



DAVID JONES FINANCIAL REPORT 2003

DAVID JONES LIMITED
ABN 75 000 074 573 ACN 000 074 573



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This 2003 financial report and the 2003 concise annual report together comprise the 2003 David Jones Limited annual report. This 2003 financial report should be read together with the 2003 concise annual report, containing the Directors' Report.

If you require a copy of the 2003 concise annual report please contact the Share Registry on 1800 652 207. Alternatively, both the 2003 financial report and the 2003 concise annual report can be accessed from the 'For Investors' section of the David Jones website davidjones.com.au.

Upon accessing the site, click on 'For Investors' at the bottom of the screen to go through to releases and reports.

STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE 52 WEEKS ENDED 26 JULY 2003 AND 52 WEEKS ENDED 27 JULY 2002

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Revenue from sale of goods	2(a)	1,711,169	1,668,182	1,711,169	1,606,314
Cost of sales		(1,088,172)	(1,080,526)	(1,088,172)	(1,040,304)
Gross profit		622,997	587,656	622,997	566,010
Other revenues from ordinary activities	2(a)	55,269	56,459	103,278	50,857
Employee benefits expense		(287,382)	(286,480)	(287,275)	(275,921)
Lease and occupancy expenses		(182,032)	(149,700)	(184,813)	(145,424)
Depreciation, amortisation and recoverable amount write-downs	2(a)	(89,254)	(67,574)	(86,575)	(63,177)
Advertising and visual expenses		(29,219)	(30,305)	(29,177)	(26,920)
Administration expenses		(48,933)	(39,136)	(48,914)	(38,506)
Borrowing costs	2(a)	(4,553)	(8,084)	(4,508)	(7,494)
Carrying amount of assets sold		(305)	(1,366)	(305)	(1,332)
Other expenses from ordinary activities		(58,916)	(49,902)	(59,839)	(48,890)
Profit/(Loss) from ordinary activities before income tax expense		(22,328)	11,568	24,869	9,203
Income tax (expense)/benefit relating to ordinary activities	5	(3,138)	(4,988)	7,185	2,150
Net Profit/(Loss) from ordinary activities after related income tax expense attributable to members of the Parent Entity	26	(25,466)	6,580	32,054	11,353
Share issue costs		(74)	(4,425)	(74)	(4,425)
Net (decrease) in retained profits on the initial adoption of: Revised AASB 1028 'Employee Benefits'		(980)	–	(980)	–
Total revenue and expenses attributable to members of the Parent Entity recognised directly in equity		(1,054)	(4,425)	(1,054)	(4,425)
Total changes in equity from non-owner related transactions attributable to members of the Parent Entity		(26,520)	2,155	31,000	6,928
Basic earnings per share	7	(7.5) cents	1.5 cents		
Basic earnings per share before non-recurring significant items	7	9.2 cents	8.8 cents		
Diluted earnings per share	7	(7.5) cents	1.5 cents		
Diluted earnings per share before non-recurring significant items	7	9.2 cents	8.8 cents		

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

STATEMENTS OF FINANCIAL POSITION

AS AT 26 JULY 2003 AND 27 JULY 2002

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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STATEMENTS OF FINANCIAL POSITION

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
CURRENT ASSETS					
Cash assets	8	17,345	19,138	9,344	8,678
Receivables	9	47,875	53,092	16,166	22,126
Inventories	10	289,540	287,209	289,614	287,283
Prepayments	11	7,366	9,697	7,805	9,357
Total current assets		362,126	369,136	322,929	327,444
NON-CURRENT ASSETS					
Other financial assets	12	–	–	105,243	105,243
Property, plant and equipment	13	246,547	272,416	219,715	224,926
Intangibles	14	12,178	14,051	–	–
Deferred tax assets	15	34,040	26,943	29,711	23,549
Other assets	16	4,858	2,642	3,410	1,448
Total non-current assets		297,623	316,052	358,079	355,166
Total assets		659,749	685,188	681,008	682,610
CURRENT LIABILITIES					
Payables	17	182,735	166,786	181,602	200,786
Interest bearing liabilities	18	122	217	–	673
Current tax liabilities	19	3,097	10,983	–	5,992
Provisions	20	28,370	30,674	28,337	30,657
Total current liabilities		214,324	208,660	209,939	238,108
NON-CURRENT LIABILITIES					
Interest bearing liabilities	21	–	122	–	–
Deferred tax liabilities	22	313	312	–	–
Provisions	23	20,768	18,284	20,768	18,254
Other deferred liabilities	24	4,331	2,542	4,331	2,542
Total non-current liabilities		25,412	21,260	25,099	20,796
Total liabilities		239,736	229,920	235,038	258,904
Net assets		420,013	455,268	445,970	423,706
EQUITY					
Contributed equity	25	394,559	385,888	394,559	385,888
Retained profits	26	25,454	69,380	51,411	37,818
Total equity		420,013	455,268	445,970	423,706

The statements of financial position should be read in conjunction with the accompanying notes (including Note 28 – Off Balance Sheet Arrangements) to the financial statements.

STATEMENTS OF CASH FLOWS

FOR THE 52 WEEKS ENDED 26 JULY 2003 AND 52 WEEKS ENDED 27 JULY 2002

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		1,768,353	1,710,241	1,733,279	1,633,897
Payments to suppliers and employees (inclusive of goods and services tax)		(1,668,420)	(1,595,965)	(1,667,392)	(1,579,528)
Interest received		1,256	692	982	444
Interest paid and other costs of finance:					
– controlled entities		–	–	(3,847)	(6,858)
– others		(4,553)	(8,084)	(661)	(636)
Income tax paid		(19,182)	(17,997)	(5,106)	(6,710)
Income tax refund received		1,256	10,480	70	8,095
Dividends received		–	–	80,000	22,553
Net cash inflow from operating activities	35(c)	78,710	99,367	137,325	71,257
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(61,850)	(70,578)	(78,857)	(61,542)
Proceeds from sale of property, plant and equipment		185	905	185	880
Repayment of Employee Share Plan loans on forfeited shares		87	76	87	76
Repayment of Employee Share Plan loans from dividend payments		36	52	36	52
Net cash inflow/(outflow) from investing activities		(61,542)	(69,545)	(78,549)	(60,534)
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments for share issue costs:					
Dividend reinvestment plan		–	(226)	–	(226)
Reset preference shares		(74)	(4,199)	(74)	(4,199)
Proceeds from issue of reset preference shares		–	65,000	–	65,000
Repayment of external borrowings		(217)	(61,442)	(673)	(1,094)
Net movement in loans with controlled entities		–	–	(38,692)	(50,197)
Dividends paid:					
Ordinary shares		(15,570)	(21,367)	(15,570)	(21,367)
Reset preference shares		(3,101)	–	(3,101)	–
Net cash inflow/(outflow) from financing activities		(18,962)	(22,234)	(58,110)	(12,083)
Net increase/(decrease) in cash held		(1,793)	7,588	666	(1,360)
Cash at beginning of the financial year		19,138	11,550	8,678	10,038
Cash at end of the financial year	35(a)	17,345	19,138	9,344	8,678

The statements of cash flows should be read in conjunction with the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PREPARATION

The financial report is a general-purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus views, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report has been prepared in accordance with the historical cost convention where stated and does not take into account changing money values or current valuations of non-current assets. Unless otherwise stated the accounting policies adopted are consistent with those of the previous year.

(b) CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous year except for:

(i) Provision for Dividend

The consolidated entity has adopted the new accounting standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' which has resulted in a change in the accounting for dividend provisions. Previously, the consolidated entity recognised a provision for dividend based on the amount that was proposed or declared after the reporting date. In accordance with the requirements of the new standard, a provision for dividend will only be recognised at the reporting date where the dividends are declared, determined or publicly recommended prior to the reporting date.

An adjustment of \$12.089 million was made against the consolidated retained profits at the beginning of the financial year to reverse the amount provided at 27 July 2002 for the proposed final dividend for that year that was recommended by the Directors between the end of the year and the completion of the financial report. This reduced the consolidated current liabilities – provisions and total liabilities at the beginning of the financial year by \$12.089 million with corresponding increases in net assets, retained profits, total equity and the total dividends provided for or paid during the current financial year.

The change in accounting policy has had no effect on basic and diluted earnings per share.

(ii) Employee Benefits

The consolidated entity has adopted the revised accounting standard AASB 1028 'Employee Benefits' which has resulted in a change in the measurement of the annual leave provision. Previously, the consolidated entity recognised a provision for annual leave based on current remuneration rates as at reporting date. In accordance with the requirements of the revised standard, the annual leave provision is now based on the remuneration rates that the entity expects to pay when the obligation is settled.

The adjustments made at the beginning of the financial year as a result of this change were:

- an increase in consolidated provisions of \$1,400,536;
- a decrease in consolidated retained profits of \$980,375; and
- an increase in the consolidated future income tax benefit of \$420,161.

(c) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are those of the consolidated entity, comprising the parent company, David Jones Limited (the Company) and all entities that the Company controlled from time to time during the year and at balance date. A list of controlled entities is contained in Note 33.

Information from the financial statements of subsidiaries is included from the date the Company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the Company had control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

(d) GOODWILL

Goodwill, representing the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired on the acquisition of a controlled entity.

Goodwill is amortised on a straight-line basis not exceeding 20 years and reviewed in accordance with the policy set out in Note 1(e).

(e) NON-CURRENT ASSETS

The carrying amounts of non-current assets measured using the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written-down to the lower amount. In assessing recoverable amounts of non-current assets, the relevant cash flows have been discounted to their present value using a discount rate of 10.8%.

(f) OTHER FINANCIAL ASSETS

Investments in controlled entities are carried in the financial statements of the Company at the lower of cost and their recoverable amount. Dividends are brought to account in the statement of financial performance when declared by the controlled entity.

(g) PROPERTY, PLANT AND EQUIPMENT**Cost and Valuation**

Freehold land and buildings are measured at fair value being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction. At each reporting date, the value of each asset in these classes is reviewed to ensure that it does not differ materially from the asset's fair value at that date.

All other classes of property, plant and equipment are measured at cost.

The cost of property, plant and equipment constructed by the consolidated entity includes the cost of materials and direct labour, and an appropriate proportion of fixed and variable overheads. Interest is only capitalised when the item meets the definition of qualifying assets.

Depreciation

Depreciation is calculated on a straight-line basis to write off the cost of each item of property (excluding land), plant, fittings and fixtures over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets.

The expected useful lives are as follows:

Buildings	26.3 years
Plant, fittings and fixtures	9.3 years
Software	3.7 years

Leased Plant and Equipment

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets (finance leases) and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance Leases

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight-line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset. Lease assets are being amortised over periods ranging from three to five years.

Operating Leases

Payments made under operating leases are charged to the statement of financial performance in equal instalments over the accounting periods covered by the lease term.

(h) PRE-OPENING EXPENSES

Pre-opening expenses in connection with new stores are charged to the statement of financial performance in the period in which they are incurred.

(i) FOREIGN CURRENCY

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

Except for certain specific hedges, all resulting exchange differences arising on settlement or restatement are recognised as revenues and expenses for the financial year. Any gains or costs on entering a hedge are deferred and amortised over the life of the contract.

Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transaction are deferred and included in the measurement of the purchase or sale. Exchange gains and losses arising on the hedge transaction after that date are taken to net profit.

It is the consolidated entity's policy not to engage in speculative foreign currency trading.

(j) TAXES**Income Taxes**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(k) INVENTORIES

Finished goods on hand or in transit are valued at the lower of cost and net realisable value with cost primarily being determined using the retail inventory method. This method utilises the current selling prices of inventories and reduces prices to cost by the application of average department mark up ratios. Further adjustments are made to ensure the carrying value of inventories reflect the lower of cost and net realisable value.

During the year the method of inventory costing was refined to recognise, as a reduction in the cost of inventories, an additional adjustment for inventory that will become aged in the six month period after the reporting date (refer Note 2(b)).

Inventories do not include finished goods on hand in store concession departments as these goods are purchased from the supplier immediately prior to a sales transaction occurring.

(l) EMPLOYEE ENTITLEMENTS

Wages and Salaries and Annual Leave

Liabilities for wages and salaries and annual leave are recognised for employees services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled.

Long Service Leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Profit Sharing and Bonus Plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Equity-based Remuneration Schemes

The Company has four employee share ownership plans, an executive option plan and a long-term incentive plan (refer Note 32(b)).

The fair value of equity-based compensation grants (including options) to employees and Directors are not recorded as an expense in the statement of financial performance.

The market value of shares issued to employees under the equity-based remuneration schemes described in Note 32 is not being charged as an employee entitlement expense. When the shares are issued, their market value is recognised in the statement of financial position as share capital. The costs of administering these schemes, including losses incurred on the sale of forfeited shares by the trustee, are expensed as incurred.

Superannuation

The Company and certain controlled entities contribute to several defined contributions superannuation plans. These contributions are in accordance with the relevant trust deeds and the Superannuation Guarantee Charge.

Contributions are charged against income as they are made.

(m) DIRECTORS' RETIREMENT ALLOWANCE

A retirement allowance is paid to Non-Executive Directors, who have served in this capacity for a minimum period of three years. The allowance is paid when the Director ceases to hold office.

The retirement allowance is calculated using a factor based on the number of years' service multiplied by the average annual Directors' fees over the three years prior to the date of ceasing to be a Non-Executive Director. The factors range from 1.125 for three years' service to a maximum of 5.0 for 15 years and over.

Provision is made for all Non-Executive Directors' present entitlement and a pro rata provision is made for those that have been in office for less than three years.

(n) REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from Sale of Goods

Revenue from the sale of goods includes concession sales, and is net of actual returns made. Revenue from store sales is recognised when control of the goods passes to the buyer. For online sales, revenue is recognised at the time payment is received. Sales made on interest free, deferred payment terms for periods of greater than one year are discounted to their fair value using as a discount rate the securitisation funding cost for credit card receivables.

Residual Revenue – Credit Card Receivables

Residual revenue arising from the securitisation of David Jones' card receivables is recognised as it accrues (refer Note 28).

Disruption Allowance

The disruption allowance received as a result of building works under the sale and leaseback arrangement is recognised as it accrues (refer Note 28).

Rent and occupancy expenses for the period are disclosed net of an amount of \$2,883,026 for disruption allowance. This amount represents a reimbursement for rent incurred during a program of major refurbishment and compensates for the associated loss of sales and gross profit in the period. In 2003 this major refurbishment related to the full closure of the Foodhall in the Market Street, Sydney store. This amount was disclosed in other revenue in prior periods.

Interest and Rent

Interest income is recognised as it accrues. Rent is recognised when the consolidated entity has attained control of a right to be compensated for the provision of its assets.

Proceeds from Sale of Property, Plant and Equipment

The gross proceeds of asset sales are included as other revenue. Revenue on disposal of property, plant and equipment is brought to account at the date an unconditional contract of sale is signed.

Purchase and Promotional Incentives

Promotional and advertising subsidies are offset against promotion and advertising costs. Settlement discounts are taken into income in the period to which the purchase relates.

(o) COST OF SALES

Cost of sales comprises cost of inventory sold during the year and normal retail shrinkage.

(p) BORROWING COSTS

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets. Qualifying assets are assets which require more than 12 months in order to be prepared for their intended use or sale.

(q) SHAREHOLDER DISCOUNT

Shareholder discount on sales is expensed.

(r) SERVICE WARRANTIES

For retail customers who purchase electrical goods on a David Jones credit card, the manufacturer's standard warranty period is extended by one year. Provision is made for the estimated liability on all products still under warranty at balance date (refer Note 23). This provision is estimated having regard to service warranty experience over the last three years. The provision is not discounted to its present value, as the effect of discounting is not material.

(s) DERIVATIVES

The consolidated entity is exposed to changes in interest rates and foreign currency exchange rates from its activities. It is the consolidated entity's policy to use derivative financial instruments to hedge these risks within established policy.

The accounting for forward foreign exchange contracts is in accordance with Note 1(i).

The net amount receivable or payable under interest rate swap agreements is progressively brought to account over the period to settlement.

The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

08

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(s) DERIVATIVES – continued

When an interest rate swap is terminated early and the underlying hedged transaction is still expected to occur as designated, the gains or losses arising on the swap upon its early termination continue to be deferred and are progressively brought to account over the period during which the hedged transactions are recognised.

When an interest rate swap is terminated early and the underlying hedged transaction is no longer expected to occur as designated, the gains or losses arising on the swap upon its early termination are recognised in the statement of financial performance as at the date of the termination.

With the exception of an interest rate swap relating to dividends that may be payable on reset preference shares the consolidated entity's policy does not allow derivative financial instruments to be held for speculative trading purposes.

(t) PAYABLES

Liabilities for trade and other creditors are carried at cost, which is the fair value of the consideration to be paid in the future, for goods and services received, whether or not billed to the consolidated entity.

(u) INTEREST BEARING LIABILITIES

Loans are carried on the statement of financial position at their principal amount subject to set off arrangements. Interest expense is accrued at the contracted rate and included in payables.

(v) CASH ASSETS

Cash on hand and in banks and short-term deposits are stated at nominal value.

For purposes of the statement of cash flows, cash includes cash at bank and on hand, deposits at call and bank overdraft.

(w) CONTRIBUTED EQUITY

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of shares are recognised directly in equity as a reduction of the share proceeds received.

(x) FINANCIAL INSTRUMENTS

Where financial instruments, such as reset preference shares issued by the Company, have no fixed maturity, are redeemable at the option of the Company and have no cumulative dividend obligations, the proceeds received are classified as equity and the related distributions as dividends.

(y) EARNINGS PER SHARE (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Basic EPS before non-recurring significant items is calculated in the same manner as basic EPS with the exception that additional adjustments are made to exclude from net profit attributable to members significant items of a non-recurring nature.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and reference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Diluted EPS before non-recurring significant items is calculated in the same manner as diluted EPS with the exception that additional adjustments are made to exclude from net profit attributable to members' significant items of a non-recurring nature.

(z) DIVIDENDS

Provision is made for the amount of any dividend declared, by the Directors on or before the end of the financial year but not distributed at balance date.

(aa) RESTRUCTURING COSTS

Liabilities arising directly from undertaking a restructuring program, not in connection with the acquisition of an entity or operations, are recognised when a detailed plan of the restructuring activity has been developed and implementation of the restructuring program as planned has commenced, by either entering into contracts to undertake the restructuring activities or making a detailed announcement such that affected parties are in no doubt the restructuring program will proceed.

The cost of restructurings provided for, other than related employee termination benefits, is the estimated cash flows, having regard to the risks of the restructuring activities, discounted using market yields at balance date on national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payments, where the effect of discounting is material.

Liabilities for employee termination benefits associated with restructurings are brought to account on the basis described in the accounting policy note for employee benefits (Note 1(l)).

(ab) ROUNDING OF AMOUNTS

Amounts in the financial report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar, in accordance with the Class Order 98/0100 issued by the Australian Securities & Investments Commission.

(ac) COMPARATIVES

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
2. PROFIT FROM ORDINARY ACTIVITIES					
(a) Profit from ordinary activities before income tax expense has been earned after (crediting)/charging the following items:					
Revenue from sale of goods:		(1,711,169)	(1,668,182)	(1,711,169)	(1,606,314)
Other Revenue:					
– Interest received or receivable from other persons		(1,256)	(692)	(982)	(445)
– Dividends from controlled entities		–	–	(80,000)	(22,553)
– Residual revenue – credit card securitisation	1(n)	(31,126)	(26,539)	–	–
– Settlement discounts received		(17,165)	(18,116)	(17,165)	(17,467)
– Rental income		(716)	(739)	(716)	(647)
– Disruption allowance	1(n)	–	(6,893)	–	(6,893)
– Proceeds from sale of property, plant and equipment		(185)	(905)	(185)	(881)
– Sundry revenue		(4,821)	(2,575)	(4,230)	(1,971)
Total other revenue		(55,269)	(56,459)	(103,278)	(50,857)
Total Revenue		(1,766,438)	(1,724,641)	(1,814,447)	(1,657,171)
Borrowing costs:					
– controlled entities		–	–	3,847	6,858
– other persons		4,553	8,084	661	636
Total borrowing costs		4,553	8,084	4,508	7,494
Amount set aside to provide for Directors' retirement allowance	1(m)	194	297	194	297
Net bad and doubtful debts expense including movement in provision for doubtful debts					
– David Jones' card receivables		5,381	6,593	–	–
– other		2,184	229	2,184	229
Rental charges on operating leases:					
– controlled entities – minimum lease payments		–	–	2,534	2,586
– other persons – minimum lease payments		76,172	69,340	75,619	68,794
– contingent rentals		3,121	3,416	3,121	3,416
Total rental charges		79,293	72,756	81,274	74,796
Depreciation of:					
– buildings		284	284	–	–
– plant, fittings and fixtures		45,173	45,580	45,190	43,526
Amortisation of:					
– goodwill		1,873	1,873	–	–
– finance leased plant, fittings and fixtures		94	186	–	–
– deferred expenditure		–	315	–	315
Asset write-downs (refer Note 2(b))		41,830	19,336	41,385	19,336
Total depreciation, amortisation and recoverable amount write-downs		89,254	67,574	86,575	63,177
Loss on sale of assets		120	461	120	452
Net foreign exchange loss/(gain)		22	(9)	22	(9)

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
2. PROFIT FROM ORDINARY ACTIVITIES – CONTINUED					
(b) Significant Items:					
The impact of significant items of expense on profit from ordinary activities before income tax was:					
Foodchain business closure					
	37				
Lease exit costs		14,734	5,304	14,734	5,304
Restructuring costs		5,003	200	5,003	200
Non-current assets written-off		19,313	19,336	19,313	19,336
Total		39,050	24,840	39,050	24,840
Online business restructure					
Lease exit costs		171	–	171	–
Restructuring costs		2,372	–	2,372	–
Non-current assets written-off		3,883	–	3,438	–
Total		6,426	–	5,981	–
Other restructuring					
Store closure provision – Rockingham		1,296	–	1,296	–
Lease termination costs – Fountain Gate	38	9,940	–	9,940	–
Corporate head office		1,143	4,601	1,143	4,601
Total		12,379	4,601	12,379	4,601
Write-down in value of plant and equipment to recoverable amount					
Stores:					
– Hornsby		7,944	–	7,944	–
– Other		8,430	–	8,430	–
Corporate head office		2,260	–	2,260	–
Total		18,634	–	18,634	–
Accounting policy refinements and other adjustments					
Inventory cost refinements		6,390	6,876	6,390	6,876
Other adjustments		1,406	–	1,406	–
Effect of discounting interest free sales to fair value		–	2,542	–	2,542
Total		7,796	9,418	7,796	9,418
Total significant items		84,285	38,859	83,840	38,859

3. SEGMENT INFORMATION

Business and Geographical Segments

The consolidated entity operates in Australia and was organised into the following divisions by product and service type for the reporting period:

- Department Stores comprising David Jones department stores, rack stores, David Jones Online and corporate head office;
- Foodchain by David Jones;
- Credit comprises the David Jones' Card; and
- Property comprises the land and buildings owned by David Jones Limited and its controlled entities.

Segment Accounting Policies

Segment accounting policies are the same as the consolidated entity's policies described in Note 1. During the financial year, there were no changes in segment accounting policies, other than those changes described in Note 2(b), that had a material effect on the segment information. Since 28 July 2002 David Jones Online has been included in Department Stores. Prior period segment information has been restated in accordance with this revised basis of segment classification.

Rent is charged by the Property segment to the Department Stores segment at current market rates and eliminated on consolidation.

PRIMARY REPORTING – BUSINESS SEGMENTS	DEPARTMENT STORES		FOODCHAIN		CREDIT		PROPERTY		ELIMINATIONS		CONSOLIDATED	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000	2003 \$000	2002 \$000	2003 \$000	2002 \$000	2003 \$000	2002 \$000	2003 \$000	2002 \$000
REVENUE												
Sales to customers outside the consolidated entity	1,674,526	1,631,082	36,643	37,100	-	-	-	-	-	-	1,711,169	1,668,182
Other revenues from customers outside the consolidated entity	21,499	27,829	-	-	31,799	27,200	-	-	-	-	53,298	55,029
Inter-segment revenues	-	-	-	-	-	-	2,780	2,586	(2,780)	(2,586)	-	-
Total segment revenues	1,696,025	1,658,911	36,643	37,100	31,799	27,200	2,780	2,586	(2,780)	(2,586)	1,764,467	1,723,211
Unallocated revenue											1,971	1,430
Total consolidated revenue											1,766,438	1,724,641
RESULTS												
Segment results	5,075	41,687	(45,926)	(37,622)	22,069	14,936	2,497	2,546	(2,780)	(2,586)	(19,065)	18,961
Unallocated expenses											(3,263)	(7,393)
Net profit from ordinary activities before income tax expense											(22,328)	11,568
ASSETS												
Segment assets	590,481	561,581	58	16,945	33,767	27,723	27,443	28,689	-	-	651,749	634,938
Unallocated assets											8,000	50,250
Total assets											659,749	685,188
LIABILITIES												
Segment liabilities	121,163	28,355	2,222	8,026	9,130	9,538	355	-	-	(15)	132,870	45,904
Unallocated liabilities											106,866	184,016
Total liabilities											239,736	229,920
OTHER SEGMENT INFORMATION:												
Acquisition of property, plant and equipment, intangible assets and other non-current assets (and disposals)	57,475	62,839	4,373	7,751	2	232	-	-	-	-	61,850	70,822
Depreciation, amortisation (refer Note 2(a)) and recoverable amount write-downs	68,261	45,643	20,575	21,529	134	118	284	284	-	-	89,254	67,574
Non-cash expenses other than depreciation and amortisation	16,518	14,327	(3,616)	5,304	(1,156)	2,881	-	-	-	-	11,746	22,512

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		DAVID JONES LIMITED	
	2003	2002	2003	2002
	\$	\$	\$	\$
4. REMUNERATION OF AUDITORS				
Amounts received or due and receivable for audit services:				
– audit and review of financial reports	505,267	405,421	505,267	405,421
– other regulatory audit services	58,000	–	58,000	–
	563,267	405,421	563,267	405,421
Amounts received or due and receivable by the auditor for other services:				
– review of accounting principles in relation to sale and leaseback transaction	125,000	–	125,000	–
– due diligence work in relation to issue of reset preference shares	–	99,068	–	99,068
– review of accounting principles in relation to restructuring	90,581	–	90,581	–
– review of accounting policies	82,374	–	82,374	–
	297,955	99,068	297,955	99,068
	861,222	504,489	861,222	504,489

	CONSOLIDATED		DAVID JONES LIMITED	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
5. INCOME TAX				
The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:				
Profit/(loss) from ordinary activities before income tax expense	(22,328)	11,568	24,869	9,203
Income tax calculated at 30% (2002: 30%)	(6,698)	3,471	7,461	2,761
Tax effect of permanent differences:				
– depreciation of buildings	(730)	(920)	–	–
– amortisation of goodwill	562	562	–	–
– non-deductible restructuring costs	9,253	1,591	9,253	1,591
– sale and leaseback	767	555	767	555
– future income tax benefit no longer virtually certain	–	840	–	840
– sundry items	547	329	(103)	316
– dividends receivable from controlled entities	–	–	(24,000)	(6,757)
Income tax adjusted for permanent differences	3,701	6,428	(6,622)	(694)
Under/(over) provision in previous year	(563)	(1,440)	(563)	(1,456)
Income tax expense/(benefit) attributable to ordinary shares	3,138	4,988	(7,185)	(2,150)
Income tax expense/(benefit) comprises:				
Current taxation provision	10,797	18,430	(460)	10,407
Deferred tax liability	1	24	–	–
Future income tax benefit	(7,097)	(12,026)	(6,162)	(11,101)
Over provision in prior year	(563)	(1,440)	(563)	(1,456)
	3,138	4,988	(7,185)	(2,150)

	CONSOLIDATED		DAVID JONES LIMITED	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
6. DIVIDENDS				
Ordinary Shares				
Interim dividend of three cents (2002: four cents) per fully paid share paid 6 May 2003 (2002: 6 May 2002)				
Franked at 30% – three cents per share	12,226	15,927	12,226	15,927
Over provision relating to 2001	(11)	–	(11)	–
Final dividend of three cents per fully paid share paid on 23 October 2002 recognised as a liability at 27 July 2002 but adjusted against retained profits at the beginning of the financial year on the change in accounting policy for providing for dividends (Note 1(b)(i))				
Franked at 30% – three cents per share	12,089	12,089	12,089	12,089
	24,304	28,016	24,304	28,016
Reset Preference Shares				
Interim dividend of \$4.0833 per share paid 3 February 2003 for the period 1 August 2002 to 31 January 2003 inclusive:				
Franked at 30%	2,654	–	2,654	–
Final dividend of \$4.0167 (2002: 68.7945 cents) per share paid 1 August 2003 for the period 1 February 2003 to 31 July 2003 inclusive:				
Franked at 30%	2,611	447	2,611	447
	5,265	447	5,265	447
Total dividends provided for or paid	29,569	28,463	29,569	28,463
Dividends paid in cash or satisfied by the issue of shares under the Dividend Reinvestment Plan were as follows:				
Paid in cash	18,671	21,376	18,671	21,376
Satisfied by issue of shares	8,745	10,300	8,745	10,300
	27,416	31,676	27,416	31,676
Franked Dividends				
The franked portions of the dividends recommended after 26 July 2003 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 31 July 2004				
Franking credits available for subsequent financial years based on a rate of 30% (2002: 30%)	11,574	9,255	1,878	3,060

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends.

Dividend Reinvestment Plan

As announced on 3 June 2003, the Company has suspended its Dividend Reinvestment Plan.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED	
	2003 cents	2002 cents
7. EARNINGS PER SHARE (EPS)		
Basic EPS	(7.5)	1.5
Diluted EPS	(7.5)	1.5
Basic EPS before non-recurring significant items	9.2	8.8
Diluted EPS before non-recurring significant items	9.2	8.8

	CONSOLIDATED	
	2003 \$000	2002 \$000
Basic EPS and basic EPS before non-recurring significant items		
Net profit/(loss) attributable to members	(25,466)	6,580
Less: Reset preference share dividends	(5,265)	(447)
Adjusted net profit/(loss) for basic EPS	(30,731)	6,133
Non-recurring significant items (Note 2(b))	84,285	38,859
Less: Income tax effect of non-recurring significant items	(16,115)	(9,905)
After tax effect of non-recurring significant items	68,170	28,954
Adjusted net profit before non-recurring significant items	37,439	35,087

	CONSOLIDATED	
	2003 Number	2002 Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earning per share		
– Basic earnings per share	407,411,262	398,160,194
– Diluted earnings per share	455,702,227	402,877,586

Potential Ordinary Shares

The 650,000 reset preference shares are potential ordinary shares in accordance with AASB 1027(6). The conversion factor of 74.2938 (2002: 101.6054) is calculated in accordance with the conversion formula provided in the Reset Preference Share prospectus issued 14 May 2002. The current number of potential ordinary shares is 48,290,964 (2002: 66,043,510). Based on conditions existing at 26 July 2003, these potential ordinary shares are not dilutive.

Options

Options to purchase ordinary shares not exercised at 26 July 2003 (27 July 2002) have not been included in the determination of diluted earnings per share. Based on conditions existing at reporting date, the options would not be potential ordinary shares (refer Note 32(b)(v)).

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
8. CURRENT ASSETS – CASH ASSETS					
Cash at bank and on hand		9,215	8,678	9,344	8,678
Deposits at call		8,130	10,460	–	–
		17,345	19,138	9,344	8,678
9. CURRENT ASSETS – RECEIVABLES					
Securitisation receivable	28	38,689	36,268	–	–
Less: Provision for doubtful debts		(7,903)	(9,059)	–	–
		30,786	27,209	–	–
Refunds receivable from trade creditors		6,679	9,032	6,679	9,032
Less: Provision for doubtful debts		(2,792)	(608)	(2,792)	–
		3,887	8,424	3,887	9,032
Loan to employees under Employee Share Plan (secured)	32(b)	1,024	1,169	1,024	1,169
Costs refundable under stores refurbishment program		2,128	7,086	2,128	7,086
Tax refund due		4,120	3,761	3,581	–
Other debtors		5,930	5,443	5,546	4,839
		47,875	53,092	16,166	22,126
10. CURRENT ASSETS – INVENTORIES					
Retail inventories	1(k)	289,540	287,209	289,614	287,283
		289,540	287,209	289,614	287,283
11. CURRENT ASSETS – OTHER					
Prepayments		7,366	9,697	7,805	9,357
		7,366	9,697	7,805	9,357
12. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS					
Non-listed shares:					
Controlled entities		–	–	119,115	119,115
Provision for diminution		–	–	(13,872)	(13,872)
		–	–	105,243	105,243

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		DAVID JONES LIMITED	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
13. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT				
Land and Buildings:				
Cost				
Opening balance	28,003	28,003	–	–
Additions	–	–	–	–
Disposals	–	–	–	–
Closing balance	28,003	28,003	–	–
Accumulated Depreciation				
Opening balance	1,291	1,007	–	–
Depreciation for the year	284	284	–	–
Disposals	–	–	–	–
Closing balance	1,575	1,291	–	–
Total land and buildings at deemed cost	26,428	26,712	–	–
Plant, Fittings and Fixtures:				
Cost				
Opening balance	545,255	511,239	533,195	499,652
Additions	38,074	57,829	40,260	57,279
Recoverable amount write-downs	(61,106)	(20,341)	(60,190)	(20,341)
Disposals	(3,025)	(3,472)	(2,985)	(3,395)
Closing balance	519,198	545,255	510,280	533,195
Accumulated Depreciation				
Opening balance	345,365	304,377	338,877	301,502
Depreciation for the year	45,173	45,709	42,418	42,054
Recoverable amount write-downs	(19,276)	(2,601)	(18,805)	(2,601)
Disposals	(2,798)	(2,120)	(2,720)	(2,078)
Closing balance	368,464	345,365	359,770	338,877
Work in progress	69,205	45,430	69,205	30,608
Total plant, fittings and fixtures	219,938	245,320	219,715	224,926
Plant, Fittings and Fixtures under Lease:				
Cost				
Opening balance	809	1,020	–	–
Additions	–	–	–	–
Disposals	(131)	(211)	–	–
Closing balance	678	809	–	–
Accumulated Amortisation				
Opening balance	425	325	–	–
Amortisation for the year	94	187	–	–
Disposals	(21)	(87)	–	–
Closing balance	497	425	–	–
Total leased plant, fittings and fixtures	181	384	–	–
Total property, plant and equipment	246,547	272,416	219,715	224,926

	CONSOLIDATED		DAVID JONES LIMITED	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
14. NON-CURRENT ASSETS – INTANGIBLES				
Goodwill – at cost	18,729	18,729	–	–
Accumulated amortisation	(6,551)	(4,678)	–	–
	12,178	14,051	–	–
15. NON-CURRENT ASSETS – DEFERRED TAX ASSETS				
(a) Future Income Tax Benefit				
Future income tax benefit comprises the estimated future benefit at 30% (2002: 30%) of the following items:				
Timing differences	32,038	26,943	29,711	23,549
Tax losses carried forward	2,002	–	–	–
	34,040	26,943	29,711	23,549
(b) Future Income Tax Benefit not Taken to Account				
The potential future income tax benefit arising from timing differences and tax losses which has not been recognised because recovery is not beyond reasonable doubt or virtually certain respectively is shown below valued at a tax rate of 30% (2002: 30%):				
Timing differences	–	840	–	840
Capital losses	1,650	1,650	–	–
	1,650	2,490	–	840
The potential future income tax benefit will only be obtainable if:				
(i) the relevant entities derive future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another entity within the consolidated entity in accordance with Division 170 of the <i>Income Tax Assessment Act 1997</i> ;				
(ii) the relevant entities continue to comply with the conditions for deductibility imposed by the law; and				
(iii) no changes in tax legislation adversely affect the relevant entities in realising the benefit.				
16. NON-CURRENT ASSETS – OTHER				
Prepayments	4,858	2,642	3,410	1,448
	4,858	2,642	3,410	1,448
17. CURRENT LIABILITIES – PAYABLES				
Trade creditors	99,450	93,525	99,496	93,509
Other creditors and accruals	83,285	73,261	82,106	107,277
	182,735	166,786	181,602	200,785
18. CURRENT LIABILITIES – INTEREST BEARING LIABILITIES				
Short-term borrowing	–	–	–	673
Finance lease liabilities	122	217	–	–
	122	217	–	673

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
19. CURRENT LIABILITIES – CURRENT TAX LIABILITIES					
Provision for income tax					
Movements during the year were as follows:					
Balance at beginning of year		10,983	7,718	5,992	3,784
Income tax paid		(19,182)	(17,996)	(5,106)	(6,710)
Refunds received or receivable (net)		3,483	4,270	3,518	295
Current year's income tax provision		2,717	4,148	(7,605)	(2,990)
Over provision from prior year		(910)	(352)	(260)	(416)
Transferred to deferred tax assets		6,006	13,195	6,422	12,358
Losses transferred from wholly owned subsidiaries		–	–	(2,961)	(329)
		3,097	10,983	–	5,992
20. CURRENT LIABILITIES – PROVISIONS					
Dividends		2,611	12,545	2,611	12,545
Employee entitlements	32(a)	8,196	11,364	8,163	11,347
Directors' retirement allowance		588	–	588	–
Restructuring costs		16,120	5,840	16,120	5,840
Warranties		855	925	855	925
		28,370	30,674	28,337	30,657
21. NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES					
Finance lease liabilities		–	122	–	–
		–	122	–	–
22. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES					
Deferred income tax comprising the estimated future tax payable at 30% (2002: 30%) on timing differences		313	312	–	–
		313	312	–	–

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
23. NON-CURRENT LIABILITIES – PROVISIONS					
Employee entitlements	32(a)	19,565	17,332	19,565	17,302
Directors' retirement allowance	1(m)	558	952	558	952
Warranties		645	–	645	–
		20,768	18,284	20,768	18,254
Reconciliations					
Reconciliations of the carrying amount of each class of provision, except for employee benefits are set out below:					
Dividends					
Carrying amount at beginning of year		12,545	15,749	12,545	15,749
Adjustment on adoption of AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'					
Provisions made during the year:					
– Interim dividend 2002		–	15,927	–	15,927
– Final dividend 2002		–	12,536	–	12,536
– Interim dividend 2003		14,871	–	14,871	–
– Final dividend 2003		2,611	–	2,611	–
Payments made during the period		(27,416)	(31,667)	(27,416)	(31,667)
Carrying amount at the end of year		2,611	12,545	2,611	12,545
Restructuring Costs					
Carrying amount at beginning of year		5,840	–	5,840	–
Provisions made during the year		20,575	5,840	20,575	5,840
Payments made during the period		(10,295)	–	(10,295)	–
Carrying amount at the end of year		16,120	5,840	16,120	5,840
Warranties – Current					
Carrying amount at beginning of year		925	–	925	–
Provisions made during the year		(70)	925	(70)	925
Payments made during the period		–	–	–	–
Carrying amount at the end of year		855	925	855	925
Warranties – Non-current					
Carrying amount at beginning of year		–	–	–	–
Provisions made during the year		645	–	645	–
Payments made during the period		–	–	–	–
Carrying amount at the end of year		645	–	645	–
24. NON-CURRENT LIABILITIES – OTHER DEFERRED LIABILITIES					
Discount on deferred payment, interest free sales	1(n)	2,956	2,542	2,956	2,542
Other deferred liabilities		1,375	–	1,375	–
		4,331	2,542	4,331	2,542

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
25. CONTRIBUTED EQUITY					
(a) Share Capital:					
Ordinary shares, fully paid		333,832	325,087	333,832	325,087
Reset preference shares, fully paid		60,727	60,801	60,727	60,801
		394,559	385,888	394,559	385,888

(b) Movements in Ordinary Share Capital:

Date	Detail	Number of Shares	Issue Price	\$000
28 July 2001	Opening Balance	393,714,680		315,013
2 November 2001	Dividend reinvestment plan issue	4,448,189	\$1.055	4,693
2 November 2001	Dividend reinvestment plan costs	–	–	(226)
6 May 2002	Dividend reinvestment plan issue	4,796,014	\$1.169	5,607
27 July 2002	Balance	402,958,883		325,087
23 October 2002	Dividend reinvestment plan issue	4,557,989	\$0.994	4,530
27 May 2003	Dividend reinvestment plan issue	4,086,817	\$1.031	4,215
26 July 2003	Closing Balance	411,603,689		333,832

(c) Terms and Conditions of Ordinary Share Capital

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. This is subject to the prior entitlements of the reset preference shares.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Dividend Reinvestment Plan

The Company had in place a Dividend Reinvestment Plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares issued under the plan since its re-activation on 14 September 2001 have been issued at a 5% discount to the market price. The level of discount has been determined at the discretion of the Directors at the time of payment of each dividend. As announced on 3 June 2003, the Company has suspended its Dividend Reinvestment Plan.

(e) Movements in Reset Preference Share (RPS) Capital:

Date	Detail	Number of Shares	Issue Price	\$000
1 July 2002	RPS issue	650,000	\$100	65,000
27 July 2002	Issue costs			(4,199)
27 July 2002	Balance	650,000		60,801
25 January 2003	Issue costs			(74)
26 July 2003	Closing Balance	650,000		60,727

(f) Terms and Conditions of RPS

Dividends

RPS entitle the holder to receive a fully franked non-cumulative dividend of 8.1% per annum, fixed until the first reset date of 1 August 2007, if a dividend is declared or otherwise resolved to be paid by the Directors.

Dividends on RPS will be paid at the discretion of the Directors in priority to any dividends declared on ordinary shares.

(f) Terms and Conditions of RPS – continued

If any RPS dividend is not paid in full in any period, then no dividend or return of capital can be paid or conducted in relation to ordinary shares unless and until either:

- The Company has paid two consecutive RPS dividends in full or has paid a shortfall dividend to make up for the unpaid amount; or
- The holders of RPS pass a special resolution approving the paying of the dividend or return of capital.

The RPS does not confer on holders any right to participate in the David Jones Shareholder Rewards Scheme.

Conversion

Either the Company or the RPS holders may elect to convert the RPS to ordinary shares on the reset date. If the holder elects to convert their RPS, then the Company may elect to arrange a resale or repurchase some or all of those RPS instead and pay the RPS holder a cash amount equal to the value of the ordinary shares that would be deliverable and any dividend that would be due if conversion of those RPS were to occur on that date.

In certain circumstances (including a takeover or scheme of arrangement, proposed changes to tax regulation or the aggregate RPS on issue falling below \$30 million in issue price), conversion may occur earlier. Until the first reset date, the holder will have the right at any time to request conversion of each RPS into 70.1754 ordinary shares.

Voting

RPS holders will not be entitled to speak or to vote at general meetings of the Company, except in certain circumstances, in which case holders will have one vote per RPS held.

RPS holders have the same rights as ordinary shareholders to receive accounts, reports and notices of meetings of the Company and to attend any general meetings of the Company.

Ranking

RPS are subordinated to all creditors of the Company.

On a winding up of the Company, the RPS rank ahead of ordinary shares for a return of capital (equal to the issue price) and for the payment of any accrued dividend on the RPS.

Borrowing Covenants

Under the Syndicated Facility Agreement (as amended) between a controlled entity, David Jones Finance Pty Limited, and participating banks, the proceeds from the issue of RPS are specifically excluded from the definition of Financial Indebtedness that is used to calculate financial ratios and limits in relation to the financing facilities set out in Note 35(b).

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
26. RETAINED PROFITS					
Retained profits at beginning of year		69,380	91,264	37,818	54,929
Net profit/(loss) attributable to members of the parent entity		(25,466)	6,580	32,054	11,353
Net effect of initial adoption of:					
Revised AASB 1028 'Employee Benefits'	1(b)	(980)	–	(980)	–
Net effect on dividends from:					
Initial adoption of AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets'	1(b)	12,089	–	12,089	–
Dividends recognised during the year	6	(29,569)	(28,464)	(29,569)	(28,464)
Total dividends		(17,480)	(28,464)	(17,480)	(28,464)
Retained profits at end of year		25,454	69,380	51,411	37,818

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
27. TOTAL EQUITY RECONCILIATION					
Total equity at beginning of year		455,268	406,277	423,705	369,942
Total change in parent entity interest in equity recognised in statement of financial performance		(26,520)	2,155	31,000	6,928
Transactions with owners as owners:					
Contribution of equity:					
Issue of reset preference shares		–	65,000	–	65,000
Issue of ordinary shares under Dividend Reinvestment Plan		8,745	10,300	8,745	10,300
Dividends	26	(17,480)	(28,464)	(17,480)	(28,464)
Total equity at end of year		420,013	455,268	445,970	423,706

28. OFF BALANCE SHEET ARRANGEMENTS

The Statements of Financial Position should be read in conjunction with the following off balance sheet arrangements.

(a) Sale and Leaseback Arrangement

The Company entered into a sale and leaseback arrangement with Deutsche Retail Infrastructure Trust (DRIT) in November 2000 whereby the Elizabeth and Market Streets, Sydney and Bourke Street, Melbourne properties were, in-substance, sold by granting a 79 year head lease with DRIT. The non-refundable proceeds received by the consolidated entity of \$201.85 million were recorded in the 28 July 2001 financial report as proceeds from the sale of property.

Legally, the consolidated entity has a recognised right to set-off the receivables (\$201.85 million at inception) under the head lease and payables under the loan agreement (\$201.85 million at inception) in order to settle on a net basis.

The Company has entered into operating leases in respect of the properties. The operating leases are for an initial term of 30 years with:

- base rentals calculated on floor space with a 2.5% per annum quarterly increase;
- contingent rentals based on turnover, reviewed every five years, with a set upper and lower limit.

The leases contain two further renewal options of 30 years and 20 years.

Under the arrangement, DRIT will provide funds to the Company for the refurbishment of the properties and a disruption allowance for reduction of rentals due to the impact of disruption during the refurbishments.

In these original arrangements, Deutsche Asset Management (Australia) Limited (DAMAL) as responsible entity for the DRIT was to receive the greater of \$100 million or 50% of the market value of the properties in year 2079.

The Company has also entered into agreements with Deutsche Bank AG (DB) whereby:

- The Company waives its right to terminate each of the Head Leases.
- DB agrees to pay the 50% of the sale proceeds due to DAMAL on sale of the properties in year 2079, or the minimum guarantee amount of \$100 million, whichever DAMAL is entitled to, on the Company's behalf.
- The Company waives any entitlement to 50% of the proceeds of sale of the properties.
- The Company waives its right to buy each property by way of a pre-emptive right and by a last right of refusal.

Previously an effectively guaranteed residual amount of \$100 million may have been payable by the Company in the year 2079 depending on the value of the properties at that time. DB is expected to acquire legal title to the properties at year 2079 and the Company has no contractual right to repurchase the properties during or at the end of the 79 year period.

(a) Sale and Leaseback Arrangement – continued

In the original transaction, the Company entered into a put option agreement where elements of DRIT's financing (totalling \$146 million) could be put to the Company. This put option is only exercisable in remote circumstances (for example, payment default, demand under or cancellation of David Jones' Syndicated Banking Facility Agreement and trigger events largely associated with the insolvency of the Company). This results in the Company having an element of refinancing risk in the event of a significant fall in the value of the properties, which coincides largely with an insolvency or credit event of the Company. However, equity holders in DRIT take the primary risk of a fall in the improved value of the properties.

The Company has entered into 30 year interest rate swap contracts associated with the transaction. The estimated market values of the payables and receivables under the swaps at 26 July 2003 are \$51.045 million and \$42.795 million respectively (2002: \$29.818 million and \$21.510 million). These amounts have not been recognised in the Statements of Financial Position. The difference between the net cash inflows and outflows is recognised as an expense in the Statements of Financial Performance over the term of the swaps.

(b) Securitisation of David Jones Card Receivables

Receivables from David Jones cardholders are sold to an unrelated third party, in which the consolidated entity has no ownership interest. The consolidated entity does not have the capacity to control the unrelated third party and accordingly does not consolidate this entity.

Receivables due from David Jones' cardholders that have been sold to the third party as at 26 July 2003 amount to \$392.692 million (2002: \$351.161 million). Of this amount \$38.689 million (2002: \$36.268 million) has been retained by the third party as over collateralisation. As this amount will be paid to a controlled entity, subject to the performance of the card receivables, it has been included in current receivables in the Statements of Financial Position.

The consolidated entity retains the risk for bad debts in respect of the total portfolio of securitisation receivables.

Collectability of the credit card receivables is reviewed on an ongoing basis and to the extent that recovery is doubtful, a provision for doubtful debts is recorded by the consolidated entity against the securitisation receivable.

The consolidated entity is entitled to the residual revenue arising from the underlying receivables after meeting the purchaser's cost of funds, bad debts and expenses.

Notes	CONSOLIDATED		DAVID JONES LIMITED	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000

29. CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below. The Directors are not aware of any circumstance or information, which would lead them to believe that these liabilities have crystallised and consequently no provisions are included in the financial statements in respect of these matters.

Employee Share Plan	(i)	–	337	–	337
Guarantees to third parties given in the normal course of business		1,031	717	1,031	717

(i) Employee Share Plan

The Company via a Trustee has funded the acquisition of shares in the Company by its employees. An unrealised gain of \$65,939 (based on a price of \$1.45 per share at 26 July 2003) exists representing the difference between the loan by the Company to the Trustee and the recoverable amount of the shares at 26 July 2003.

In the event that employees forfeit the shares on resignation, all gains net of the book value of \$1.36 per share at 26 July 2003 vest with the employee. Conversely if the shares are forfeited and sold below the book value, the loss on sale would be borne by the Company.

Other Contingent Liabilities

A controlled entity, David Jones Finance Pty Limited, is the borrower of certain finance facilities. The borrowings of David Jones Finance Pty Limited are guaranteed by the Company and each of its controlled entities.

Contingent liabilities in relation to the sale and leaseback transaction are disclosed in Note 28.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
30. COMMITMENTS FOR EXPENDITURE					
Capital Commitments					
Commitments for the acquisition of plant, fittings and fixtures contracted for at the reporting date but not recognised as liabilities in these financial statements, payable:					
Within one year		27,328	55,087	27,328	55,087
Later than one year but not later than five years		89,876	102,145	89,876	102,145
Later than five years		10,460	24,410	10,460	24,410
		127,664	181,642	127,664	181,642
Operating Lease Commitments					
Future operating lease rentals not provided for in the financial statements and payable:					
Within one year		79,997	78,577	79,661	78,032
Later than one year but not later than five years		347,586	354,127	347,565	353,773
Later than five years		1,833,713	1,911,996	1,833,713	1,911,996
		2,261,296	2,344,700	2,260,939	2,343,801
Finance Lease Liabilities					
Finance lease rentals are payable as follows:					
Within one year		125	228	–	–
Later than one year but not later than five years		–	122	–	–
Later than five years		–	–	–	–
		125	350	–	–
Less: Future lease finance charges		3	11	–	–
		122	339	–	–
Lease liabilities provided for in the financial statements:					
Current	18	122	217	–	–
Non-current	21	–	122	–	–
		122	339	–	–

The Company and consolidated entity lease retail premises and warehousing facilities. Generally the operating lease agreements are for an average term of 22 years and include renewal options. Under most leases, the Company is responsible for property taxes, insurance, maintenance and expenses related to the leased properties.

The operating lease commitments set out above comprise base rental payments plus agreed percentage increases, and contingent rental payments. Contingent rentals are calculated as a percentage of the turnover of the store occupying the premises with the percentage and turnover threshold at which the additional rentals commence varying with each lease agreement.

Further details in relation to operating leases of retail properties at Bourke Street, Melbourne and Elizabeth and Market Streets, Sydney are disclosed in Note 28.

	CONSOLIDATED		DAVID JONES LIMITED	
	2003 No.	2002 No.	2003 No.	2002 No.
31. REMUNERATION OF DIRECTORS AND EXECUTIVES				
The number of Directors of the Chief Entity whose income from the Chief Entity or any related party falls within the following bands:				
\$ 60,001 to \$ 70,000	-	1	-	1
\$ 70,001 to \$ 80,000	4	5	4	5
\$ 80,001 to \$ 90,000	1	-	1	-
\$ 170,001 to \$ 180,000	-	1	-	1
\$ 180,001 to \$ 190,000	-	1	-	1
\$ 220,001 to \$ 230,000	1	-	1	-
\$ 600,001 to \$ 610,000	1	-	1	-
\$ 760,001 to \$ 770,000	1	-	1	-
\$ 770,001 to \$ 780,000	1	-	1	-
\$ 950,001 to \$ 960,000	-	1	-	1
\$1,640,001 to \$1,650,000	1	-	1	-
	2003 \$	2002 \$	2003 \$	2002 \$
Total income paid or payable or otherwise made available to all Directors of the Chief Entity from the Chief Entity or any related party	4,378,541	1,726,652	4,378,541	1,726,652

Directors' fees include additional payments for membership of Board Committees. Further information on the remuneration of Directors and executives is disclosed in the Directors' Report in the concise annual report 2003.

No options were issued during the 52 week period ended 26 July 2003.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		DAVID JONES LIMITED	
	2003 No.	2002 No.	2003 No.	2002 No.
31. REMUNERATION OF DIRECTORS AND EXECUTIVES – CONTINUED				
The number of executive officers of the Chief Entity whose income from the Chief Entity and related parties fall within the following bands:				
\$ 110,001 to \$ 120,000	1	1	1	1
\$ 130,001 to \$ 140,000	–	1	–	1
\$ 140,001 to \$ 150,000	–	1	–	1
\$ 150,001 to \$ 160,000	1	–	1	–
\$ 160,001 to \$ 170,000	1	3	1	3
\$ 170,001 to \$ 180,000	1	3	1	3
\$ 180,001 to \$ 190,000	2	4	2	4
\$ 190,001 to \$ 200,000	2	4	2	4
\$ 200,001 to \$ 210,000	1	3	1	3
\$ 210,001 to \$ 220,000	3	1	3	1
\$ 220,001 to \$ 230,000	4	1	4	1
\$ 230,001 to \$ 240,000	4	2	4	2
\$ 240,001 to \$ 250,000	2	2	2	2
\$ 260,001 to \$ 270,000	3	–	3	–
\$ 270,001 to \$ 280,000	1	–	1	–
\$ 280,001 to \$ 290,000	–	1	–	1
\$ 290,001 to \$ 300,000	1	1	1	1
\$ 300,001 to \$ 310,000	–	1	–	1
\$ 310,001 to \$ 320,000	1	1	1	1
\$ 320,001 to \$ 330,000	1	–	1	–
\$ 330,001 to \$ 340,000	–	1	–	1
\$ 340,001 to \$ 350,000	–	1	–	1
\$ 350,001 to \$ 360,000	1	1	1	1
\$ 360,001 to \$ 370,000	–	1	–	1
\$ 380,001 to \$ 390,000	1	–	1	–
\$ 400,001 to \$ 410,000	–	1	–	1
\$ 410,001 to \$ 420,000	1	–	1	–
\$ 470,001 to \$ 480,000	1	1	1	1
\$ 570,001 to \$ 580,000	–	1	–	1
\$ 760,001 to \$ 770,000	1	–	1	–
\$1,010,001 to \$1,020,000	–	1	–	1
	2003 \$	2002 \$	2003 \$	2002 \$
Total income received, or due and receivable, from the Chief Entity or any related party by executive officers of the consolidated entity whose income exceeds \$100,000	9,011,297	10,023,250	9,011,297	10,023,250
Termination payments in accordance with employment contracts included in total income received by executive officers of the consolidated entity	381,125	952,879	381,125	952,879

No options were issued during the 52 week period ended 26 July 2003. Rights to acquire shares under the Company's Long Term Incentive Plan were granted to an Executive Director and senior executives on 30 August 2002 (refer Notes 32(b)(vi) and 34(a)).

The Directors' Report in the concise annual report 2003 discloses further details on the remuneration of Directors and executives.

	CONSOLIDATED		DAVID JONES LIMITED	
	2003	2002	2003	2002
32. EMPLOYEE ENTITLEMENTS				
The number of staff employed at balance date is:	9,205	9,800	9,205	9,800
(a) Provision for Employee Entitlements				
Current (\$000)	8,196	11,364	8,163	11,347
Non-current (\$000)	19,565	17,332	19,565	17,302
The present values of employee entitlements not expected to be settled within 12 months of balance date have been calculated using the following weighted average assumptions:				
Assumed increase in wage and salary rates	4.0%	4.0%	4.0%	4.0%
Discount rate	5.3%	5.7%	5.3%	5.7%
Settlement term (years)	15	15	15	15

(b) Employee Share Plans

The Company has four employee share ownership plans, one executive option plan and one long-term incentive plan.

(i) The Employee Share Plan (ESP)

The ESP provided employees with an interest free loan to enable the purchase of ordinary shares in the Company. Shares under the ESP were acquired by a trustee on behalf of the employee. Dividends and other distributions on the shares are applied to repay the loan. Vesting to the employee in the ordinary course of business is three years after issue. Each shareholder loan is limited in recourse to the proceeds on sale of the shares acquired.

The ESP is divided into a General and Executive division.

General Division

This division was open to all full-time and permanent part-time employees with more than 12 months' continuous service and casual employees whose service was deemed by the Company to be more than five years' continuous service. The Company had discretion to offer shares to particular employees with lesser periods of service. In 1995 each eligible employee received between 500 and 5,000 shares, depending upon their position within the Company.

A total of 2,571,500 shares (\$5,143,000) was issued under the initial offer to employees under this division of the ESP on 27 November 1995. Since that date, 1,819,500 shares have been forfeited by employees and sold by the Trustee or the shares have been transferred to the employees on repayment of the loan, leaving a balance of 752,000 shares allocated to employees at balance date. No shares have been issued since the initial offer.

Executive Division

Senior executives of the Company were offered ordinary shares under the Executive Division of the ESP. Shares were offered on the same basis as in the General Division except that two hurdle rates had to be achieved before an executive is eligible to exercise the right to repay the loan. These hurdle rates were:

- a three year vesting requirement; and
- the share price had to close at 30% above the issue price (adjusted for bonus, rights issues or capital reconstructions) on five consecutive trading days prior to the third anniversary of the issue.

No shares under the Executive Division remain on issue to executives as they have all been forfeited by executives and sold by the Trustee.

During the financial period the Trustee sold 77,500 shares (2002: 68,000 shares) under the General Division for \$84,553 (2002: \$75,526) resulting in a loss to the Company of \$18,634 (2002: \$21,355). The losses represent the difference between the share purchase price of \$2.00 per share less any dividends and returns of capital received on those shares, and the sale price of the shares received by the Trustee. These losses together with the costs of administering the ESP have been charged to profit for the current period. In addition, 2,000 shares (2002: 1,500 shares) have been transferred to employees on repayment of loans of \$2,770 (2002: \$2,155).

The market value at balance date of each ordinary share in the Company issued to employees was \$1.45 (2002: \$1.00).

The average loan value per share at balance date to employees was \$1.36 (2002: \$1.41).

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

32. EMPLOYEE ENTITLEMENTS – CONTINUED

(b) Employee Share Plans – continued

(ii) The Employee Share Purchase Plan (ESPP)

The ESPP was established to enable employees to acquire ordinary shares in the Company on an annual basis at a discount to the prevailing market price, subject to certain conditions. The Company did not provide loans to assist employees to purchase shares under this plan. No shares have been issued under this plan at balance date.

The ESP and ESPP employee share ownership plans are being phased out and have been replaced by the Exempt Employee Share Plan and Deferred Employee Share Plan, each of which was submitted to and approved by shareholders at the Annual General Meeting held on 23 November 1998.

(iii) Exempt Employee Share Plan (EESP)

The EESP provides eligible employees the opportunity to acquire an ownership interest in the Company. The EESP is designed to attract a tax concession provided under Australian income tax legislation to encourage share incentive plans.

Eligible employees may be offered up to \$1,000 worth of the Company's ordinary shares each year, provided specific financial and qualitative corporate objectives are met to the satisfaction of the Board. No fully paid ordinary shares were issued to eligible employees during the year. No shares (2001: 165,303) were purchased by the Trustee on behalf of participants under the plan.

Shares acquired under the offer must remain in the plan until the earlier of three years after allocation, or termination of employment of the participant.

The Plan Company will use funds it receives from the Company to either subscribe to a new issue of shares in the Company on behalf of the participating employees or purchase shares on the Australian Stock Exchange on behalf of the participating employees. These shares will be registered in the name of the participants.

No voting rights will be exercised in relation to the shares held in the plans unless instructions are received from a participating employee to vote in respect of his or her shares.

Non-Executive Directors of the Company are not eligible to participate in the EESP.

(iv) Deferred Employee Share Plan (DESP)

The DESP enables Directors, senior executives, management and any other employees invited by the Board to participate in the DESP to acquire ordinary shares in the Company.

The DESP is a voluntary plan to provide greater choice for eligible employees in the way they receive their remuneration.

The DESP is designed to access the available taxation deferral concession legislated by the Federal Government to encourage employees to become shareholders in employer companies.

The Plan Trustee will acquire shares in the Company in the ordinary course of trading on the Australian Stock Exchange on behalf of DESP participants, using funds allocated by the Company from its remuneration budget.

There is no additional cost to the Company as a result of the operation of the DESP (other than administrative and establishment costs) as the cost of the shares is funded from base pay and incentives payable within the Company's approved annual remuneration budget.

No voting rights will be exercised in relation to the shares held in the plans unless instructions are received from a participating employee to vote in respect of his or her shares.

Under the rules of the DESP, the Board may impose Relevant Requirements, being performance, vesting and any other conditions before shares can be withdrawn from the DESP by a participant.

When a participating employee's employment ends, he or she will receive the Company's shares held on his or her behalf except for:

- where Relevant Requirements have been imposed, these requirements have not been met; or
- where an employee has been dismissed as a result of that employee's fraud or wrongful conduct, in which case the Board has the discretion to require forfeiture of any shares under the DESP.

The Trustee purchased 158,437 (2002: 195,622) shares on behalf of participants under the DESP during the year.

(b) Employee Share Plans – continued**(v) Options****Executive Option Plan (EOP)**

The EOP provides to eligible employees an opportunity to acquire an ownership interest in the Company.

Under the EOP, eligible employees were offered options to acquire shares in the Company at a specified price. Such options will be exercisable on a specified date, at the greater of the market value of shares at the date of grant or 20 cents.

Unexercised options shall lapse no later than five years after the date of grant.

In the absence of special circumstances, each issue of options under the EOP must be held for at least 24 months before they can be considered for exercise. Then they can only be exercised if the Company's performance is equal to or greater than the performance hurdles described below:

- over the three-month period preceding the date of exercise of the options, the median DJL Accumulation Index is equal to, or greater than, the median Mid-Cap 50 Industrials Accumulation Index; and
- at the date of exercise, the closing price of fully paid ordinary shares in the capital of the Company on the Australian Stock Exchange is 15% or greater above the market value of the Company's shares at the date of grant.

'DJL Accumulation Index' means broadly the measurement of the performance of the Company's shares represented by the realised returns to shareholders of the Company in the form of share price growth and dividends paid and reinvested.

'Mid-Cap 50 Industrials Accumulation Index' means the measurement of the performance of shares of companies included in the Mid-Cap 50 Industrials Accumulation Index represented by the returns to shareholders of those companies in the form of share price growth and dividends paid and reinvested.

Options that lapsed during the year, and options issued and outstanding under the EOP are:

Date of Grant	Expiry Date	Exercise Price	Lapsed during the Year	Number of Options Outstanding		Fair Value per Option at Grant Date	Fair Value Aggregate
				2003	2002		
			000	000	000	\$	2003
							\$000
17/12/1998	17/12/2003	\$1.5700	745	2,190	2,935	0.2426	531
16/12/1999	16/12/2004	\$1.4047	2,685	2,465	5,150	0.2291	565
16/01/2001	16/01/2006	\$1.3280	2,875	2,700	5,575	0.1951	527
				7,355	13,660		1,623

All options expire on the earlier of their expiry date or:

- the date which is six months after the occurrence of a special circumstance;
- the date of termination of employment of the eligible employee (other than due to the occurrence of a special circumstance, which includes retirement, redundancy, death or permanent disability of the eligible employee, or other such circumstances that the Board may determine to be a special circumstance).

Options granted over 3,000,000 unissued ordinary shares to Peter Wilkinson lapsed on his retirement as Chief Executive Officer on 31 January 2003.

The market value of shares under these options at balance date was \$1.45 (2002: \$1.00).

No options were exercised during the year ended 26 July 2003.

An independent valuation of each tranche of options at their respective grant dates has been performed by PricewaterhouseCoopers Securities Ltd (PwCS).

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

32. EMPLOYEE ENTITLEMENTS – CONTINUED

(b) Employee Share Plans – continued

(v) Options – continued

In undertaking the valuation of the options, PwCS have used the binomial option pricing model which takes into account factors such as the Company's closing share price at the date of grant, volatility of the underlying share price, risk free rate of return, dividend yield and time to maturity. Adjustments have also been made for liquidity and performance hurdles.

The value determined by PwCS represents the indicative fair market value of each option at grant date on a non-marketable controlling basis.

No further options are intended to be granted under the EOP as this plan has been replaced by the Long Term Incentive Plan.

(vi) Long Term Incentive Plan

As advised at the Annual General Meeting in November 2001, the Company adopted a Long Term Incentive Plan (LTI Plan).

The LTI Plan provides a remuneration element designed to attract and retain key senior employees and ensure their interests are aligned with those of shareholders.

The first grant under the LTI Plan to senior executives was made on 30 August 2002.

All offers are made subject to the terms of the LTI Plan Rules, which confer various powers on the Board, including without limitation the right to waive or reduce relevant requirements governing a participant's entitlements to shares, and to add to or vary any of the Plan Rules, or waive or vary their application to a participant, subject to the requirements of the Australian Stock Exchange.

An offer under the LTI Plan grants an individual the right to a certain number of ordinary shares in the Company which may vest and be convertible into shares, conditional on the achievement of performance measures covering a three year consecutive period and continued employment beyond this time. Under the terms of the LTI Plan, no shares will be allocated before 31 July 2004.

The actual number of shares, if any, finally provided to participants will depend on the extent to which a range of performance measures are met. It is possible for each nominated participant to be allocated either no shares (if none of the performance measures are met), or anywhere between 50% to 150% of their Initial Offered Amount, depending on the level of achievement against performance measures.

An independent valuation of rights to shares granted to executives under the LTI Plan (the Rights) has been performed by PricewaterhouseCoopers Securities Ltd (PwCS).

In undertaking the valuation of the Rights, PwCS have used the binomial option pricing model with zero exercise price which takes into account factors such as the Company's closing share price at the date of grant, volatility of the underlying share price, risk free rate of return, dividend yield and time to maturity. Adjustments have been made for employee retention periods, liquidity and the time and performance based vesting measures of the LTI Plan.

PwCS has assessed the indicative fair market value of a single Right at 30 August 2002 to be in the range of \$0.33 to \$0.45, with a mid-point assessment of \$0.39.

Movements in the LTI Plan are summarised below:

Date of Grant	Expiry Date	NUMBER OF LTI PLAN RIGHTS ⁽ⁱ⁾			Fair Value per LTI Plan Right at Grant Date	Fair Value Aggregate
		Granted during Year	Lapsed during Year	Outstanding at end of Year ⁽ⁱ⁾		
		000	000	000	\$	2003 \$000
30/8/02	31/7/04	1,389	494	895	0.39	349

(i) Initial Offered Amount.

(c) Superannuation Plans

The Company and certain controlled entities contribute to several defined contribution superannuation plans.

These contributions are in accordance with the relevant trust deeds and the Superannuation Guarantee Charge.

	Notes	Class of Share	Interest Held	
			2003 %	2002 %
33. PARTICULARS IN RELATION TO CONTROLLED ENTITIES				
Parent and Chief Entity:				
David Jones Limited				
Controlled Entities:				
Aherns Holdings Pty Ltd (investor)		Ord	100	100
Ahern's (Suburban) Pty Ltd (retailer)	(i)	Ord	100	100
Akitin Pty Limited (investor)		Ord	100	100
Helland Close Pty Limited (liquor licence holder)		Ord	100	100
299-307 Bourke Street Pty Limited (property owner)	(ii)	Ord	100	100
David Jones Credit Pty Limited (investor)		Ord	100	100
John Martin Retailers Pty Limited (non-operating)		Ord	100	100
David Jones Financial Services Limited (financial services)		Ord	100	100
David Jones Insurance Agency Pty Limited (financial services)		Ord	100	100
David Jones Finance Pty Limited (finance company)		Ord	100	100
David Jones (Adelaide) Pty Limited (investor)	(iii)	Ord	100	100
Buckley & Nunn Pty Limited (investor)		Ord	100	100
David Jones Properties (South Australia) Pty Limited (investor)		Ord	100	100
David Jones Properties (Victoria) Pty Limited (property owner)		Ord	100	100
David Jones Properties (Queensland) Pty Limited (property owner)		Ord	100	100
Speertill Pty Limited (liquor licence holder)		Ord	100	100
David Jones Properties Pty Limited (property owner)		Ord	100	100
David Jones Employee Share Plan Pty Limited (corporate trustee)	(iv)	Ord	40	40
David Jones Superannuation Fund Pty Limited (corporate trustee)	(v)	Ord	100	100

(i) Issued capital is owned by Aherns Holdings Pty Ltd.

(ii) Issued capital is owned by David Jones Finance Pty Limited.

(iii) Issued capital of the entity is owned 50% by David Jones Limited and 50% by David Jones Properties (South Australia) Pty Limited.

(iv) Issued capital of the entity is owned 40% by David Jones Limited, 30% by Richard Warburton and 30% by Elizabeth Nosworthy.

(v) Placed in Members' Voluntary Liquidation on 20 March 2003 following completion of transfer of members' balances to a Master Trust arrangement at the end of the previous financial year.

All controlled entities are incorporated in Australia and carry on business in their country of incorporation.

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

34. RELATED PARTY TRANSACTIONS

DIRECTORS

The names of persons who were Directors of the Chief Entity during the year are Richard Warburton, Reg Clairs, John Coates, Stephen Goddard, John Harvey, Katie Lahey, Mark McInnes, Elizabeth Nosworthy, Robert Savage and Peter Wilkinson. Details of Directors' remuneration are set out in Note 31 and in the Directors' Report in the concise annual report 2003.

(a) Directors' Shareholdings and Options

The names of persons who have held the position of Director of the Company during the year and the number of shares and options over shares in the Company held at balance date are listed below.

	Notes	2003 Acquired Number	2003 Number	2002 Number
Ordinary Shares				
Richard Warburton (retired 17 July 2003)	(i), (ii), (iii)	15,947	–	108,669
Peter Wilkinson (retired 31 January 2003)	(ii), (iii)	162	–	5,367
Mark McInnes (appointed 3 February 2003)		–	–	–
Reg Clairs AO	(ii)	13,293	138,711	125,418
John Coates AO	(ii)	646	38,589	37,943
Stephen Goddard (appointed 3 February 2003)		–	225	–
John Harvey		–	30,000	30,000
Katie Lahey	(ii)	8,447	17,554	9,107
Elizabeth Nosworthy (resigned 3 June 2003)	(ii), (iii)	14,341	–	39,257
Robert Savage	(ii)	4,878	39,326	34,448
		57,714	264,405	390,209
Reset Preference Shares				
Richard Warburton	(iii), (iv)	–	–	68
		–	–	68
Options over Ordinary Shares				
Mark McInnes	(v)	–	1,200,000	1,200,000
Stephen Goddard	(v)	–	1,200,000	1,200,000
Peter Wilkinson	(vi)	–	–	3,000,000
		–	2,400,000	5,400,000
Long Term Incentive (LTI) Plan Rights				
(Initial Offered Amount – refer Note 32)				
Mark McInnes	(vii)	100,000	100,000	–
Stephen Goddard	(vii)	125,000	125,000	–
Peter Wilkinson	(vi)	300,000	–	–
		525,000	225,000	–

(i) Of which 82,292 were non-beneficially held in 2002.

(ii) Shares were acquired either through the Dividend Reinvestment Plan, the David Jones Limited Deferred Employee Share Plan, or a combination thereof.

(iii) Retired as a Director in 2003 and therefore the number of shares held at 26 July 2003 has not been reported.

(iv) Shares were allotted under the terms of the prospectus dated 14 May 2002.

(v) Options granted prior to appointment as a Director.

(vi) Lapsed on the retirement of Peter Wilkinson on 31 January 2003.

(vii) LTI Plan Rights granted 30 August 2002 prior to appointment as a Director (refer Note 32(b)(vi)).

(b) Transactions between Directors and David Jones Limited

- (i) From time to time Directors may purchase goods from the Company. These purchases are on the same terms and conditions as those entered into by senior management.
- (ii) Details of indemnification and insurance of Directors and officers are disclosed in the Directors' Report in the concise annual report 2003.

(c) Interest in Controlled Entities

Information relating to controlled entities is set out in Notes 2, 5, 9, 12, 18, 29, 33 and 35.

(d) Superannuation Plans

Information relating to superannuation plans is set out in Note 32(c).

(e) Other Related Party Transactions

- (i) Interest on borrowings between entities is charged at commercial rates (refer Note 2).
- (ii) Rent on properties owned by the consolidated entity is paid by the relevant operating retail company at commercial rates. Rentals for the 52 weeks ended 26 July 2003 amounted to \$2,534,404 (2002: \$2,585,797).

CONSOLIDATED		DAVID JONES LIMITED	
2003	2002	2003	2002
\$000	\$000	\$000	\$000

35. NOTES TO STATEMENTS OF CASH FLOWS**(a) Reconciliation of Cash**

Cash at bank and on hand	9,215	8,678	9,344	8,678
Short-term deposit	8,130	10,460	-	-
	17,345	19,138	9,344	8,678

FACILITY		DRAWN		UNUSED	
2003	2002	2003	2002	2003	2002
\$000	\$000	\$000	\$000	\$000	\$000

(b) Financing Facilities

The consolidated entity had the following unsecured facilities available at period end.

The facilities are unsecured and subject to borrowing covenants.

Overdraft	23,000	23,000	-	-	23,000	23,000
Term loans	150,000	150,000	-	-	150,000	150,000
Letters of credit and guarantees	5,531	7,717	2,483	2,520	3,048	5,197
	178,531	180,717	2,483	2,520	176,048	178,197

The maturity dates of facilities are:

Facility available subject to annual review	27,500
Facility available to 1 December 2004	1,031
Facility available to 3 November 2005	150,000
	178,531

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		DAVID JONES LIMITED	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
35. NOTES TO STATEMENTS OF CASH FLOWS – CONTINUED				
(c) Reconciliation of Net Cash Provided by Operating Activities to Operating Profit after Income Tax				
Operating profit/(loss) after income tax	(25,466)	6,580	32,054	11,353
Net loss on disposal of assets	120	461	120	452
Loss on loans to employees under Employee Share Plan	22	32	22	32
Add/(less) non-cash items:				
– depreciation	45,457	45,864	42,418	43,526
– amortisation	1,967	2,374	–	315
– asset write-down to recoverable amount	41,830	19,336	41,385	19,336
Net cash provided by operating activities before changes in assets and liabilities	63,960	74,647	115,599	75,014
Changes in assets and liabilities:				
Increase/(decrease) in employee entitlements	(1,721)	249	(1,707)	1,974
Increase/(decrease) in income tax payable	(7,886)	3,265	(5,992)	2,208
Increase in provision for deferred tax	1	24	–	–
(Increase) in future income tax benefit	(7,097)	(12,026)	(6,162)	(11,102)
(Increase)/decrease in inventories	(2,331)	89	(2,331)	(22,009)
Decrease in sundry debtors and prepayments	5,187	23,943	6,937	14,491
Increase in deferred liabilities	1,789	2,542	1,789	2,542
Increase/(decrease) in trade creditors	5,925	(1,370)	5,987	4,714
Increase in sundry creditors and accruals	20,913	8,004	22,805	3,425
Net cash inflow provided by operating activities	78,710	99,367	137,325	71,257

36. FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest Rate Risk

The consolidated entity generally enters into interest rate swaps, forward rate agreements and interest rate options to manage cash flow risks associated with the interest rates on borrowings that are floating.

As part of the sale and leaseback transaction, the Company also entered into 30 year opposite fixed interest rate swap contracts to enable the lessor to receive floating interest rates in respect of the operating lease rentals (refer Note 30).

Interest Rate Swaps and Forward Rate Agreements

Interest rate swaps allow the consolidated entity to swap floating rate borrowings into fixed rates, or swap fixed rate borrowings to floating rate. Maturities of swap contracts are principally between two and five years. Each contract involves monthly and/or quarterly payments or receipts of the net amount of interest, being the difference between fixed and floating interest rates.

At balance date the fixed rates varied from 4.7% to 6.29% (2002: 5.2% to 6.29%) and the floating rates were at bank bill rates plus the consolidated entity's credit margin. The weighted average effective floating interest rate (including credit margin) at balance date was 4.29% (2002: 4.29%) while the average effective rate of the fixed and floating components of the consolidated entity's borrowings was 4.29% (2002: 4.48%).

The consolidated entity, from time to time, also enters into forward rate agreements to offset changes in the rates paid on short-term floating rate debt. There were no forward rate agreements outstanding at year end (2002: Nil).

Interest Rate Options

From time to time, the consolidated entity also enters into interest rate options to reduce the impact of changes in interest rates on floating rate long-term debt. No interest rate options were outstanding at year end (2002: Nil).

(a) Interest Rate Risk – continued

Interest Rate Exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

2003	Floating Interest Rate \$000	Fixed Interest Maturing in:			Non-interest Bearing \$000	Total \$000	Average Interest Rate %
		One Year or Less \$000	Over One Year to Five Years \$000	More than Five Years \$000			
Financial Assets							
Cash assets	8,130	–	–	–	9,215	17,345	–
Receivables	–	–	–	–	47,875	47,875	–
Other – prepayments	–	–	–	–	12,224	12,224	–
Interest rate swaps:							
– Sale and leaseback	279,000	–	–	279,000	–	558,000	8.40
– Other	65,000	–	–	–	–	65,000	6.72
	352,130	–	–	279,000	69,314	700,444	
Financial Liabilities							
Lease liabilities	122	–	–	–	–	122	4.92
Dividend payable	–	–	–	–	2,611	2,611	8.10
Interest rate swaps:							
– Interest bearing liabilities	–	121,000	320,000	–	–	441,000	4.89
– Sale and leaseback	279,000	–	–	279,000	–	558,000	8.61
	279,122	121,000	320,000	279,000	2,611	1,001,733	
2002							
	Floating Interest Rate \$000	Fixed Interest Maturing in:			Non-interest Bearing \$000	Total \$000	Average Interest Rate %
		One Year or Less \$000	Over One Year to Five Years \$000	More than Five Years \$000			
Financial Assets							
Cash assets	10,460	–	–	–	8,678	19,138	4.31
Receivables	–	–	–	–	53,092	53,092	–
Other – prepayments	–	–	–	–	12,339	12,339	–
Interest rate swaps:							
– Sale and leaseback	279,000	–	–	279,000	–	558,000	8.40
– Other	65,000	–	–	–	–	65,000	7.00
	354,460	–	–	279,000	74,109	707,569	
Financial Liabilities							
Lease liabilities	338	–	–	–	–	338	4.89
Interest rate swaps:							
– Interest bearing liabilities	–	–	51,000	–	–	51,000	5.76
– Sale and leaseback	279,000	–	–	279,000	–	558,000	8.61
	279,338	–	51,000	279,000	–	609,338	

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

36. FINANCIAL INSTRUMENTS DISCLOSURE – CONTINUED

(b) Foreign Exchange Risks

The consolidated entity enters into forward foreign exchange contracts to hedge certain purchase commitments denominated in foreign currencies. The terms of these derivatives and commitments are less than one year.

The following table sets out the gross value to be paid under foreign currency contracts and the weighted average contracted exchange rates of contracts outstanding at balance date. All contracts expire within one year.

	EXCHANGE RATE		A\$000	
	2003	2002	2003	2002
Buy United States Dollars	0.6193	0.5323	5,856	8,377
Buy English STG	0.3920	0.3677	1,607	2,249
Buy Hong Kong Dollars	4.7833	4.2029	50	487
Buy Swiss Francs	–	0.8692	–	86
Buy Euro	0.5560	0.5908	6,412	7,620
			13,925	18,819

As these contracts are hedging firm purchase commitments, any unrealised gains and losses on the contracts, together with the cost of the contracts, will be recognised in the financial statements at the time the underlying transaction occurs. Marked to market loss on the contracts at balance date was \$541,175 (2002: \$788,000 gain).

(c) Net Fair Value of Financial Assets and Liabilities

Financial Instruments in Statements of Financial Position

The carrying amounts of bank term deposits, prepayments, receivables, payables, borrowings and dividends payable approximate net fair value. These monetary financial assets and financial liabilities are included in assets and liabilities in the statement of financial position.

The loan to employees under the Employee Share Plan of \$1,024,250 (2002: \$1,169,000) is secured against the value of the Company's shares. At balance date the market value of the underlying shares was \$1,090,400 (equivalent to \$1.45 per share) (2002: \$831,500, equivalent to \$1.00 per share).

Financial Instruments not in Statements of Financial Position

The valuation of financial instruments not in the statements of financial position detailed below reflects the estimated amounts which the consolidated entity expects to pay or receive to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates as at balance date.

The net fair values of financial instruments not in the statements of financial position held as at balance date were:

Net Receivables/(Payables)	2003 \$000	2002 \$000
Interest rate swaps		
– interest bearing liabilities	357	(602)
– sale and leaseback	(8,250)	(8,308)
– reset preference shares	2,771	973
Forward foreign exchange contracts	(541)	788
	(5,663)	(7,149)
Securitisation (see Note 28)		
The consolidated entity has entered into an agreement to sell credit card receivables		
Credit card receivables securitised as at balance date	392,692	351,161
Less: Securitisation receivable	38,689	36,268
Total amount funded	354,003	314,893
Excess yield earned	31,125	26,539
Weighted average rates	5.17%	4.59%

(d) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Credit card receivables are sold to an unrelated facility provider. The credit risk is limited to the over collateralisation amount retained by the provider (refer notes 28 and 36(c)).

Credit risk on derivative contracts not in the statement of financial position is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Swap and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks.

CONSOLIDATED	
2003	2002
\$000	\$000

37. DISCONTINUED OPERATIONS

On 3 June 2003, the Company announced its intention to close all Foodchain stores and thereby discontinue its operations in this business segment. All four Foodchain stores ceased trading by 28 June 2003.

The Company has no further contingent liabilities or obligations relating to any Foodchain leases.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Further information is set out in Note 3 – Segment Information.

Financial performance information for the period ended 28 June 2003 and year ended 27 July 2002

Revenue from ordinary activities, excluding the sale of segment assets	36,643	37,100
Revenue from the sale of segment assets	–	–
Total revenue from ordinary activities	36,643	37,100
Expenses from ordinary activities, excluding the carrying amount of assets sold and written-off	(63,256)	(55,386)
Carrying amount of assets written-off	(19,313)	(19,336)
Total expenses from ordinary activities	(82,569)	(74,722)
Loss from ordinary activities before income tax	(45,926)	(37,622)
Income tax benefit	13,778	11,286
Loss after income tax	(32,148)	(26,336)

Financial position information as at 26 July 2003 and 27 July 2002

Segment assets	58	16,945
Segment liabilities	(2,222)	(8,026)
Net assets	(2,164)	8,919

Cash flow information for the period ended 28 June 2003 and year ended 27 July 2002

Net cash provided by operating activities	(32,221)	(12,086)
Net cash (used in) investing activities	(1,685)	(18,344)
Net cash provided by financing activities	33,884	30,428
Net increase in cash held	(22)	(2)

Asset disposals for the year period ended 28 June 2003 and year ended 27 July 2002

Carrying amount of assets	19,313	19,336
Pre-tax loss on disposal	(19,313)	(19,336)
Tax benefit	5,794	5,801
Loss on disposal after tax	(13,519)	(13,535)

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

38. EVENTS SUBSEQUENT TO REPORTING DATE

On 3 June 2003 the Company announced that it would terminate its 1996 agreement to lease a new store in the Fountain Gate centre, Victoria.

Since 26 July 2003 the Company has finalised an agreement to terminate this lease and termination costs of \$9.9 million have been incurred. The financial effect of this transaction has been brought to account in the financial statements for the year ended 26 July 2003 (refer Note 2(b)).

In addition the Company has entered into a new agreement to lease a proposed store in the Fountain Gate centre under different terms. The operating lease commitments for this new lease are included in the amounts shown in Note 30.

DIRECTORS' DECLARATION

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

In the opinion of the Directors of David Jones Limited:

- (1)
 - (a) the financial statements and the Notes set out on pages 01 to 38 comply with the Accounting Standards and Urgent Issues Group Consensus Views;
 - (b) the financial statements and the Notes give a true and fair view of the financial position as at 26 July 2003 and performance of the Company and the consolidated entity for the 52 weeks then ended; and
 - (c) at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (2) the financial statements and the notes have been made out in accordance with the *Corporations Act 2001* including sections 296 and 297.

Signed in accordance with a resolution of the Directors.



Robert Savage
Director

Sydney
30 September 2003

INDEPENDENT AUDIT REPORT

TO MEMBERS OF DAVID JONES LIMITED

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INDEPENDENT AUDIT REPORT

SCOPE

The Financial Report and Directors' Responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the Directors' Declaration for David Jones Limited (the Company) and the consolidated entity, for the 52 weeks ended 26 July 2003. The consolidated entity comprises both the Company and the entities it controlled during that year.

The Directors of the Company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Company and the consolidated entity, and that it complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

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

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the Directors and management of the Company.

INDEPENDENCE

We are independent of the Company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

AUDIT OPINION

In our opinion, the financial report of David Jones Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of David Jones Limited and the consolidated entity at 26 July 2003 and of their performance for the 52 weeks ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young

Sydney
30 September 2003



S J Ferguson
Partner

CORPORATE DIRECTORY

PRINCIPAL REGISTERED OFFICE

86-108 Castlereagh Street, Sydney, NSW 2000

Telephone (02) 9266 5544

Facsimile (02) 9261 5717 – Corporate

(02) 9267 3895 – General Retail

Telephone number 133 DJS (133 357)
for all Stores

LOCATIONS OF ALL STORES

David Jones stores are located in New South Wales, Australian Capital Territory, Victoria, Queensland, South Australia and Western Australia.

Details of individual stores are shown in the 'Stores' section of the David Jones website.

Website davidjones.com.au

The concise annual report, the full financial report and the Notice of Meeting and general shareholder information can be accessed on our website under 'For Investors'. Announcements made to ASX during the year are put on the website.

Further financial information can be obtained from the 2003 financial report which is available, free of charge, on request from the Share Registry by calling 1800 652 207. Alternatively, both the concise annual report and the full financial report can be accessed from the 'For Investors' section at the David Jones website davidjones.com.au

Upon accessing the site, click on 'For Investors' at the bottom of the screen to go through to releases and reports.

COMPANY SECRETARY

John A Simmonds FCIS ASIA

SHARE REGISTRY

Computershare Investor Services Pty Limited

Level 3, 60 Carrington Street, Sydney, NSW 2000

GPO Box 7045, Sydney, NSW 1115

Telephone 1800 652 207 – Toll Free

Facsimile (02) 8234 5050

Website computershare.com

Shareholders can access from the David Jones website under 'For Investors' for information and services relevant to their holding, including dividend payment history details.

Anyone can visit the Share Registry website to access a range of information about David Jones Limited including the closing price of David Jones Limited shares, graphs showing market prices over a requested period and graphs showing volumes traded over a requested period. Shareholders can register their email address through the Share Registry website to receive shareholder communications electronically.

STOCK EXCHANGE

The Company is listed on the Australian Stock Exchange.

The Home Exchange is Sydney.

