statutory obligations | Nil | Not applicable | The superannuation guarantee increased to 10.5% on 1 July 2022 and increased further to 11.0% on 1 July 2023 |
| Short-term incentive (STI) | Cash reward for in-year performance | Achieving targeted EBIT, individual performance ratings and safety related measures | CEO: 50% of base at target performance<br>CFO: 40% of base at target performance<br>COO: 50% of base at target performance | |
| Long-term incentive (LTI) through participation in the Company's Performance Rights Plan | Alignment to long-term shareholder value | 3 year Earnings Per Share ("EPS") performance | CEO: 100% of base<br>CFO: 75% of base<br>COO: 50% of base | |

The framework seeks to align executive reward with achievement of the Company's strategic objectives and the creation of value for shareholders.

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 People and Culture Committee 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.

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 executives is reviewed to ensure competitiveness with the market. There are no guaranteed base pay increases in the contracts of any of the executives. The Company has a formal process by which the performance of all executives is reviewed. An executive's pay is also reviewed when appropriate, including on promotion.

### *Short-term incentive (STI)*

For FY23, the STI for executives consisted of various performance hurdles, including safety related measures and Company financial performance through achieving targeted EBIT as well as individual performance ratings. If these STI targets are achieved, cash payments of 22.5% to 50% of total fixed remuneration are made. The Company's overperformance against stretch targets may potentially result in cash payments increasing above the target level.

The audited financial report remains the basis for measuring achievement against the financial performance targets.

For FY23, the People and Culture Committee has determined that neither executive KMP will receive an STI.

### *Long Term Rewards (LTI)*

## 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 team members. 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.

### *Criteria for FY23:*

Consistent with the approach adopted in FY22, in FY23 the Company continued to further progress its turnaround strategy, which necessitated the Company maintaining the financial criteria for the long-term incentive scheme for relevant team members, including the KMP (other than the directors).

The financial criteria upon which the performance rights are eligible to vest concern achieving EPS growth measured over a three-year period.

If the vesting conditions are satisfied, the relevant performance rights will vest within 5 business days of the date of the FY25 results announcement.

The audited financial report is the basis for measuring achievement against the financial performance target.

The People and Culture Committee, and 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 specified percentage of each participant's total fixed remuneration (ranging from 10% to 75%) divided by the volume weighted average market price between 1 June 2022 and 31 July 2022.

For financial reporting purposes, the value of each right granted at grant date is measured using a Black-Scholes option pricing model.

### *For FY24:*

The People and Culture Committee continues to work through a revised incentive scheme for relevant team members, including KMP (other than the non-executive directors), in relation to FY24. The incentive scheme will include both STI as well as LTI through participation in the Company's Performance Rights Plan. The revised incentive scheme is being designed to:

- incentivise key executives to outperform Board approved objectives and performance targets;
- align the interests of key executives with shareholders by rewarding for long-term share price appreciation; and
- incentivise key executives to remain with the Company for longer-term growth.

*One-off allocation for former CEO:*

As announced on 16 June 2022, the Company's former Chief Executive Officer, Phil Bishop (who was a KMP), received a one-off allocation of 100,000 performance rights. Phil Bishop left the Company on 31 January 2023 and all of his performance rights were lapsed.

*One-off allocation:*

In early February 2023, the Board granted performance rights with no financial criteria as a one-off allocation to certain team members (including Clinton Cahn (150,000 performance rights in total) and Amy Eshuys (75,000 performance rights in total) who are each a KMP) in order to ensure the retention of their services for specified periods. The performance rights will generally vest as follows:

- one third of the performance rights are exercisable after the FY23 results announcement in August 2023;
- one third of the performance rights are exercisable after the 1H24 results announcement in February 2024; and
- one third of the performance rights are exercisable after the 1H25 results announcement in February 2025.

## C – Details of remuneration

### Directors' fees

The current annual base fees were reviewed with effect from 1 July 2023, unless otherwise indicated.

| Base fees (inclusive of superannuation) | FY22 | FY23 | FY24 |
|---|---|---|---|
| Chair | $206,205 | $240,000 | $240,000 |
| Other directors | $120,438 | $120,438 | $120,438 |
| **Additional fees (inclusive of superannuation)** | | | |
| Audit & Risk Committee – Chair | $20,000 | $20,000 | $20,000 |
| Audit & Risk Committee – member | No fee | No fee | No fee |
| People & Culture Committee – Chair | $20,000 | $20,000 | $20,000 |
| People & Culture Committee – member | No fee | No fee | No fee |

### Executive remuneration

The following executives, along with the directors, as detailed on page 11 of the Directors' report, were the KMP with the responsibility and authority for planning, directing and controlling the activities of the Company during the financial period:

| | |
|---|---|
| P Bishop | – Chief Executive Officer (from 11 July 2022 and ceased to be a member of the KMP on 31 January 2023) |
| C Cahn | – Chief Financial Officer;<br>– Acting Chief Executive Officer (from 27 April 2022 to 10 July 2022, and from 1 February 2023 to 23 August 2023); and<br>– Chief Executive Officer (from 24 August 2023) |
| A Eshuys | – Chief Operating Officer (appointed as a KMP from 1 February 2023) |

Clinton Cahn did not receive any additional remuneration while acting in the role of Chief Executive Officer.

These persons were employed by the Company and were KMP for the entire period ended 2 July 2023 unless otherwise stated.

For FY24, the summary of the remuneration for each of the executive KMPs is as follows:

**Clinton Cahn – Chief Executive Officer and Chief Financial Officer**

| Component | Description |
|---|---|
| Fixed remuneration | $600,000 per annum |
| Short term incentive | 50% of fixed remuneration subject to satisfaction of relevant key performance indicators, as determined by the Board |
| Long term incentive | 100% of fixed remuneration subject to applicable vesting conditions determined by the Board |
| Contract duration | Ongoing contract |
| Notice by the individual/ company | Either party may terminate employment at any time on six months' notice (or by the Company making a payment in lieu of notice). |
| Termination of employment (without cause) | In that situation, STI will be forfeited and LTI (unvested) will lapse, unless the Board determines otherwise. On cessation of employment for any reason, vested but unexercised performance rights will remain on foot subject to the original offer terms, including discretion in relation to malus and clawback. |
| Termination of employment (with cause) | The Company may terminate immediately without notice in circumstances justifying summary dismissal.<br>In that situation, STI will be forfeited and LTI (unvested) will lapse, unless the Board determines otherwise. On cessation of employment for any reason, vested but unexercised performance rights will remain on foot subject to the original offer terms, including discretion in relation to malus and clawback. |
| In relation to the one-off allocation (for sign-on purposes) of performance rights granted in August 2023 (150,000 rights) | The following applies:<br>a) summary termination by the Company: unvested rights will lapse;<br>b) termination by the Company (other than summary termination): accelerated vesting of unvested rights;<br>c) termination by employee: the Board has absolute discretion to lapse or vest rights; and<br>d) change of control of the Company: accelerated vesting of unvested rights. |

**Amy Eshuys – Chief Operating Officer**

| Component | Description |
|---|---|
| Fixed remuneration | $500,000 per annum |
| Short term incentive | 50% of fixed remuneration subject to hurdles |
| Long term incentive | 75% of fixed remuneration subject to hurdles and service |
| Contract duration | Ongoing contract |
| Notice by the individual/ company | Either party may terminate employment at any time on six months' notice (or by the Company making a payment in lieu of notice). In certain circumstances, the Company may reduce the notice period by a period of one to two months in duration. |
| Termination of employment (without cause) or by the individual | In that situation, STI will be forfeited and LTI (unvested) will lapse, unless the Board determines otherwise. On cessation of employment for any reason, vested but unexercised performance rights will remain on foot subject to the original offer terms, including discretion in relation to malus and clawback. |
| Termination of employment (with cause) | The Company may terminate immediately without notice in circumstances justifying summary dismissal.<br>In that situation, STI will be forfeited and LTI (unvested) will lapse, unless the Board determines otherwise. On cessation of employment for any reason, vested but unexercised performance rights will remain on foot subject to the original offer terms, including discretion in relation to malus and clawback. |

## Summary of remuneration

Details of the remuneration of the directors and other KMP of the Company, including related parties, for the current and prior financial periods are set out in the following tables:

| 2023 | SHORT-TERM BENEFITS | | POST-EMPLOYMENT BENEFITS | OTHER BENEFITS | LONG-TERM SHARE-BASED BENEFITS | | |
|---|---|---|---|---|---|---|---|
| | Cash salary and fees | Cash STI | Superannuation | Other | Performance Rights (i) | Total Remuneration | Proportion of Annualised Remuneration at risk |
| **Name** | $ | $ | $ | $ | $ | $ | % |
| **Non-executive Directors** | | | | | | | |
| S Fisher | 217,084 | - | 22,794 | - | - | 239,878 | - |
| D Grant | 140,438 | - | - | - | - | 140,438 | - |
| N Perkins | 120,323 | - | - | - | - | 120,323 | - |
| M Ward (ii) | 109,489 | - | 11,496 | - | - | 120,985 | - |
| M Zabel | 127,566 | - | 13,394 | - | - | 140,960 | - |
| **Total Non-Executive Directors** | **714,900** | **-** | **47,684** | **-** | **-** | **762,584** | **-** |
| **Other KMP** | | | | | | | |
| P Bishop (iii) | 348,394 | - | 18,112 | 325,000 | - | 691,506 | - |
| C Cahn | 526,432 | - | 25,292 | - | 578,792 | 1,130,516 | 51% |
| A Eshuys (iv) | 184,261 | - | 8,984 | - | 196,456 | 389,701 | 50% |
| **Total Other KMP** | **1,059,087** | **-** | **52,388** | **325,000** | **775,248** | **2,211,723** | **35%** |
| **Total** | **1,773,987** | **-** | **100,072** | **325,000** | **775,248** | **2,974,307** | |

*(i) The value of the performance rights shown in the table above for accounting purposes is determined using the Black-Scholes option pricing model and is generally subject to performance and/or service conditions.*

*(ii) M Ward resigned as a Director on 2 July 2023.*

*(iii) P Bishop left the Company on 31 January 2023. As part of his departure, P Bishop was paid $325,000 (inclusive of superannuation) in lieu of his six-month notice period, which is included in 'other benefits' above. In addition, P Bishop was paid $14,786 of annual leave entitlements, which is excluded from the table above. On P Bishop's departure all of his performance rights were lapsed.*

*(iv) A Eshuys became a KMP on 1 February 2023.*

| 2022 | | SHORT-TERM BENEFITS | POST-EMPLOYMENT BENEFITS | OTHER BENEFITS | LONG-TERM SHARE-BASED BENEFITS | | |
|---|---|---|---|---|---|---|---|
| | Cash salary and fees | Cash STI | Superannuation | Other | Performance Rights (i) | Total Remuneration | Proportion of Annualised Remuneration at risk |
| **Name** | $ | $ | $ | $ | $ | $ | % |
| **Non-executive Directors** | | | | | | | |
| S Fisher | 188,315 | - | 18,831 | - | - | 207,146 | - |
| D Grant | 133,722 | - | - | - | - | 133,722 | - |
| S Lightfoot (ii) | 33,454 | - | 3,345 | - | - | 36,799 | - |
| N Perkins | 120,323 | - | - | - | - | 120,323 | - |
| M Ward (iii) | 36,496 | - | 3,650 | - | - | 40,146 | - |
| M Zabel | 119,264 | - | 11,926 | - | - | 131,190 | - |
| **Total Non-Executive Directors** | **631,574** | **-** | **37,752** | **-** | **-** | **669,326** | **-** |
| **Other KMP** | | | | | | | |
| C Cahn | 402,994 | 140,000 | 23,568 | - | 736,476 | 1,303,038 | 67% |
| A Reich (iv) | 639,609 | - | 23,568 | 401,799 | (560,391) | 504,585 | (111)% |
| **Total Other KMP** | **1,042,603** | **140,000** | **47,136** | **401,799** | **176,085** | **1,807,623** | **17%** |
| **Total** | **1,674,177** | **140,000** | **84,888** | **401,799** | **176,085** | **2,476,949** | |

*(i) The value of the performance rights shown in the table above for accounting purposes is determined using the Black-Scholes option pricing model and is generally subject to performance and/or service conditions.*

*(ii) S Lightfoot retired as a Director on 20 October 2021.*

*(iii) M Ward was appointed as a Director on 1 March 2022.*

*(iv) A Reich left the Company on 26 April 2022. As part of his departure, A Reich was paid $401,799 (inclusive of superannuation) in lieu of a six-month notice period, which is included in 'other benefits' above. In addition, A Reich was paid $74,302 of annual leave entitlements which is excluded from the table above. On A Reich's departure, all of his performance rights were lapsed.*

For remuneration report purposes, the amount reported as "Share-based Benefits" is the accounting expense under AASB 2 (referred to in AASB 2 as "Share-based Payments").

The fair value of Share-based Benefits is determined using a Black-Scholes option pricing model and will generally be different to the volume weighted average market price, 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 the 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.

## D – Service agreements

All KMP are on employment terms consistent with the remuneration framework outlined in this report.

All directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

In addition, all executive KMP have service agreements which provide that a period of notice of six months is required by the Company, or the relevant team member, to terminate their employment.

## E – Share-based compensation

The Board granted performance rights with no financial criteria as a one-off allocation to certain team members (including Clinton Cahn and Amy Eshuys who are each a KMP) in order to retain their services for specified periods and the arrangements that apply are as indicated on page 24.

The following information has been prepared on the last day of the financial period. The number of performance rights over shares in the Company granted to KMP during the current financial period, together with prior period grants which vested during the period (unless otherwise stated), is set out below:

| 2023 | Grant date | Number of rights granted during the period | Date exercisable | Expiry date | Fair value of performance rights at grant date | Total fair value of performance rights at grant date | Number of performance rights granted in prior periods vested during the period |
|---|---|---|---|---|---|---|---|
| **KMP** | | | | | | | |
| P Bishop (i) | 22 July 2022 | 40,000 | 31 August 2024 | 31 October 2024 | $2.76 | 110,395 | - |
| P Bishop (i) | 22 July 2022 | 40,000 | 31 August 2025 | 31 October 2025 | $2.72 | 108,751 | - |
| P Bishop (i) | 22 July 2022 | 20,000 | 31 August 2026 | 30 October 2026 | $2.68 | 53,566 | - |
| P Bishop (i) | 21 September 2022 | 189,000 | 31 August 2025 | 31 October 2025 | $3.71 | 701,629 | - |
| C Cahn | 21 September 2022 | 120,300 | 31 August 2025 | 31 October 2025 | $3.71 | 446,592 | - |
| C Cahn | 2 February 2023 | 50,000 | 31 August 2023 | 31 October 2023 | $4.06 | 203,230 | - |
| C Cahn | 2 February 2023 | 50,000 | 29 February 2024 | 30 April 2024 | $4.03 | 201,716 | - |
| C Cahn | 2 February 2023 | 50,000 | 28 February 2025 | 30 April 2025 | $3.97 | 198,713 | - |
| C Cahn | 27 March 2020 | - | 27 March 2023 | 28 March 2025 | $4.05 | 606,758 | 150,000 |
| A Eshuys (ii) | 21 September 2022 | 65,700 | 31 August 2025 | 31 October 2025 | $3.71 | 243,899 | - |
| A Eshuys (ii) | 2 February 2023 | 25,000 | 31 August 2023 | 31 October 2023 | $4.06 | 101,615 | - |
| A Eshuys (ii) | 2 February 2023 | 25,000 | 29 February 2024 | 30 April 2024 | $4.03 | 100,858 | - |
| A Eshuys (ii) | 2 February 2023 | 25,000 | 28 February 2025 | 30 April 2025 | $3.97 | 99,356 | - |
| **Total** | | **700,000** | | | | **$3,177,078** | **150,000** |

*(i) P Bishop left the Company on 31 January 2023 and ceased to be a KMP on that date. On P Bishop's departure, all of his performance rights were lapsed.*

*(ii) A Eshuys became a KMP on 1 February 2023.*

All performance rights granted during the current period will vest on the exercise dates above provided the required performance hurdles are achieved (if applicable) and the team member remains employed with the Company at the vesting date unless otherwise determined by the Board. 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 KMP under each grant of performance rights is $Nil.

Subsequent to period end there has been no further grant of performance rights to KMPs.

### *Shares Issued to Key Management Personnel on Exercise of Options or Performance Rights*

Directors have not been granted performance rights in any period.

During the year, 75,000 ordinary shares were issued to C Cahn as a result of the exercise of the performance rights that were granted and vested on 11 May 2022 (i.e. in FY22).

It is expected that, following the release of the FY23 Annual Results, C Cahn will exercise 150,000 performance rights that were granted on 27 March 2020 and vested on 27 March 2023.

Other than indicated above, there have been no further shares issued during the year as a result of the exercises of the performance rights.

## F – 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 as well as 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 on a specified vesting date 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.

| 2023 | Cash Incentive | | Performance Rights | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Paid | Forfeited | | Vested | | Forfeited | | | | |
| | # | % | Date Granted | # | % | # | % | Financial Periods in which rights may vest | Maximum total number of rights may vest | Maximum total value of grants may vest |
| **KMP** | | | | | | | | | | |
| P Bishop (i) | - | 100% | FY23 | - | - | 289,000 | 100% | n/a | n/a | n/a |
| C Cahn | - | 100% | FY23 | - | - | - | - | FY24-26 | 270,300 | $1,050,250 |
| C Cahn | $140,000 | 13% | FY22 | 75,000 | 37% | - | - | FY23-25 | 129,400 | $584,407 |
| C Cahn | - | 100% | FY21 | - | - | - | - | FY24 | 63,700 | $392,758 |
| C Cahn | - | - | FY20 | 150,000 | 100% | - | - | FY23 | - | - |
| A Eshuys (ii) | - | 100% | FY23 | - | - | - | - | FY24-26 | 140,700 | $545,729 |

*(i) P Bishop left the Company on 31 January 2023. On P Bishop's departure all of his performance rights were lapsed.*

*(ii) A Eshuys became a KMP on 1 February 2023.*

### *Performance Rights Holdings*

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 KMP of the Company, including related parties, are set out below:

| 2023 | 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 the end of the period |
|---|---|---|---|---|---|
| **KMP** | | | | | |
| P Bishop (i) | - | 289,000 | - | (289,000) | - |
| C Cahn | 418,100 | 270,300 | (75,000) | - | 613,400 |
| A Eshuys (ii) | 42,500 | 140,700 | - | - | 183,200 |
| **Total** | **460,600** | **700,000** | **(75,000)** | **(289,000)** | **796,600** |

*(i) P Bishop left the Company on 31 January 2023. On P Bishop's departure all of his performance rights were lapsed.*

*(ii) A Eshuys became a KMP on 1 February 2023.*

### *Share Holdings*

The number of shares in the Company held during the current and prior financial period by each director and other KMP of the Company, including related parties, is set out below:

| 2023 | Balance at the start of the period | Received during the period on the exercise of performance rights and options | Other changes during the period | Balance at the end of the period |
|---|---|---|---|---|
| **Directors** | | | | |
| S Fisher | 99,039 | - | 35,000 | 134,039 |
| D Grant | 14,000 | - | 3,000 | 17,000 |
| N Perkins | 37,199 | - | 4,739 | 41,938 |
| M Ward (i) | 12,987 | - | (12,987) | - |
| M Zabel | 3,000 | - | 3,000 | 6,000 |
| **Total** | **166,225** | **-** | **32,752** | **198,977** |
| **KMP** | | | | |
| P Bishop (ii) | - | - | - | - |
| C Cahn | - | 75,000 | - | 75,000 |
| A Eshuys (iii) | 649 | - | - | 649 |
| **Total** | **166,874** | **75,000** | **32,752** | **274,626** |

*(i) M Ward resigned as a Director on 2 July 2023. During FY23, M Ward acquired 9,708 shares (i.e. a total of 22,695 shares at the time of his resignation). For reporting purposes only, 22,695 shares were treated as having been disposed of during the period to leave a nil balance. M Ward may or may not continue to hold shares in the Company.*

*(ii) P Bishop left the Company on 31 January 2023. When P Bishop left the Company, he held 19,442 shares that he acquired on-market during FY23 (i.e. he held no shares at the start of the period). For reporting purposes only, P Bishop's 19,442 shares were treated as having been disposed of during the period to leave a nil balance. P Bishop may or may not continue to hold shares in the Company.*

*(ii) A Eshuys became a KMP on 1 February 2023.*

### *Minimum shareholding requirements*

To assist in aligning the interests of the directors with the interests of shareholders of the Company, the directors are encouraged to acquire and hold a minimum shareholding in the Company approximately equivalent to at least 100% of the annual base fees paid to directors. The annual base fee excludes any committee fees, superannuation contributions and higher duties fees (e.g. Chair of the Board fee). The directors are encouraged to commence acquiring shares as soon as practicable and reach the minimum shareholding within a reasonable timeframe (approximately 5 years) from time of appointment (or the effective date of the policy, whichever is the later).

The Minimum Shareholding Policy was approved by the Board on 16 February 2022.

### *Loans to or other transactions with Key Management Personnel*

No loans were made to or from directors of the Company or to or from other KMP of the Company, including related parties unless otherwise disclosed (see page 61 of this annual report), or are outstanding as of 2 July 2023 (FY2022 - $Nil).

No other transactions were undertaken with directors or other KMP, including related parties, during the period (FY2022 - $Nil).

### *Company Performance*

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

| Period | NPAT | EPS cents per share | Share price at start of period | Share price at end of period | Share price growth | Ordinary & special dividends paid or declared per share |
|---|---|---|---|---|---|---|
| FY2014 | $14.5m | 50.3 | $17.19 | $8.82 | (48.7%) | $0.30 |
| FY2015 | $14.2m | 49.4 | $8.82 | $5.40 | (38.8%) | $0.30 |
| FY2016(i) | $17.1m | 59.3 | $5.40 | $12.45 | 130.6% | $0.44 |
| FY2017 | $12.3m | 42.8 | $12.45 | $4.16 | (66.6%) | $0.24 |
| FY2018 | $16.6m | 57.4 | $4.16 | $5.68 | 36.5% | $0.35 |
| FY2019 | ($16.9m) | (58.5) | $5.68 | $1.83 | (67.8%) | $0.10 |
| FY2020 | $1.1m | 3.6 | $1.83 | $7.46 | 307.7% | - |
| FY2021 | $8.3m | 21.7 | $7.46 | $5.37 | (28.0%) | - |
| FY2022(i) | $7.9m | 20.6 | $5.37 | $3.23 | (39.9%) | - |
| FY2023 | $10.3m | 27.2 | $3.23 | $4.55 | 40.9% | $0.16 |

*(i) 53-week period.*

### *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 |
|---|---|---|---|---|---|---|
| 27 March 2020 | 28 March 2025 | 27 March 2023 | $4.05 | - | 150,000 | 150,000 |
| 30 September 2020 | 31 August 2025 | 31 August 2023 | $6.17 | - | 185,300 | 63,700 |
| 5 November 2021 | 31 August 2025 | 31 August 2023 | $5.95 | - | 65,767 | 18,133 |
| 5 November 2021 | 1 November 2024 | 5 November 2023 | $5.92 | - | 66,000 | - |
| 5 November 2021 | 31 August 2026 | 31 August 2024 | $5.86 | - | 131,533 | 36,267 |
| 11 May 2022 | 28 February 2025 | 31 August 2023 | $3.53 | - | 50,000 | 50,000 |
| 11 May 2022 | 14 September 2023 | 31 August 2023 | $3.53 | - | 55,000 | - |
| 11 May 2022 | 13 September 2024 | 31 August 2023 | $3.53 | - | 166,875 | 15,000 |
| 11 May 2022 | 28 February 2025 | 29 February 2024 | $3.50 | - | 25,000 | 25,000 |
| 11 May 2022 | 13 September 2024 | 31 August 2024 | $3.48 | - | 95,000 | 10,000 |
| 11 May 2022 | 12 September 2025 | 29 August 2025 | $3.43 | - | 17,500 | 17,500 |
| 21 September 2022 | 31 October 2025 | 31 August 2025 | $3.71 | - | 638,100 | 186,000 |
| 28 November 2022 | 31 October 2025 | 31 August 2025 | $4.37 | - | 28,700 | - |
| 2 February 2023 | 31 October 2023 | 31 August 2023 | $4.06 | - | 87,500 | 75,000 |
| 2 February 2023 | 30 April 2024 | 29 February 2024 | $4.03 | - | 87,500 | 75,000 |
| 2 February 2023 | 30 April 2025 | 28 February 2025 | $3.97 | - | 87,500 | 75,000 |
| **Total** | | | | | **1,937,275** | **796,600** |

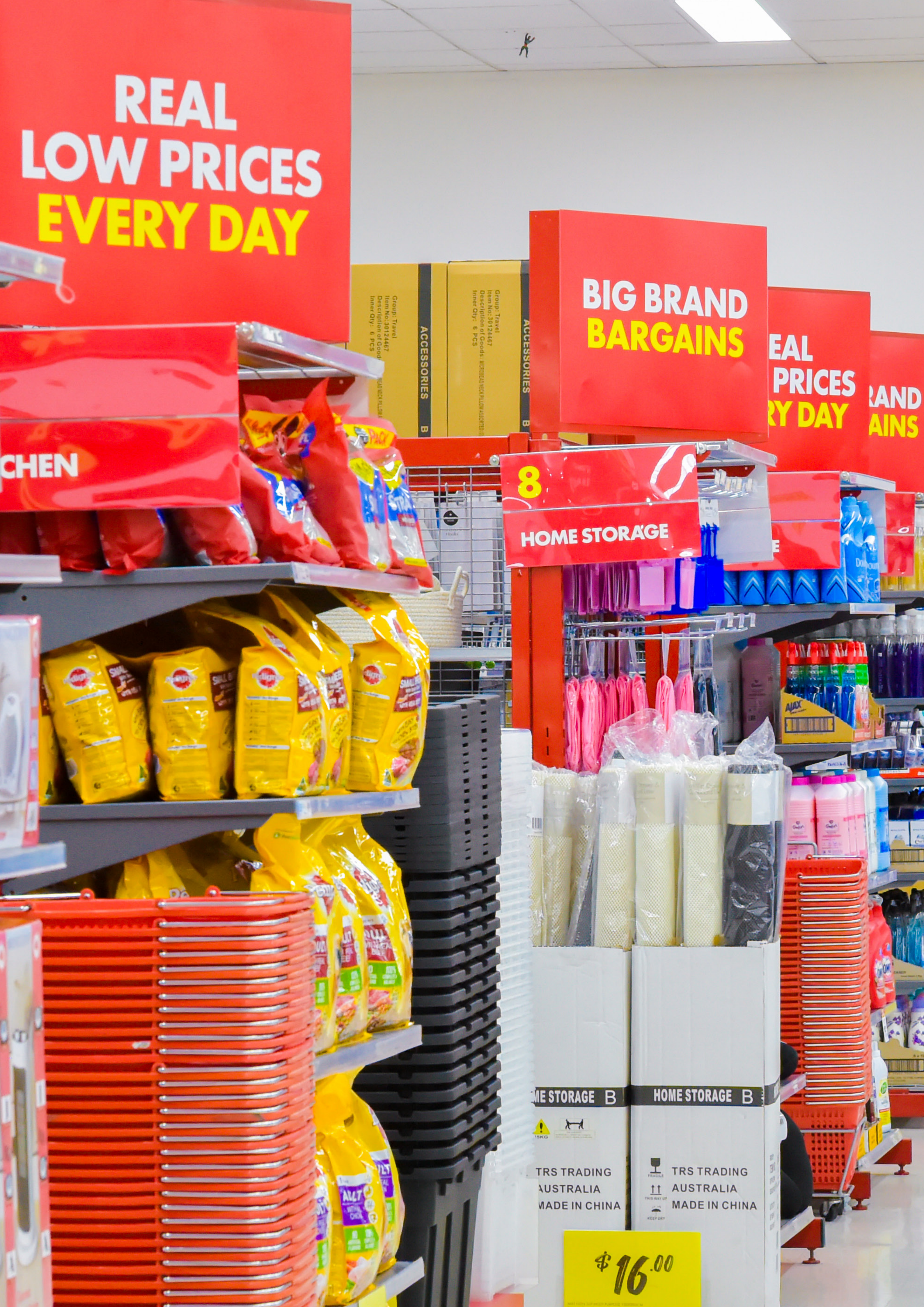
Subsequent to period end, the Board has not granted any further performance rights under the Performance Rights Plan.

### *Shares issued and the exercise of options and performance rights*

The following shares of the Company were issued during FY23 on the exercise of performance rights:

| Date of Grant | Vesting Date | Exercise date | Issue price of shares (i) | Total number of shares issued | Number of shares issued to KMP |
|---|---|---|---|---|---|
| 18 October 2019 | 1 July 2023 | 23 August 2022 | – | 21,675 | – |
| 11 May 2022 | 11 May 2022 | 23 August 2022 | – | 75,000 | 75,000 |
| **Total** | | | | **96,675** | **75,000** |

*(i) In order to exercise performance rights, participants must pay an exercise price of $1.00 for each tranche granted and exercised on a particular day, regardless of the number of rights exercised on that day.*


REAL LOW PRICES EVERY DAY
BIG BRAND BARGAINS
8
HOME STORAGE
HOME STORAGE B
TRS TRADING AUSTRALIA MADE IN CHINA
$16.00

# 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 2 July 2023, 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.

Brad Peake
Partner
PricewaterhouseCoopers

Melbourne
24 August 2023

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

# Consolidated Statement of Comprehensive Income

For the 52 week period ended 2 July 2023

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Revenue from continuing operations** | | | |
| Sales revenue | 2 | **819,340** | 788,241 |
| Other income | 3 | **6,062** | 128 |
| | | **825,402** | 788,369 |
| **Expenses** | | | |
| Cost of sales | | **494,167** | 467,789 |
| Store expenses | | **261,204** | 260,828 |
| Administrative expenses | | **47,350** | 41,996 |
| | | **802,721** | 770,613 |
| Finance costs | 4 | **8,050** | 6,502 |
| **Profit before income tax** | | **14,631** | 11,254 |
| Income tax expense | 5 | **4,321** | 3,352 |
| **Profit for the period attributable to shareholders of The Reject Shop** | | **10,310** | 7,902 |
| | | | |
| **Other comprehensive income** | | | |
| *Items that may be re-classified to profit or loss* | | | |
| Changes in the fair value of cash flow hedges | | **(6,902)** | 16,569 |
| Income tax relating to components of other comprehensive income | | **2,071** | (4,971) |
| **Other comprehensive income for the period, net of tax** | | **(4,831)** | 11,598 |
| **Total comprehensive income attributable to shareholders of The Reject Shop** | | **5,479** | 19,500 |
| | | | |
| **Earnings per share** | | **Cents** | **Cents** |
| Basic earnings per share | 27 | **27.2** | 20.6 |
| Diluted earnings per share | 27 | **26.4** | 20.2 |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheet

As at 2 July 2023

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | 6 | **77,335** | 77,469 |
| Inventories | 7 | **135,550** | 113,014 |
| Tax receivables | | **-** | 1,893 |
| Derivative financial instruments | 22 | **5,864** | 12,766 |
| Other assets | 8 | **4,056** | 4,481 |
| **Total Current Assets** | | **222,805** | 209,623 |
| | | | |
| **Non-current Assets** | | | |
| Property, plant and equipment | 9 | **50,631** | 51,143 |
| Right-of-use assets | 10 | **205,786** | 198,717 |
| Deferred tax assets | 11 | **20,050** | 17,712 |
| **Total Non-current Assets** | | **276,467** | 267,572 |
| | | | |
| **Total Assets** | | **499,272** | 477,195 |
| | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 12 | **59,765** | 56,398 |
| Lease liabilities | 10 | **84,305** | 78,020 |
| Tax liabilities | | **3,300** | - |
| Provisions | 14 | **11,080** | 10,437 |
| Other liabilities | 15 | **11,428** | 11,560 |
| **Total Current Liabilities** | | **169,878** | 156,415 |
| | | | |
| **Non-current Liabilities** | | | |
| Lease liabilities | 10 | **144,124** | 139,645 |
| Provisions | 14 | **3,335** | 4,332 |
| **Total Non-current Liabilities** | | **147,459** | 143,977 |
| | | | |
| **Total Liabilities** | | **317,337** | 300,392 |
| | | | |
| **Net Assets** | | **181,935** | 176,803 |
| | | | |
| **Equity** | | | |
| Contributed equity | 16 | **67,598** | 70,326 |
| Reserves | 17 | **13,829** | 16,279 |
| Retained profits | 18 | **100,508** | 90,198 |
| **Total Equity** | | **181,935** | 176,803 |

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 2 July 2023

| 2023 | Contributed Equity $'000 | Capital Profits $'000 | Share Based Payments $'000 | Hedging Reserve $'000 | Foreign Currency Translation Reserve $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Balances as at 3 July 2022** | 70,326 | 739 | 6,603 | 8,937 | - | 90,198 | 176,803 |
| Profit for the period | - | - | - | - | - | 10,310 | 10,310 |
| Other comprehensive income | - | - | - | (4,831) | - | - | (4,831) |
| Foreign exchange translation | - | - | - | - | - | - | - |
| Transaction with owners in their capacity as owners: | | | | | | | |
| Shares bought back | (2,728) | - | - | - | - | - | (2,728) |
| Share based remuneration | - | - | 2,025 | - | - | - | 2,025 |
| Tax credited directly to equity | - | - | 356 | - | - | - | 356 |
| **Balances as at 2 July 2023** | **67,598** | **739** | **8,984** | **4,106** | **-** | **100,508** | **181,935** |

| 2022 | Contributed Equity $'000 | Capital Profits $'000 | Share Based Payments $'000 | Hedging Reserve $'000 | Foreign Currency Translation Reserve $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Balances as at 27 June 2021** | **70,326** | **739** | **6,019** | **(2,661)** | **12** | **82,296** | **156,731** |
| Profit for the period | - | - | - | - | - | 7,902 | 7,902 |
| Other comprehensive income | - | - | - | 11,598 | - | - | 11,598 |
| Foreign exchange translation | - | - | - | - | (12) | - | (12) |
| Transaction with owners in their capacity as owners: | | | | | | | |
| Share based remuneration | - | - | 959 | - | - | - | 959 |
| Tax debited directly to equity | - | - | (375) | - | - | - | (375) |
| **Balances as at 3 July 2022** | **70,326** | **739** | **6,603** | **8,937** | **-** | **90,198** | **176,803** |

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 2 July 2023

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **901,274** | 867,065 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(789,302)** | (745,255) |
| Interest received | 3 | **1,842** | 128 |
| Insurance income received | 3 | **4,220** | - |
| Borrowing costs and facilities fees paid | 4 | **(279)** | (96) |
| Interest on lease liabilities | 4 | **(7,771)** | (6,406) |
| Income tax received (net of tax paid) | | **1,036** | 704 |
| **Net cash inflows from operating activities** | 21 | **111,020** | 116,140 |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(12,126)** | (16,451) |
| **Net cash outflows used in investing activities** | | **(12,126)** | (16,451) |
| | | | |
| **Cash flows from financing activities** | | | |
| Principal elements of lease payments | | **(96,300)** | (95,266) |
| Payments for shares bought back | | **(2,728)** | - |
| **Net cash outflows used in financing activities** | | **(99,028)** | (95,266) |
| | | | |
| **Net (decrease) / increase in cash held** | | **(134)** | 4,423 |
| Cash at the beginning of the financial period | | **77,469** | 73,046 |
| **Cash at the end of the financial period** | | **77,335** | 77,469 |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Consolidated Financial Statements

## Note 1: Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the Consolidated Financial Statements (Financial Statements) 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 (the Group). All information presented within these Financial Statements relates to the Group, unless otherwise stated.

### (a) Basis of Preparation

The general purpose Financial Statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth), as appropriate for for-profit oriented entities.

**Compliance with IFRS**

Additionally, the Financial Statements of the Group also comply 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 for:

- certain financial assets and liabilities (including derivative instruments) that are measured at fair value; and
- certain classes of property, plant and equipment and right-of-use assets that are measured at historical cost less depreciation and impairment (where applicable).

**Critical accounting estimates**

The preparation of Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise its professional 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 Consolidation

***(i) Subsidiaries***

The Financial Statements incorporate all the assets and liabilities of the subsidiaries of The Reject Shop Limited as at 2 July 2023 and the results of the subsidiaries for the period. As previously indicated, The Reject Shop Limited and its subsidiaries are referred to in the Financial Statements as the Group.

Subsidiaries are all entities (including structured 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 (ABN: 20059935465), which has not traded since 2003 and is domiciled in Australia.

The Reject Shop Limited has a 100% owned operating subsidiary, TRS Sourcing Co. Limited, which is domiciled in Hong Kong. This subsidiary last provided procurement services to the Group in 2019. The Group is currently working through a process to deregister TRS Sourcing Co. Limited.

***(ii) Employee Share Trust***

The Reject Shop Limited has formed a trust to administer the Group'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 Group has only one operating business segment. Refer to Note 30 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 Group 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 weighted average basis and include an appropriate proportion of freight inwards, logistics, discounts, supplier rebates and foreign exchange.

Storage, administrative overheads, selling and abnormal costs are expensed in the period when they are incurred.

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 historical cost less any accumulated depreciation and impairment. 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 as follows:

| Class of fixed asset | Useful Life |
|---|---|
| - Leasehold Improvements and Office Equipment | 5 – 13 years |
| - Fixtures and Fittings | 5 – 13 years |
| - Computer Equipment | 3 years |

### (g) Leases

The Group leases various retail stores, distribution centres, offices and vehicles. Lease agreements are typically made for fixed periods of tenure (usually three to six years) and the arrangements may have an option for a further term as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any landlord incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any landlord incentives received; and
- any initial direct costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are those leases with a term of 12 months or less.

### (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 reasonably 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 on the Consolidated Balance Sheet if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

***(iii) 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, including relevant hurdles;
- the amounts to be paid are determined before the time of completion of the Financial Statements; 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.

***(iv) Equity-based compensation benefits***

Equity-based compensation benefits are provided to selected employees through 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 the grant date and recognised over the period during which the employees become unconditionally entitled to exercise those rights, adjusted for the fair value of any rights which do not ultimately vest.

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

- exercise price;
- term of the Performance Rights;
- vesting and performance criteria;
- impact of dilution;
- non-tradeable nature of the Performance Rights;
- share price at the grant date and expected price volatility of the underlying share;
- expected dividend yield; and
- 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 Group revises its estimates of the number of Performance Rights that are expected to vest, net of any Performance Rights that have been forfeited or lapsed throughout the period. The employee benefit expense recognised each period takes into account the most recent estimate.

### (i) Cash and Cash Equivalents

For presentation of Consolidated Statement of Cash Flows, cash and cash equivalents includes, cash on hand, cash in transit 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 Consolidated Balance Sheet.

### (j) Revenue

Revenue from the sale of goods is recognised at the point in time the sale occurs. All revenue is stated net of the amount of goods and services tax (GST), returns and 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 Group designates derivatives as hedges of the cash flows of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction, the Group documents the relationship between the hedging instrument and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group 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 hedges***

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 Group are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The Financial Statements are presented in Australian dollars, which is the Group's primary 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, except derivatives which comprise effective hedges.

**(m) Trade and Other Payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid within 30-60 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 and Right-Of-Use Assets**

Assets that are subject to amortisation are reviewed for impairment at each reporting date and 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 the financial period, adjusted for bonus elements in ordinary shares issued during the period.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares (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 and cloud computing, are charged as expenses in the period in which they are incurred unless they relate to the acquisition or development of a Group controlled 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, equitable or constructive obligation arises, usually on a lease being agreed. 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 with the asset amortised over the lease life.

**(v) Store Opening Costs**

Non-capital costs associated with 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 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 on the Consolidated 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' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Statements. 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 2 July 2023 reporting period, certain accounting estimates and judgements were made in relation to the following:

*(i) Impairment of store assets*

The Group offers a wide range of discount variety merchandise through its network of 380 stores (FY2022: 369) and store assets, including the right-of-use asset, which 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 CGU 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 and right-of-use assets.

The recoverable amount is defined as the higher of the asset's fair value less costs of disposal or its value in use. The Group determines value in use by making certain assumptions relating to forecast future cash flows and discount rates. The assumptions on future cash flows have been developed based on past performance and reasonable expectations in relation to the future. The discount rate has been determined using market information relevant to the industry in which the Group operates.

The impairment assessments could be sensitive to the judgements made in the impairment test and the assumptions outlined above. Changes to these assumptions could result in a different outcome. Refer to Note 9 for details.

***(ii) Impairment test for corporate and distribution centre assets***

Due to impairment indicators at year end, corporate and distribution centre assets were tested for impairment using a discounted cash flow model. The Group determines value in use by making certain assumptions relating to forecast future cash flows and discount rates, giving regard to past performance, external industry forecasts and board approved budgets. The discount rate has been determined using market information relevant to the industry in which the Group operates.

The impairment assessments could be sensitive to the judgements made in the impairment test and the assumptions outlined above. Changes to these assumptions could result in a different outcome.

***(iii) Determining the lease term for the lease liability***

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an option for a further term, or vacate the premises at lease expiry. An option for a further term is only included in the lease term if the lease is reasonably certain to be extended (or not terminated). For leases of distribution centres and stores, the following factors are most relevant:

- if there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate);
- if any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate); and
- otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Group's policy is not to exercise an option for a further term, unless there is a site-specific and commercial rationale for doing so.

The lease term is reassessed if an option for a further term is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

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

The 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's 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 certain inventory on hand at period end. The specific write-down amount depends, in part, on the age of the inventory and estimated inventory weeks cover and incorporates information on known loss-making products.

***(v) 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. Other than the matters outlined above, there are no other accounting estimates or judgements within these accounts which have a significant effect on the amounts recognised in the Financial Statements.

**(ab) New Accounting Standards and Interpretations**

There are no new standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods.

| Note 2: Revenue from Continuing Operations | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Sales of goods | **819,340** | 788,241 |

| Note 3: Other Income | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Interest | **1,842** | 128 |
| Insurance recovery[(i)] | **4,220** | - |
| | **6,062** | 128 |

*(i) Insurance recoveries relate to insured losses of property, plant and equipment, inventory and loss of profit from four stores that were flood/water damaged in FY2022 and one in FY2023.*

| Note 4: Expenses | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **Profit before income tax expense includes the following expenses:** | | |
| ***Finance Costs:*** | | |
| Interest and finance charges paid/payable for borrowing costs and facilities fees | **279** | 96 |
| Interest and finance charges paid/payable for lease liabilities | **7,771** | 6,406 |
| | **8,050** | 6,502 |
| ***Depreciation of Property, plant and equipment included in:*** | | |
| Cost of sales | **72** | 18 |
| Store expenses | **11,387** | 12,050 |
| Administrative expenses | **601** | 334 |
| | **12,060** | 12,402 |
| ***Depreciation of Right-of-use assets included in:*** | | |
| Cost of sales | **5,820** | 5,820 |
| Store expenses | **88,303** | 88,920 |
| Administrative expenses | **772** | 774 |
| | **94,895** | 95,514 |
| Store exit costs | **117** | 2,164 |
| Employee benefits expense | **166,028** | 156,992 |
| Store opening and relocation costs | **796** | 1,587 |

## Note 5: Income tax expense

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **(a) Income tax expense** | | |
| Current tax | **4,140** | 266 |
| Deferred tax | **188** | 3,114 |
| Adjustments for current tax of prior periods | **(7)** | (28) |
| | **4,321** | 3,352 |
| Deferred income tax expense included in income tax expense comprises: | | |
| Decrease in net deferred tax assets | **188** | 3,114 |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit before income tax expense | **14,631** | 11,254 |
| Tax at the Australian tax rate of 30% (FY2022: 30%) | **4,389** | 3,376 |
| Tax effect of amounts which are not deductible in calculating taxable income: | | |
| Other | **(61)** | 4 |
| Adjustments for current tax of prior periods | **(7)** | (28) |
| **Income tax expense** | **4,321** | 3,352 |
| **(c) Amounts recognised directly in equity** | | |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited in equity | **356** | (375) |
| **(d) Income tax relating to items of other comprehensive income** | | |
| Cash flow hedges | **(2,071)** | 4,971 |

## Note 6: Current Assets – Cash and cash equivalents

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Cash on hand | **1,607** | 1,577 |
| Cash at bank | **75,728** | 75,892 |
| | **77,335** | 77,469 |

## Note 7: Current Assets – Inventories

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Inventory at cost | **129,945** | 109,689 |
| Inventory at net realisable value | **5,605** | 3,325 |
| | **135,550** | 113,014 |

Inventories recognised as an expense during the period ended 2 July 2023 amounted to $429,191,000 (FY2022: $407,325,000). These were included in the 'Cost of sales'. Write-downs of inventories to net realisable value amounted to $3,179,000 (FY2022: $5,114,000). These were recognised as an expense during the period ended 2 July 2023 and included in 'Cost of sales'.

| Note 8: Current Assets – Other assets | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Prepayments | **2,961** | 3,151 |
| Other current assets | **1,095** | 1,330 |
| | **4,056** | 4,481 |

| Note 9: Non-current Assets – Property, plant and equipment | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **Leasehold improvements** | | |
| At cost | **95,135** | 90,733 |
| Less accumulated depreciation and impairment | **(80,447)** | (76,031) |
| **Net book amount** | **14,688** | 14,702 |
| | | |
| **Plant and equipment** | | |
| At cost | **177,460** | 172,635 |
| Less accumulated depreciation and impairment | **(141,517)** | (136,194) |
| **Net book amount** | **35,943** | 36,441 |
| **Total Property, plant and equipment** | **50,631** | 51,143 |

**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 |
|---|---|---|---|
| **Balances as at 3 July 2022** | **14,702** | **36,441** | **51,143** |
| Additions at cost | **5,760** | **6,366** | **12,126** |
| Asset write offs | **(221)** | **(357)** | **(578)** |
| Depreciation expense | **(5,553)** | **(6,507)** | **(12,060)** |
| **Balances as at 2 July 2023** | **14,688** | **35,943** | **50,631** |

| | Leasehold improvements $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|
| Balances as at 27 June 2021 | 13,895 | 33,447 | 47,342 |
| Additions at cost | 7,931 | 9,874 | 17,805 |
| Asset write offs | (989) | (613) | (1,602) |
| Depreciation expense | (6,135) | (6,267) | (12,402) |
| Balances as at 3 July 2022 | 14,702 | 36,441 | 51,143 |

During the period, there was no impairment recognised by the Group in relation to stores (FY2022: $Nil).

**Impairment testing of Property, plant and equipment (PP&E) and Right-of-use assets**

The Group assesses Property, plant and equipment and the Right-of-use assets (see Note 10) for indicators of impairment at each reporting date in accordance with AASB 136 Impairment of Assets.

The Group performed the review for indicators of impairment first at the CGU level. This consists of individual stores as this is the smallest group of assets for which independent cash flows can be determined (the "Stores CGU"). For indicators at the individual store level, the Group calculated the recoverable amount of the Stores CGU using a value-in-use ("VIU") discounted cash flow model. The model uses cash flow projections based on board approved budgets.

For testing of the distribution centre 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"). The Group calculated the recoverable amount of the Corporate CGU using a VIU discounted cash flow model. The model uses cash flow projections based on board approved budgets.

The Group determined that no reasonable change in the key assumptions used in the impairment assessments would result in an impairment charge at the reporting date.

## Note 10: Leases

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| **Right-of-use assets** | | |
| Property | **205,725** | 198,575 |
| Vehicles | **61** | 142 |
| | **205,786** | 198,717 |
| **Lease Liabilities** | | |
| Current | **84,305** | 78,020 |
| Non-current | **144,124** | 139,645 |
| | **228,429** | 217,665 |
| | | |
| Interest expense (included in finance costs) | **7,771** | 6,406 |

Additions to the right-of-use assets during the year ended 2 July 2023 were $100,928,000 (3 July 2022: $140,855,000).

Expenses relating to short-term leases of $1,671,000 (FY2022: $2,301,000) are included in store expenses.

The total cash outflow for leases during the year was $100,057,000 (FY2022: $99,669,000).

The Group assesses these assets with property, plant and equipment for indicators of impairment at each reporting date in accordance with AASB 136 Impairment of Assets. For details of this assessment see Note 9.

| Note 11: Non-current Assets – Deferred tax assets | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| ***Amounts recognised in profit or loss*** | | |
| Employee benefits | **7,022** | 6,942 |
| Leases | **6,793** | 5,684 |
| Inventories | **1,249** | 871 |
| Property, plant and equipment | **5,469** | 8,660 |
| Other provisions and accruals | **1,282** | 1,514 |
| Employee share trust | **1,294** | 457 |
| Sundry items | **57** | 114 |
| | **23,166** | 24,242 |
| ***Set-off of deferred tax liabilities of Group pursuant to set-off provisions:*** | | |
| Receivables | **-** | (22) |
| Other current assets | **75** | (1,151) |
| Derivative financial instrument | **(1,760)** | (3,831) |
| Sundry items | **(1,431)** | (1,526) |
| **Net deferred tax assets** | **20,050** | 17,712 |
| | | |
| **Movements:** | | |
| Carrying amount at beginning of period | **17,712** | 27,701 |
| Credited / (charged) to profit or loss and direct to equity | **173** | (3,492) |
| Credited / (charged) to other comprehensive income | **2,071** | (4,971) |
| Under / (over) provision from prior years | **94** | (1,526) |
| **Carrying amount at end of period** | **20,050** | 17,712 |

| Note 12: Current Liabilities – Trade and other payables | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Trade payables | **52,202** | 43,105 |
| Payroll tax and other statutory liabilities | **4,031** | 6,265 |
| Sundry payables | **3,532** | 7,028 |
| | **59,765** | 56,398 |

## Note 13: Current Liabilities – Borrowings

The Group has banking facilities with ANZ Bank. These facilities include an interchangeable facility with a limit of $10 million while the limit for the seasonal facility is $20 million. The seasonal facility can only be drawn between October and December each year.

The Group has fully complied with all of its banking covenants at the balance sheet date.

In August 2023, subsequent to the period-end, the Group extended its existing banking facilities with ANZ Bank from August 2023 to August 2024.

All secured liabilities listed within Notes 13 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.

## Note 14: Liabilities – Provisions

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| Provision for make good | **350** | **2,067** | **2,417** | 370 | 2,212 | 2,582 |
| Employee entitlement | **10,730** | **1,268** | **11,998** | 10,067 | 2,120 | 12,187 |
| | **11,080** | **3,335** | **14,415** | 10,437 | 4,332 | 14,769 |

**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 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 annual 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.

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| Leave obligations expected to be settled after 12 months | **4,031** | 4,942 |

## Note 15: Current Liabilities – Other Liabilities

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| Accrued expenses | **11,203** | 11,123 |
| Deferred income | **225** | 437 |
| | **11,428** | 11,560 |

## Note 16: Contributed Equity

**Movements in ordinary share capital:**

| Date | Details | Number of issued shares | Issue price per share $ | Contributed Equity $'000 |
|---|---|---|---|---|
| **27 June 2021** | **Balance** | **38,276,622** | **-** | **70,326** |
| 1 July 2021 | Exercise of performance rights | 50,000 | - | - |
| **3 July 2022** | **Balance** | **38,326,622** | **-** | **70,326** |
| 24 August 2022 | Exercise of performance rights | 96,675 | - | - |
| 9 September 2022 to 3 February 2023 | Shares bought back | (647,222) | - | (2,728) |
| **2 July 2023** | **Balance** | **37,776,075** | **-** | **67,598** |

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.

Between September 2022 and February 2023, the Company purchased 647,222 shares through an on-market buy-back. The on-market buy-back was announced on 23 August 2022. The shares were acquired at an average price of $4.21 per share, with prices ranging from $3.87 to $4.92 per share. The total cost of the shares purchased was $2,727,948. All the acquired shares were cancelled prior to the end of the period.

The on-market buy-back is proposed to end on or before 22 August 2023.

| Note 17: Equity – Reserves | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Capital profits reserve | **739** | 739 |
| Share based payments reserve(i) | **8,984** | 6,603 |
| Hedging reserve – cash flow hedges(ii) | **4,106** | 8,937 |
| Foreign currency translation reserve(iii) | **-** | - |
| | **13,829** | 16,279 |
| **Movements:** | | |
| ***Share based payments reserve(i)*** | | |
| Balance at beginning of period | **6,603** | 6,019 |
| Performance Rights expense | **2,025** | 959 |
| Deferred tax – share based payments | **356** | (375) |
| | **8,984** | 6,603 |
| ***Hedging reserve – cash flow hedges(ii)*** | | |
| Balance at beginning of period | **8,937** | (2,661) |
| Transfer to inventory | **(8,937)** | 2,661 |
| Revaluation of cash flow hedges | **4,106** | 8,937 |
| | **4,106** | 8,937 |
| ***Foreign currency translation reserve(iii)*** | | |
| Balance at beginning of period | - | 12 |
| Currency translation differences | - | (12) |
| | - | - |

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

*(ii) 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 22. Amounts accumulated in equity are included in the cost of the hedged item when the forecast purchase that is hedged takes place.*

*(iii) The foreign currency translation reserve is used to record exchange differences arising from the translation of the Financial Statements of foreign subsidiaries.*

| Note 18: Equity – Retained Profits | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Retained profits at the beginning of the financial period | **90,198** | 82,296 |
| Net profit attributable to the shareholders of the Group | **10,310** | 7,902 |
| Retained profits at end of financial period | **100,508** | 90,198 |

## Note 19: Capital Commitments

The Group has capital commitments totalling $5,287,000 (FY2022: $2,600,000) all payable within one year.

## Note 20: Contingent Assets and Liabilities

The Company is named as the respondent in a class action commenced by a former store manager (the applicant) in the Federal Court of Australia (filled on 18 April 2023) on behalf of store managers and assistant store managers employed by the Company between 24 April 2017 to 18 April 2023. The applicant is represented by Adero Law.

The premise of the proceeding is that the General Retail Industry Award 2010 applied to the relevant store manager's employment and that there were alleged underpayments under that award together with alleged associated contraventions of the *Fair Work Act 2009* (Cth). The applicant is currently in the process of amending its statement of claim.

The Company is defending the proceeding and filed its defence on 7 July 2023.

## Note 21: Consolidated Statement of Cash Flow Information

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **Reconciliation of Cash Flow from operating activities with profit after income tax from ordinary activities:** | | |
| Profit from ordinary activities after income tax | **10,310** | 7,902 |
| ***Non cash items in profit from ordinary activities*** | | |
| Depreciation – Property, plant and equipment | **12,060** | 12,402 |
| Depreciation – Right-of-use assets | **94,895** | 95,514 |
| Assets written off | **578** | 1,602 |
| Non-cash share-based payments expense | **2,025** | 959 |
| Tax credited / (debited) directly to equity | **356** | (375) |
| ***Changes in assets and liabilities*** | | |
| Decrease / (increase) in other assets | **2,496** | (2,430) |
| (Increase) in inventories | **(22,536)** | (13,180) |
| Decrease in right-of-use assets net of lease liabilities | **3,695** | 396 |
| (Increase) / decrease in deferred tax assets | **(2,338)** | 9,989 |
| Decrease in trade and other payables, provisions and other liabilities | **4,286** | 3,938 |
| Increase / (decrease) in tax liabilities | **5,193** | (577) |
| **Net cash provided by operations** | **111,020** | 116,140 |

**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:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Limit $'000 | Utilised $'000 | Limit $'000 | Utilised $'000 |
| Interchangeable Facility[(i)] | **10,000** | **-** | 10,000 | - |
| Seasonal Facility[(ii)] | **-** | **-** | - | - |
| Other Facilities[(iii)] | **550** | **420** | 550 | 420 |
| **Total Facilities** | **10,550** | **420** | 10,550 | 420 |

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

*(ii) A seasonal facility of $20,000,000 was available to the Group from October to December 2022. The Group was required to deposit $5,000,0000 with ANZ Bank if the seasonal facility was drawn. The facility was unutilised during the period (FY2022: unutilised).*

*(iii) Other facilities include an ANZ Bank indemnity guarantee of $550,000 of which $420,000 (FY2022: $420,000) was utilised in relation to property leases at 2 July 2023.*

## Note 22: Financial Instruments and Financial Risk Management

| Derivative Financial Instruments | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **Current assets and (liabilities)** | | |
| Forward foreign exchange contracts – cash flow hedges | **5,864** | 12,766 |

**Forward exchange contracts – cash flow hedges**

The Group imports product from overseas. In order to protect against exchange rate movements, the Group enters into forward exchange contracts to purchase foreign currency for most 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 the balance date, the details of outstanding forward exchange contracts to be settled within 12 months are:

| | | | | Average Exchange Rate | |
|---|---|---|---|---|---|
| **Sell** | **Buy** | **2023 $'000** | 2022 $'000 | **2023 $** | 2022 $ |
| Australian Dollars | United States Dollars | **131,672** | 151,167 | **0.70** | 0.74 |

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 Group adjusts the initial measurement of the component recognised in the Consolidated Balance Sheet by the related amount deferred in equity.

At the balance sheet date, the revaluation of these contracts to fair value resulted in an asset of $5,864,000 (FY2022: asset of $12,766,000).

During the period, $8,937,000 (FY2022: $2,662,000) was transferred from equity and included in inventory and a net gain of $Nil (FY2022: net $Nil) was transferred to the Consolidated Statement of Comprehensive Income.

**Exposure to Foreign Currency Risk**

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

| | **2023 USD $'000** | 2022 USD $'000 |
|---|---|---|
| Cash at bank | **532** | 7 |
| Trade and other payables | **9,920** | 8,087 |

**Forward exchange contracts – Balance Date Sensitivity Analysis**

The following table summarises the sensitivity of the Group as at balance date to movements in the value of the Australian Dollar compared to the United States Dollar, the principal currency that the Group 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 AUD/USD**

| | **2023 $'000** | 2022 $'000 |
|---|---|---|
| For every 1c increase in AUD:USD rate, total exposures (increase) / decrease by: | | |
| Income Statement | **210** | 171 |
| Equity | **(2,062)** | (2,366) |
| For every 1c decrease in AUD:USD rate, total exposures (increase) / decrease by: | | |
| Income Statement | **(217)** | (176) |
| Equity | **2,125** | 2,437 |

**Interest Rate Risk**

The Group'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:

| **2023** | **Weighted Average Effective Interest Rate(i)** | **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** |
|---|---|---|---|---|---|---|
| *Financial Assets* | | | | | | |
| Cash and cash equivalents | **3.17%** | **69,477** | **-** | **-** | **7,858** | **77,335** |
| **Total Financial Assets** | **-** | **69,477** | **-** | **-** | **7,858** | **77,335** |
| *Financial Liabilities* | | | | | | |
| Bank loans and overdrafts | **-** | **-** | **-** | **-** | **-** | **-** |
| Trade, sundry and other creditors | **-** | **-** | **-** | **-** | **70,968** | **70,968** |
| Lease liabilities | **-** | **-** | **-** | **-** | **228,429** | **228,429** |
| **Total Financial Liabilities** | **-** | **-** | **-** | **-** | **299,397** | **299,397** |

*(i) There were no borrowings throughout the period.*

| 2022 | Weighted Average Effective Interest Rate(i) | 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 |
|---|---|---|---|---|---|---|
| *Financial Assets* | | | | | | |
| Cash and cash equivalents | 0.17% | 71,343 | - | - | 6,126 | 77,469 |
| **Total Financial Assets** | **-** | **71,343** | **-** | **-** | **6,126** | **77,469** |
| Financial Liabilities | | | | | | |
| Bank loans and overdrafts | - | - | - | - | - | - |
| Trade, sundry and other creditors | - | - | - | - | 67,521 | 67,521 |
| Lease liabilities | - | - | - | - | 217,665 | 217,665 |
| **Total Financial Liabilities** | **-** | **-** | **-** | **-** | **285,186** | **285,186** |

Applying a sensitivity of 50 basis points to the Group's period-end interest rate results in an immaterial impact on post tax profit and 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 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 Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group.

### Capital Risk Management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern, so that it 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.

The gearing ratios at 2 July 2023 and 3 July 2022 were as follows:

| | **2023** | 2022 |
|---|---|---|
| | **$'000** | $'000 |
| Net debt/ (cash and cash equivalents) | **(77,335)** | (77,469) |
| Total equity | **181,935** | 176,803 |
| 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 Group manages liquidity risk by continuously monitoring forecast and actual cashflow and matching the maturity profiles of financial assets and liabilities.

The tables below analyse the Group's financial liabilities as well as 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.

| **2 July 2023** | **Less than 6 months $'000** | **6 – 12 months $'000** | **Between 1 and 2 years $'000** | **Between 2 and 5 years $'000** | **Over 5 years $'000** | **Total contractual cash flows $'000** | **Carrying Amount (assets) / liabilities $'000** |
|---|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | | |
| Non-interest bearing (including lease liabilities) | **137,665** | **43,089** | **67,848** | **77,962** | **1,374** | **327,938** | **317,015** |
| **Total non-derivatives** | **137,665** | **43,089** | **67,848** | **77,962** | **1,374** | **327,938** | **317,015** |
| **Derivatives** | | | | | | | |
| Gross settled | | | | | | | |
| - (inflow) | **(95,519)** | **(42,018)** | **-** | **-** | **-** | **(137,537)** | **(5,864)** |
| - outflow | **91,588** | **40,085** | **-** | **-** | **-** | **131,673** | **-** |
| **Total derivatives** | **(3,931)** | **(1,933)** | **-** | **-** | **-** | **(5,864)** | **(5,864)** |

| 3 July 2022 | Less than 6 months $'000 | 6 – 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Total contractual cash flows $'000 | Carrying Amount (assets) / liabilities $'000 |
|---|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | | |
| Non-interest bearing (including lease liabilities) | 132,365 | 38,313 | 60,774 | 76,663 | 1,114 | 309,229 | 304,738 |
| **Total non-derivatives** | **132,365** | **38,313** | **60,774** | **76,663** | **1,114** | **309,229** | **304,738** |
| | | | | | | | |
| **Derivatives** | | | | | | | |
| Gross settled | | | | | | | |
| - (inflow) | (102,472) | (61,461) | - | - | - | (163,933) | (12,766) |
| - outflow | 93,876 | 57,291 | - | - | - | 151,167 | - |
| **Total derivatives** | **(8,596)** | **(4,170)** | **-** | **-** | **-** | **(12,766)** | **(12,766)** |

**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:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) 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

(c) 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 Group's assets and liabilities measured and recognised at fair value.

| | **2023** **$'000** **Level 2** | 2022 $'000 Level 2 |
|---|---|---|
| Derivatives used for hedging | **5,864** | 12,766 |

## Note 23: Key Management Personnel (KMP) Disclosures

**Non-Executive Directors**

Steven Fisher (Chair)

David Grant

Nicholas Perkins

Mark Ward[(i)]

Margaret Zabel

*(i) M Ward resigned as a Director on 2 July 2023.*

All of the above persons were directors of The Reject Shop Limited for the entire period ended 2 July 2023, unless otherwise stated.

**Other Key Management Personnel**

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

Phil Bishop – Chief Executive Officer[(i)]

Clinton Cahn – Chief Financial Officer and Acting Chief Executive Officer[(ii)]

Amy Eshuys – Chief Operating Officer[(iii)]

*(i) P Bishop was appointed Chief Executive Officer on 11 July 2023 and left the Group on 31 January 2023.*
*(ii) C Cahn appointed Acting Chief Executive Officer from 27 April 2022 to 10 July 2022, and from 1 February 2023 to 23 August 2023.*
*(iii) A Eshuys appointed as key management personnel from 1 February 2023.*

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 2 July 2023 unless otherwise stated.

**Remuneration of Directors and Key Management Personnel**

| | **2023** | 2022 |
|---|---|---|
| | **$** | $ |
| Short-term cash rewards | **-** | 140,000 |
| Short-term employee benefits | **1,773,987** | 1,674,177 |
| Post-employment benefits | **100,072** | 84,888 |
| Termination benefits[(i)] | **325,000** | 401,799 |
| Share-based payments[(i)] | **775,248** | 176,085 |
| | **2,974,307** | 2,476,949 |

*(i) P Bishop left the Company on 31 January 2023. As part of P Bishop's departure, he was paid $325,000 (inclusive of superannuation) in lieu of a six-month notice period, which is included in 'termination benefits' above. In addition, P Bishop was paid $14,786 of annual leave entitlement, which is excluded from the table above. On P Bishop's departure all of his performance rights were lapsed.*

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

## Note 24: Share-based Payments

**Performance Rights Plan (PRP)**

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

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

**2023**

| Date of Grant | Expiry Date | Date Exercisable | Fair Value at Grant Date | Balance at the Start of Period | Granted During Period | Exercised During The Period | Lapsed forfeited or cancelled during the Period | Balance at the End of the Period | Vested and Exercisable at the End of Period |
|---|---|---|---|---|---|---|---|---|---|
| 18 October 2019 | 16 October 2023 | 1 July 2022 | 2.07 | 21,675 | - | (21,675) | - | - | - |
| 27 March 2020 | 28 March 2025 | 27 March 2023 | 4.05 | 150,000 | - | - | - | 150,000 | 150,000 |
| 30 September 2020 | 31 August 2025 | 31 August 2023 | 6.17 | 198,200 | - | - | (12,900) | 185,300 | - |
| 5 November 2021 | 31 August 2025 | 31 August 2023 | 5.95 | 69,467 | - | - | (3,700) | 65,767 | - |
| 5 November 2021 | 1 November 2024 | 5 November 2023 | 5.92 | 66,000 | - | - | - | 66,000 | - |
| 5 November 2021 | 31 August 2026 | 31 August 2024 | 5.86 | 138,933 | - | - | (7,400) | 131,533 | - |
| 11 May 2022 | 31 August 2022 | 31 August 2022 | 3.60 | 75,000 | - | (75,000) | - | - | - |
| 11 May 2022 | 28 February 2025 | 31 August 2023 | 3.53 | 50,000 | - | - | - | 50,000 | - |
| 11 May 2022 | 14 September 2023 | 31 August 2023 | 3.53 | 75,000 | - | - | (20,000) | 55,000 | - |
| 11 May 2022 | 13 September 2024 | 31 August 2023 | 3.53 | 190,000 | - | - | (23,125) | 166,875 | - |
| 11 May 2022 | 28 February 2025 | 28 February 2024 | 3.50 | 25,000 | - | - | - | 25,000 | - |
| 11 May 2022 | 13 September 2024 | 31 August 2024 | 3.48 | 110,000 | - | - | (15,000) | 95,000 | - |
| 11 May 2022 | 12 September 2025 | 29 August 2025 | 3.43 | 17,500 | - | - | - | 17,500 | - |
| 22 July 2022 | 31 October 2024 | 31 August 2024 | 2.76 | - | 40,000 | - | (40,000) | - | - |
| 22 July 2022 | 31 October 2025 | 31 August 2025 | 2.72 | - | 40,000 | - | (40,000) | - | - |
| 22 July 2022 | 31 October 2026 | 31 August 2026 | 2.68 | - | 20,000 | - | (20,000) | - | - |
| 21 September 2022 | 31 October 2025 | 31 August 2025 | 3.71 | - | 869,600 | - | (231,500) | 638,100 | - |
| 28 November 2022 | 31 October 2025 | 31 August 2025 | 4.37 | - | 28,700 | - | - | 28,700 | - |
| 2 February 2023 | 31 October 2023 | 31 August 2023 | 4.06 | - | 87,500 | - | - | 87,500 | - |
| 2 February 2023 | 30 April 2024 | 29 February 2024 | 4.03 | - | 87,500 | - | - | 87,500 | - |
| 2 February 2023 | 30 April 2025 | 28 February 2025 | 3.97 | - | 87,500 | - | - | 87,500 | - |
| **Total** | | | | **1,186,775** | **1,260,800** | **(96,675)** | **(413,625)** | **1,937,275** | **150,000** |

**2022**

| Date of Grant | Expiry Date | Date Exercisable | Fair Value at Grant Date | Balance at the Start of Period | Granted During Period | Exercised During the Period | Lapsed Forfeited or Cancelled During the Period | Balance at the End of the Period | Vested and Exercisable at the End of Period |
|---|---|---|---|---|---|---|---|---|---|
| 1 September 2019 | 31 August 2022 | 31 August 2021 | 1.74 | 50,000 | - | (50,000) (i) | - | - | - |
| 18 October 2019 | 16 October 2023 | 1 July 2022 | 2.07 | 21,675 | - | - | - | 21,675 | 21,675 |
| 13 January 2020 | 12 January 2025 | 14 January 2023 | 1.91 | 150,000 | - | - | (150,000) | - | - |
| 13 January 2020 | 12 January 2026 | 14 January 2024 | 1.82 | 75,000 | - | - | (75,000) | - | - |
| 13 January 2020 | 12 January 2027 | 14 January 2025 | 1.74 | 75,000 | - | - | (75,000) | - | - |
| 27 March 2020 | 28 March 2025 | 27 March 2023 | 4.05 | 150,000 | - | - | - | 150,000 | - |
| 30 September 2020 | 31 August 2025 | 31 August 2023 | 6.17 | 338,950 | - | - | (140,750) | 198,200 | - |
| 30 September 2020 | 31 August 2026 | 31 August 2024 | 6.17 | 42,475 | - | - | (42,475) | - | - |
| 30 September 2020 | 31 August 2027 | 31 August 2025 | 6.17 | 42,475 | - | - | (42,475) | - | - |
| 5 November 2021 | 31 August 2025 | 31 August 2023 | 5.95 | - | 117,633 | - | (48,167) | 69,466 | - |
| 5 November 2021 | 1 November 2024 | 5 November 2023 | 5.92 | - | 66,000 | - | - | 66,000 | - |
| 5 November 2021 | 31 August 2026 | 31 August 2024 | 5.86 | - | 235,267 | - | (96,333) | 138,934 | - |
| 11 May 2022 | 31 August 2022 | 31 August 2022 | 3.60 | - | 75,000 | - | - | 75,000 | 75,000 |
| 11 May 2022 | 28 February 2025 | 31 August 2023 | 3.53 | - | 50,000 | - | - | 50,000 | - |
| 11 May 2022 | 14 September 2023 | 31 August 2023 | 3.53 | - | 75,000 | - | - | 75,000 | - |
| 11 May 2022 | 13 September 2024 | 31 August 2023 | 3.53 | - | 190,000 | - | - | 190,000 | - |
| 11 May 2022 | 28 February 2025 | 28 February 2024 | 3.50 | - | 25,000 | - | - | 25,000 | - |
| 11 May 2022 | 13 September 2024 | 31 August 2024 | 3.48 | - | 110,000 | - | - | 110,000 | - |
| 11 May 2022 | 12 September 2025 | 29 August 2025 | 3.43 | - | 17,500 | - | - | 17,500 | - |
| Total | | | | 945,575 | 961,400 | (50,000) | (670,200) | 1,186,775 | 96,675 |

*(i) 50,000 performance rights vested on 2 July 2021.*

For the grants made during the period, the fair value was determined using the Black-Scholes option pricing model, taking into account the following inputs:

| Date of new grants | 22 July 2022 | 21 September 2022 | 28 November 2022 | 2 February 2023 |
|---|---|---|---|---|
| Exercise price | - | - | - | - |
| Share price | $2.85 | $3.88 | $4.55 | $4.10 |
| Expected dividend yield | 1.5% | 1.5% | 1.5% | 1.5% |

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.

**Remuneration Expense arising from share-based payment transactions**

| | 2023 $ | 2022 $ |
|---|---|---|
| Performance rights granted | 2,025,141 | 959,405 |

## Note 25: Remuneration of Auditors

During the period, the following fees for services were paid or payable to PricewaterhouseCoopers Australia and its related parties as the auditor:

| | 2023 $ | 2022 $ |
|---|---|---|
| ***Audit and Assuarance Related Services*** | | |
| Audit and review work | **389,000** | 330,000 |
| Other assurance services | **51,000** | 42,000 |
| | **440,000** | 372,000 |
| | | |
| ***Tax Compliance and Consulting Services*** | | |
| Tax compliance | **144,755** | 77,500 |
| Tax consulting advice | **81,406** | 20,000 |
| | **226,161** | 97,500 |
| **Total remuneration** | **666,161** | 469,500 |

## Note 26: Dividends

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Dividend declared subsequent to the period end(i) | **6,044** | - |
| Balance of franking account at period end(ii) | **62,614** | 59,294 |

*(i) Subsequent to year-end, the Directors have declared the payment of a final dividend of 6.5 cents per ordinary share and a special dividend of 9.5 cents per ordinary share. These dividends will be fully franked. They are not recognised as a liability at year end. The amount payable is estimated based on the number of shares on issue at 2 July 2023.*

*(ii) 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%.*

**Dividends recognised during the reporting period:**

There were no dividends paid to members during the financial period (FY2022: $Nil).

## Note 27: Earnings per share

| | 2023 Cents | 2022 Cents |
|---|---|---|
| Basic earnings per share | **27.2** | 20.6 |
| Diluted earnings per share | **26.4** | 20.2 |
| | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **37,965,407** | 38,325,547 |
| Adjustments for dilutive portion of performance rights | **1,078,176** | 821,293 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share. | **39,043,583** | 39,146,840 |

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 24.

## Note 28: Net Tangible Assets

| | 2023 Cents | 2022 Cents |
|---|---|---|
| Net tangible asset backing per ordinary share[(i)] | **481.6** | 461.3 |

*(i) Net tangible assets backing per ordinary share include right-of-use assets.*

## Note 29: Parent Entity Financial Information

| | Parent Entity | |
|---|---|---|
| | **2023 $'000** | 2022 $'000 |
| **(a) Summary financial information** | | |
| The individual financial statements for the parent entity show the following aggregate amounts: | | |
| **Balance Sheet** | | |
| Current assets | **222,806** | 210,272 |
| Total assets | **499,273** | 477,843 |
| Current liabilities | **170,532** | 158,165 |
| Total liabilities | **318,341** | 302,509 |
| Shareholders' equity | | |
| Issued capital | **67,598** | 70,326 |
| Reserves | **13,862** | 16,366 |
| Retained earnings | **99,472** | 88,642 |
| | **180,932** | 175,334 |
| **Profit for the financial period** | **10,828** | 7,902 |
| **Total Comprehensive Profit for the financial period** | **5,997** | 19,500 |
| **(b) Guarantees entered into by the parent entity** | | |
| Carrying amount included in current liabilities | **-** | - |
| Refer to Notes 19 and 20 for disclosures concerning contractual commitments and contingent assets and liabilities for the parent entity. | | |

## Note 30: Segment Information

The Group operates within one reportable segment (retailing of discount variety merchandise). Total revenues of $819,340,000 (FY2022: $788,241,000) 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 31: Subsidiaries

The Reject Shop Limited has a 100% owned operating subsidiary based in Hong Kong, TRS Sourcing Co. Limited. This subsidiary provided procurement services for The Reject Shop Limited and charged a fee for those services. The subsidiary is in the process of being deregistered.

| | Parent Entity | |
|---|---|---|
| | **2023** | 2022 |
| | **$'000** | $'000 |
| Fees paid to TRS Sourcing Co. Limited | **-** | - |

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 (FY2022: Nil).

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

## Note 32: Matters Subsequent to the End of the Financial Period

In August 2023 the Group extended its existing banking facilities with ANZ Bank from August 2023 to August 2024. See Note 13 for further information.

Since the end of the financial period, the directors have declared a final dividend of 6.5 cents per ordinary share and a special dividend of 9.5 cents per ordinary share. The final dividend and the special dividend will be fully franked at a tax rate of 30%.

On 24 August 2023, Clinton Cahn was appointed as Chief Executive Officer of the Group.

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

## Note 33: Related Party Transactions

During the period, the Group transacted with related parties of Kin Group Pty Ltd to purchase goods. Transactions totalled $1,380,035 (FY2022: $581,417). All transactions were on commercial terms and on an arms-length basis. There were no other related party transactions, other than those with key management personnel in the normal course of business, during the period ended 2 July 2023.

# Directors' Declaration

In the directors' opinion:

(a) The Financial Statements and notes set out on pages 34 to 61 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 Group's financial position as at 2 July 2023 and of its performance for the financial period ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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 a declaration by the 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:

**Steven Fisher**
Chair

Dated this 24 August 2023

# 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 2 July 2023 and of its financial performance for the 52 week period ended 2 July 2023

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*What we have audited*

The Group financial report comprises:

- the consolidated statement of comprehensive income for the 52 week period ended 2 July 2023
- the consolidated balance sheet as at 2 July 2023
- the consolidated statement of changes in equity for the 52 week period ended 2 July 2023
- the consolidated statement of cash flows for the 52 week period ended 2 July 2023
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- 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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

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

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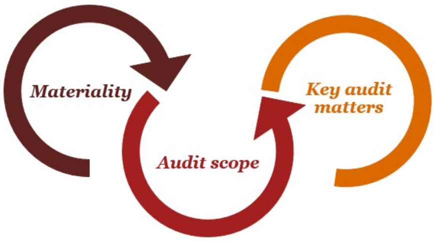
## Our audit approach

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.

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*** | ***Audit scope*** |
|---|---|
| • For the purpose of our audit we used overall Group materiality of $0.758m, which represents approximately 5% of the Group's profit before income tax.<br><br>• 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.<br><br>• We chose Group profit before income tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.<br><br>• We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. | • Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.<br><br>• The Group is principally involved in retailing through discount variety stores across Australia. The accounting processes are structured around the Group finance function at the Group's head office in Melbourne. |

## 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* |
|---|---|
| ***Carrying value of Property, plant and equipment and Right of use assets***<br>*(Refer to Note 1aa(i) & (ii), Note 9 and Note 10)* | |
| Due to impairment indicators at period end, the Group has tested Property, plant and equipment and Right of use assets for impairment. The Group assesses impairment of these assets by preparing models for each cash generating units which estimate future cash flows discounted to their present value ("the models").<br><br>This was a key audit matter because of:<br>• the financial significance of the Property, plant and equipment and Right of use assets to the consolidated balance sheet<br>• the subjective factors involved in the Group assessing impairment, in particular, estimating future cash flows over the forecast period and the discount rate. | We performed the following procedures, amongst others:<br>• evaluated the Group's assessment of the determination of cash generating units<br>• assessed the appropriateness of the models by comparing them to the requirements of the Australian Accounting Standards<br>• tested the mathematical accuracy of key data in the models and compared key data to the latest budget<br>• assessed the appropriateness of selected assumptions used to estimate the future cash flows<br>• considered 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<br>• engaged internal experts to assess the appropriateness of the discount rate used in the models<br>• evaluated the appropriateness of the disclosures made in the financial statements against the requirements of Australian Accounting Standards. |

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| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Inventory provision - net realisable value (NRV)***<br>*(Refer to Note 1aa(iv) and Note 7)* | |
| A provision was recognised net of the inventory balance at 2 July 2023 in the financial report to provide for inventory expected to be sold below cost.<br><br>The Group undertakes a process to identify inventory which is likely to be sold below cost. The provision is then recognised by applying the expected markdown required to clear this inventory.<br><br>This was a key audit matter because of:<br>• the financial significance of the inventory balance as at 2 July 2023 and therefore the potential impact of the provision for NRV on the consolidated statement of comprehensive income and consolidated balance sheet<br>• the subjective nature of the provision on the calculation due to the judgement involved in estimating the expected selling price of inventory. | We performed the following procedures, amongst others:<br>• developed an understanding of how the Group determines the NRV provision<br>• evaluated the appropriateness of significant assumptions used to develop the provision for NRV in the context of Australian Accounting Standards, by having regard to:<br>  o aggregate inventory sold below cost during the financial period<br>  o aggregate inventory wastage incurred during the financial period<br>  o inventory written-off subsequent to the end of the financial period and up to the completion of our audit. |
| ***Inventory provision - shrinkage***<br>*(Refer to Note 1aa(v) and Note 7)* | |
| The Group recognised a provision against inventory at 2 July 2023 for the estimated loss related to shrinkage. Shrinkage is physical losses of inventory at each store since the date of the last stock count.<br><br>The provision is calculated by applying an estimated shrink loss percentage to the sales since the date of the last stock count to the end of the financial period.<br><br>This was a key audit matter because of:<br>• the financial significance of the inventory balance as at 2 July 2023 and therefore the potential impact of the provision for shrinkage on the consolidated statement of comprehensive income and consolidated balance sheet<br>• the subjective nature of the provision on the calculation due to the judgement involved in estimating the shrink loss percentage to apply to sales. | We performed the following procedures amongst others:<br>• obtained an understanding of how the Group determines the shrinkage provision<br>• attended stock counts for a selection of stores and developed an understanding of the Group's process for reviewing stock count results for other stores<br>• compared the shrink loss percentage applied against the results of the stock counts completed prior to the end of the financial period and the historical data on the Group's shrinkage result. |

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## 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 2 July 2023, 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 through our opinion on the financial report. We have issued a separate opinion on the remuneration report.

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.

## 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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

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## Report on the remuneration report

### Our opinion on the remuneration report

We have audited the remuneration report included in pages 20 to 31 of the directors' report for the 52 week period ended 2 July 2023.

In our opinion, the remuneration report of The Reject Shop Limited for the 52 week period ended 2 July 2023 complies with section 300A of the *Corporations Act 2001.*

### 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Brad Peake
Partner

Melbourne
24 August 2023

# Shareholders' Information

The shareholder information set out below was applicable as at 8 August 2023.

(a) The distribution of shareholding was as follows:

| Size of Shareholding | Shareholders |
|---|---|
| 1 - 1,000 | 3,107 |
| 1,001 - 5,000 | 1,134 |
| 5,001 - 10,000 | 211 |
| 10,001 - 100,000 | 162 |
| 100,001 and over | 17 |

(b) 594 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 |
|---|---|---|
| Bennamon Pty Ltd | 7,751,495 | 20.52% |
| Bennelong Australian Equity Partners Ltd | 6,359,491 | 16.83% |
| Wilson Asset Management Group | 2,681,179 | 7.10% |
| Castle Point Funds Management | 2,347,524 | 6.21% |
| **Total Substantial Shareholders** | **19,139,689** | **50.67%** |

(d) The fully paid issued capital of the Company consisted of 37,776,075 shares held by 4,631 shareholders. Each share entitles the holder to one vote.

(e) Unquoted Equity Securities

| | Number on Issue | Number of holders |
|---|---|---|
| Performance Rights issued under The Reject Shop Performance Rights Plan | **1,937,275** | **42** |

# Shareholders' Information

As at 8 August 2023

(f) Twenty largest shareholders

| Shareholder | Number | % Held |
|---|---|---|
| Citicorp Nominees Pty Ltd | 10,291,057 | 27.24 |
| Bennamon Pty Ltd | 7,751,495 | 20.52 |
| National Nominees Limited | 3,991,564 | 10.57 |
| SCJ Pty Limited | 1,500,000 | 3.97 |
| Bond Street Custodians Limited | 1,150,000 | 3.04 |
| BNP Paribas Noms (NZ) Limited | 709,912 | 1.88 |
| J P Morgan Nominees Australia Pty Limited | 533,297 | 1.41 |
| HSBC Custody Nominees (Australia) Limited | 530,157 | 1.40 |
| Dorothy Productions Pty Ltd | 360,000 | 0.95 |
| Mike Fegelson | 270,500 | 0.72 |
| NCH Pty Ltd | 266,868 | 0.71 |
| Bond Street Custodians Limited | 150,000 | 0.40 |
| Macren Pty Ltd | 149,860 | 0.40 |
| Danlar Nominees Pty Ltd | 134,039 | 0.35 |
| Kgari Investments Pty Ltd | 123,600 | 0.33 |
| Ace Property Holdings Pty Ltd | 120,000 | 0.32 |
| BNP Paribas Nominees Pty Ltd | 116,778 | 0.31 |
| Neweconomy Com AU Nominees Pty Limited | 84,148 | 0.22 |
| Brendan Francis Niclasen & Cora Lyn Niclasen | 81,000 | 0.21 |
| HLJT Nominees Pty Ltd | 75,000 | 0.20 |

The twenty members holding the largest number of shares together held a total of 75.15% of the issued capital.

(g) Restricted Shares

There are no restricted shares on issue.

# Corporate Directory

## THE REJECT SHOP LIMITED
ABN 33 006 122 676
AND SUBSIDIARIES

## Directors
**Steven Fisher**
*Non-Executive Chair*

**David Grant**
*Non-Executive Director*

**Nicholas Perkins**
*Non-Executive Director*

**Margaret Zabel**
*Non-Executive Director*

## Company Secretary
**Michael Freier**
*BA, BCom, LLB, LLM, MA (Theol) & Grad Dip Leg Prac*

## Principal Registered Office
245 Racecourse Road
Kensington, Victoria 3031

## Share Registry
**Link Market Services Ltd**
Tower 4, 727 Collins St
Melbourne, Victoria 3008

## Auditor
**PricewaterhouseCoopers**
2 Riverside Quay
Southbank, Victoria 3006

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

## Website
[www.rejectshop.com.au](www.rejectshop.com.au)

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THE REJECT SHOP