



DAVID JONES CONCISE ANNUAL REPORT 2003

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



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SHAREHOLDER CALENDAR 2004

FEBRUARY

Scheduled payment of reset preference share interim dividend.

Announcement of sales for the 26 weeks ended 24 January 2004.

MID/LATE MARCH

Announcement of half yearly profit results and details of interim ordinary dividend.

MAY

Scheduled payment of interim ordinary dividend.

Announcement of sales for the 39 weeks ended 24 April 2004.

AUGUST

Scheduled payment of reset preference share final dividend.

Announcement of sales for the 53 weeks ended 31 July 2004.

MID/LATE SEPTEMBER

Announcement of preliminary profit results and details of final ordinary dividend.

NOVEMBER

Scheduled payment of final ordinary dividend.

Announcement of sales for the 13 weeks ended 30 October 2004.

LATE NOVEMBER/EARLY DECEMBER

2004 Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Wednesday 26 November 2003 at 10:00 am at the Wesley Conference Centre, 220 Pitt Street, Sydney, New South Wales. The Notice of Meeting and Proxy Form are separate items accompanying this 2003 concise annual report.

The 2003 concise annual report includes financial statements which have been derived from David Jones Limited 2003 financial report. These financial statements included in the concise annual report do not provide as full an understanding of David Jones Limited's performance, financial position, financing and investing activities as provided by the 2003 financial report.

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 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.



THE DECISIONS SHAPING OUR FUTURE

Have a common thread – *our core beliefs*

ENHANCING SHAREHOLDER RETURNS

The focus of the Strategic Review initiatives implemented in the 2003 financial year has been to enhance shareholder returns by concentrating on David Jones' core department store business. A key outcome of the Strategic Review will be to return excess cash flows to shareholders in the most efficient manner, over time.

FOCUSING ON OUR CORE STRENGTHS

Our department store and credit card businesses.

COST EFFICIENT, WELL RUN BUSINESS

Identifying and implementing sustainable cost savings through improved efficiencies across all aspects of our business.

AN EFFECTIVE BRAND STRATEGY

Continuing to develop and expand our strategy of having the best national and international brands.

EXCELLENCE IN CUSTOMER SERVICE

Continuing the David Jones tradition of excellence in customer service and identifying opportunities to improve and set new standards of customer service.


RESTORING OUR INVESTMENT FUNDAMENTALS

Focus on generating strong, excess cash flows that can be returned to shareholders on an ongoing basis, in the most efficient manner.

MESSAGE FROM THE CHAIRMAN

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MESSAGE FROM THE CHAIRMAN



Under my Chairmanship I am committed to ensuring that our Company continues to focus on its core business and that rather than pursuing growth ventures, excess cash flows (not needed in the ongoing business) will be returned to shareholders in an efficient manner.

The 2003 financial year has been a unique year for David Jones. It has been a year of significant change at both a management and business level.

Dear fellow shareholders,

On behalf of the Board of David Jones Limited, I am pleased to present the group's annual report for the 2003 financial year (FY03).

Many of you would have received my letter dated 17 July 2003 and would be aware that I was appointed and commenced my role as Chairman of David Jones Limited on that day. Whilst I was only in the role of Chairman for the last two weeks of the 2003 financial year, I have been a Non-Executive Director of David Jones since 1999 and in this capacity (in conjunction with the remainder of the Board) have been closely involved in the key changes that have occurred during the course of this financial year.

OVERVIEW OF FY03

The 2003 financial year has been a unique year for David Jones. It has been a year of significant change both at a management and business level.

On 10 December 2002 we appointed Mark McInnes as Chief Executive Officer of our Company. Mark formally commenced this role on 3 February 2003 following Peter Wilkinson's retirement.

Following his commencement of the CEO role, Mark and our management team undertook an intensive, three month strategic review of our Company's businesses. The outcomes of this Strategic Review were announced to the Australian Stock Exchange on 3 June 2003.

I am pleased to report that significant progress has been made in refocusing our Company on its core strengths and business and in seeking to leverage these strengths into the creation of shareholder value.

Since 3 June 2003, significant restructuring work has been undertaken. David Jones has exited from the Foodchain business, the Online business has been repositioned, the Fountain Gate lease arrangement has been renegotiated, a thorough review of the Company's store portfolio and accounting policies has been undertaken and a cost efficiency program has been implemented.

Our Company's core focus now, is our strong department store and credit card businesses. Over the past few years our department store business has been successfully rebuilt. We now have a contemporary, brand based department store business that is on par with the world's best. Our Company's Brand Strategy includes more than 200 exclusive and high volume, high value brands and we have cultivated an important customer service ethos amongst our staff. David Jones today has a strong market position, a powerful brand name and a loyal customer base.

The David Jones credit card business is also a very attractive business. It has delivered impressive earnings growth since 2001 and in the 2003 financial year generated \$22.1 million in earnings before interest and tax.

Our core businesses performed well in the 2003 financial year – reporting a 20.2% growth in profit (before reset preference share dividends and significant items) from \$35.5 million in FY02 to \$42.7 million in FY03. This was at the upper end of the Company's guidance. Our final result however, was impacted by a number of tough decisions we had to make, to get our Company back on track and in a position to deliver consistent strong yields and steady growth to shareholders.

In the past, apart from rebuilding the core department store business, our Company has pursued growth through ventures such as Foodchain and the Online business. These growth strategies have not delivered the benefits that were hoped for. In order to exit from these unsuccessful ventures and to restructure and refocus our Company on its core business, one-off significant items of \$84 million before tax (\$68 million after tax), have been incurred in the 2003 financial year. It is regrettable that these significant items have had to be incurred. Nevertheless, I am convinced that the right decisions have been made and the most appropriate action taken to restore the investment fundamentals of our Company.

Under my Chairmanship I am committed to ensuring that our Company continues to focus on its core business and that rather than pursuing growth ventures, excess cash flows (not needed in the ongoing business) will be returned to shareholders in an efficient manner.

Set out in the CEO's Report is a detailed review of our Company's performance for the year and an update on progress being made in implementing the Strategic Review initiatives.

FY03 DIVIDEND

As a sign of confidence in the new management team and the future earnings potential of the business, the Board decided to pay a fully franked dividend of 3 cents per share for the second half of the 2003 financial year.

This brings the total fully franked dividend payable to shareholders in FY03 to 6 cents. The final dividend will be payable on 5 November 2003 and is consistent with our Company's current policy of paying out as dividends, 60%-80% of our net profit after tax before significant one-off items.

As announced on 3 June 2003, it has been decided to suspend the Dividend Reinvestment Plan, prior to payment of the final 2003 dividend.

CORPORATE GOVERNANCE

As your Chairman, I recognise the important role that public company boards should play in upholding high corporate governance standards.

This will be an area that I, and the Board, will give priority to, going forward. We welcome the adoption in March 2003, by the ASX Corporate Governance Council, of the ASX Guidelines and will focus on ensuring that David Jones' policies and practices comply in all substantial respects with these Guidelines. Pages 25 to 29 of this Concise Report sets out details of our Corporate Governance policies and practices and should assist shareholders to appreciate the importance that the Board and I place on Corporate Governance issues.

Given that Corporate Governance best practice continues to evolve, your Board and I will regularly review the Company's policies and practices, to ensure they reflect the interests of our stakeholders. As evidence of our commitment in this regard, we have taken a number of steps since my appointment, to improve our Company's Corporate Governance policies and practices, including:

- **Long Term Incentive Plan:**
We intend to disclose the terms of our senior executive Long Term Incentive Plan by including in the Notice of Meeting for the November 2003 AGM, performance measures, comparative companies, number of executives eligible to participate and the number of shares to be potentially issued under the plan;
- **Intention to revise Non-Executive Director Retirement Allowance for existing Directors:**
We intend to cap Non-Executive Director retirement allowance to three terms (i.e. nine years);

- **Intention to abolish Non-Executive Director Retirement Allowance for new appointees:**

The retirement allowance will not apply to any new Non-Executive Directors. In order to ensure that new Non-Executive Directors are placed on a par with current Directors we are proposing that any new Non-Executive Directors appointed to the Board will have a new fee scale. This fee scale is intended to recognise that they will not receive the retirement allowance.

THANK YOU

On behalf of the Board, I would like to take this opportunity to thank Richard Warburton and Elizabeth Nosworthy for their contribution as members of the Board (in Richard's case as Chairman) for seven years and to wish them both all the best for the future.

I would also like to thank Peter Wilkinson who retired as CEO of our Company on 31 January 2003, following nearly six years in the role. Peter was instrumental in the development and implementation of our Brand Strategy. The Board and I wish him well in the future.

I would also like to thank all of David Jones' executive team and staff for their hard work and commitment during this important year of change and refocus for our Company.




Robert Savage
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

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CHIEF EXECUTIVE OFFICER'S REPORT



We have made significant progress since 3 June 2003 in implementing the Strategic Review initiatives. We have completed our restructure, including the closure of Foodchain and the repositioning of Online, enabling us to focus on our core department store and credit card business.

Good progress is being made in our Cost Efficiencies Program and we have established tight guidelines and disciplines for our Capital Expenditure Program. In view of the progress we have made in these areas we are on track to deliver the Strategic Review outcomes announced on 3 June 2003.

Dear shareholders,

As you know I commenced my role as Chief Executive Officer of David Jones Limited on 3 February 2003. This is the first opportunity I have had to formally report to you in this capacity and I wanted first and foremost, to express how honoured I feel to be given the responsibility to be the steward of an iconic and much loved brand such as David Jones. I take this responsibility very seriously and look forward to drawing on my 20 years' experience as a career retailer, in performing my role as CEO of David Jones.

Although I was only in the CEO role for half of the 2003 financial year, I am pleased to report that significant progress has been made in focussing on David Jones' core business and on restoring the investment fundamentals of our Company.

Since my appointment as CEO, I have undertaken (in conjunction with our new management team) a thorough strategic review of the Company's businesses and an analysis of how best to leverage our strengths to create shareholder value (the 'Strategic Review'). The outcomes of this review were announced to the Australian Stock Exchange on 3 June 2003.

Whilst the 2003 financial results set out in this Annual Report do not reflect the positive financial impact of the initiatives we have commenced implementing, it does provide a useful yardstick against which to measure where the business was and the impact and effectiveness that the Strategic Review initiatives are having.

FY03 RESULTS

The 2003 financial year (FY03) has been a year of important change and refocus for our Company. We have made significant progress in restructuring the business to focus on our core, department store business and on establishing a framework within which we can strengthen and grow our Company's cash flows and deliver on-going earnings growth.

Net profit after tax (NPAT) (pre reset preference share (RPS) dividends and significant items) for the 2003 financial year was \$42.7 million compared to NPAT of \$35.5 million in FY02. This represents NPAT growth (pre RPS dividends and significant items) of 20.2%, which is at the upper range of our stated target of 15%-20% earnings growth per annum.

As previously announced, full year sales of \$1,711 million for FY03 were up 2.6% on the previous year (FY02 : \$1,668 million).

Earnings before interest and tax (EBIT) and significant items for the core department store and credit card businesses in FY03 were \$69.6 million compared to \$68.0 million in FY02, up 2.3 %.

This result demonstrates that our department store business is an excellent business and confirms our strategy of focussing on our core business. Our department store business has been successfully rebuilt over the past few years and today enjoys a strong market position, a powerful brand, a loyal customer base and a well-established and successful Brand Strategy.

As foreshadowed at the time of the Strategic Review announcement, significant items of \$84 million pre-tax (\$68 million post tax) were incurred in FY03. These significant items included the cost of exiting from the Foodchain business, the repositioning of Online and costs associated with the renegotiation of the Fountain Gate lease arrangement.

As a result of these significant items, a loss of \$25.5 million (after tax and significant items) was incurred in FY03. This is consistent with the Strategic Review announcement on 3 June 2003 that we expected one-off significant items to amount to more than \$78 million (pre-tax) and to result in a post tax loss of more than \$20 million in the 2003 financial year.

Whilst the FY03 significant items are substantial, the benefits that will arise as a result of implementation of the Strategic Review initiatives, far outweigh these initial one-off costs.

We are confident that by FY04 we will see a significant improvement in the size, sustainability and quality of our earnings.

CORE DEPARTMENT STORE BUSINESS

Despite a slow down in consumer spending and a very competitive sales environment involving heavy discounting by market participants, sales for the core department store business in FY03 were \$1.675 billion compared to \$1.631 billion in FY02. This represents an increase of 2.7% compared to last financial year.

Throughout the course of the year we noticed a slowdown in sales growth, in particular in the second half. **Sales** in the first two quarters of the year were strong however the last quarter experienced a slow down reflecting an unseasonably warm winter, increased discounting activity by our competitors and the one-off impact of two key store refurbishments (Market Street Foodhall and Bondi Junction).

We anticipate this slow down in consumer spending and competitive discounting pressure will continue in FY04.

We recognise that we operate in a cyclical and competitive sector therefore we were particularly pleased that notwithstanding heavy discounting by participants within the sector our retail gross **margins** were in our targeted range of 36.5% -36.9%. To a large extent, our strong margins can be attributed to the continuation, development and expansion of our Brand Strategy.

Throughout the course of the 2003 calendar year we reached agreement to introduce a number of high profile brands on a department store exclusive basis into our stores and extended certain existing brands to cover new categories and additional David Jones stores. Examples of these brands include sass & bide, Witchery, Lisa Ho, Sportscraft, Trent Nathan, David Lawrence, Giorgio Armani cosmetics, Fred Bare, Pumpkin Patch, Esprit Kids, Natuzzi and Moran furniture, Bang & Olufsen and Apple Computers.

Whilst we have been successful in further developing our Brand Strategy throughout the year, we were disappointed that Country Road has decided to cease supply to David Jones in 2004. We have learnt a lot from the Country Road experience and this is reflected in our collaborative approach with our suppliers. Our door will always be open for future discussion with Country Road and we would warmly welcome them back into our brand portfolio.

In addition to the further extension and development of our Brand Strategy, we also have a pleasing result to report in relation to **inventory management**. Throughout the course of the 2003 financial year we have maintained aged stock inventory levels below 5% of total inventory, avoiding the need for future discounting and mark-down sales due to a build up of excess or aged stock. Our tight inventory management is regarded as amongst the industry's best.

CREDIT CARD BUSINESS

Our credit card business posted yet another exceptional EBIT result of \$22.1 million in FY03, up 47.8 % over last financial year (EBIT of \$14.9 million in FY02). We will continue to develop the earnings potential of our credit card business through good management of costs and bad debts, a well-managed interest free program and through continued integration into the David Jones department store marketing program.

STRATEGIC REVIEW UPDATE

We have made significant progress since 3 June 2003 in implementing the Strategic Review initiatives.

We have completed our restructure, enabling us to focus on our core business. Good progress is being made in our cost efficiency program and we have established tight guidelines and disciplines for our Capital Expenditure program.

In view of the progress we have made in these areas we are on track to deliver the Strategic Review outcomes announced to the market on 3 June 2003.

Restructure to Focus on Core Business

As announced on 3 June 2003, a key component of our Strategic Review was the thorough review of each of David Jones' businesses and an objective assessment of their performance and their prospects going forward.

We assessed a number of options for each of the businesses that were underperforming or whose prospects did not meet our investment hurdles. On the basis of this analysis we decided that in order to generate sustainable earnings growth and long-term value for shareholders, we needed to restructure the business to focus on our core department store business. This restructure involved the exit from Foodchain, the repositioning of the Online business and a thorough review and assessment of the store portfolio.

Our restructure is now complete and as a result, our entire management team is now focussed on delivering results from our core department store business.

Foodchain: In accordance with the Strategic Review decision to exit the Foodchain business, all Foodchain stores ceased trading on 28 June 2003. The Port Melbourne lease was terminated in February 2003. Two leases (St Kilda and Manly) were assigned to Freedom Group Limited's subsidiary Bayswiss and the other two (Brighton and Hawthorn) were terminated in early July 2003. The total cost to David Jones of exiting the four leases that were in place at the date of the Strategic Review announcement was \$10.2 million. We have no further contingent liabilities or obligations relating to any of the Foodchain leases.

In addition to the Foodchain lease exit costs, we also incurred \$28.8 million pre-tax in FY03 of one-off costs associated with exiting the Foodchain business, including non current asset write offs, restructuring costs and the cost of exiting the Port Melbourne location.

Online: In keeping with the Strategic Review announcement that the Online business would be repositioned, as from July 2003 general merchandise ceased being available for sale on line. The Online business today is primarily an integrated marketing site providing access to marketing information, David Jones card statements, in-store event and investor information, the ability to view bridal and gift registers and between October and December each year, the ability to buy Christmas hampers.

We incurred a total of \$6.4 million before tax in one-off costs associated with repositioning the Online business.

Department Store Portfolio: A key component of the Strategic Review was the assessment of each of the stores in the Group's store portfolio. As a result of this review, we have written down the carrying value of the **Hornsby** store in the Company's accounts by \$7.9 million to reflect its true value in terms of current and expected trading performance.

In relation to the **Fountain Gate** site, as announced on 15 September 2003, Westfield Trust agreed to terminate our original Fountain Gate agreement to lease and to enter into a revised agreement. In consideration of this, David Jones paid a \$9.8 million termination fee, which is reflected in the FY03 accounts. Under the terms of the new leasing arrangement:

- There has been a reduction in our store size obligations from 15,000 square metres to 12,500 square metres bringing the store size in line with the successful store formats we have utilised in other Westfield centres such as Parramatta and Miranda;
- The opening date for the store has been delayed from the period 2007-2010 to the period 2008-2012; and
- Westfield has undertaken to fund fit-out costs of \$13 million (in 2008 dollar terms) for the David Jones department store at the Fountain Gate site.

As announced on 3 June 2003, a one-off significant item cost of \$1.3 million before tax has been incurred in FY03 as a result of the decision to close the **Rockingham (Western Australia)** 'Aherns' store upon expiry of the lease at this site at the end of July 2004.

Asset & Accounting Policy Review

In addition to the restructure outlined above, we decided as part of the Strategic Review to also undertake a full review of our assets and our accounting policies. On the basis of this review we have incurred some one-off accounting charges relating to items such as store and head office assets and inventory refinement.

A full review of the asset register and accounting policy was undertaken, resulting in adjustments amounting to \$18.6 million before tax.

Cost Efficiency Program

Since announcement of the Strategic Review on 3 June 2003 we have commenced implementing a new cost efficiency program targeting non-customer service related areas. This program is designed to generate savings that more than offset costs arising as a result of investment in key store refurbishments and improved customer service.

We anticipate that by FY06 the cost efficiencies implemented as part of our cost management program will reduce our Company's cost base by \$50 million per annum. Of this \$50 million per annum savings, \$40 million per annum will be offset against strategic cost increases (such as rent, occupancy and customer service) resulting from investment in key store refurbishments and service initiatives. The remaining \$10 million per annum will flow through to earnings before interest tax and tax by FY06.

Whilst our cost efficiency program only commenced being implemented in the last two months of the 2003 financial year, we have nevertheless made significant progress in identifying and generating savings and efficiencies in areas such as non-merchandise procurement, information technology, logistics and supply chain functions as well as visual merchandising initiatives and non-customer service related store savings.

On the basis of the progress made to date in the areas of cost management and cost efficiencies, we are confident that we will meet our targeted FY04 cost savings of \$17 million.

Capital Expenditure (Capex)

As announced on 3 June 2003, another of the key initiatives implemented as a result of the Strategic Review was the establishment of a Capex Committee and clear Capex guidelines and disciplines that focus on management of capital expenditure in terms of amount spent, timing of investment and return on funds employed.

We have allocated \$50 million per annum for the next five years to be used for capital expenditure purposes. This will be comprised of \$35 million per annum, which will be invested in the strategic refurbishment of key department stores. A further \$10 million – \$12 million per annum will be invested in IT.

Our Capex in FY03 amounted to \$61.9 million and included investment in the opening of the Hay St store in the Perth CBD, refurbishment of the Market Street Foodhall (which reopened on 25 August 2003) and the refurbishment of the Bondi Junction store (which will be completed in November 2003).

EMPLOYEES

Our Company has a strong heritage of customer service and our employees are integral to this. It is our job to serve customers on a daily basis to the best of our ability and to continue the David Jones tradition of excellence in customer service. I would like to thank each of our employees for their dedication and commitment to achieving our objective of making David Jones the best department store.

SUPPLIERS

In addition to our employees, another key component of our business and to the success of our Brand Strategy, is our relationship with our suppliers. We acknowledge the important role that good relationships with our suppliers play in our business. As such, I would like to thank all of our suppliers for working closely with us throughout the 2003 financial year to achieve mutually beneficial outcomes. We look forward to continuing to work closely with each of our suppliers going forward and to continuing to strengthen our relationships.

PHILANTHROPY

I am proud to report that in FY03 an extensive internal and external analysis of our Company's donations policy was completed and our new Donations Policy was adopted.

Our intention in undertaking this analysis was to ensure we supported charities which our customers value highly, that we focus on a limited number of charities so that we can make a meaningful contribution and that our donation structure is aligned to shareholders' interests.

External market research of our Company's customer base indicated that our customers most highly value David Jones supporting two charities, the National Breast Cancer Foundation and The Children's Cancer Institute.

These two charities therefore, have been selected as our two target charities and our contributions to these have been structured to reflect the underlying profit after tax generated by our Company each year. In short, every year our Company will donate 0.5% of its profit after tax (pre-significant items and pre RPS dividends) to our two selected charities. This enables us to align our Donations Policy with the interests of our shareholders and customers.

Even though the new Donations Policy will be implemented in full in the 2004 financial year, we have made significant contributions to our two target charities in the 2003 financial year, including:

- **Establishment of the Rose Clinic at the David Jones' Elizabeth Street store**

The Rose Clinic at David Jones' Elizabeth Street store offers a range of services including breast cancer screening, bone density assessments, blood tests etc at no charge. David Jones contributed \$150,000 for the purchase of equipment for the clinic and \$50,000 for staffing;

- **National Breast Cancer Foundation**

I am delighted to report that we have presented the National Breast Cancer Foundation with a cheque for \$250,000 in September 2003 from the sales of our Charity Bear; and

- **Children's Cancer Institute Australia**

David Jones' sales staff raised \$23,000 through the sale of 'The Challenge' merchandise in all David Jones stores and \$25,000 through the sale of Ralph Lauren 'Bears that Care' at Christmas in all David Jones stores. We have also undertaken to fund the \$100,000 'David Jones Neuroblastoma Scientist Scholarship'.

OUTLOOK

FY03 has been a significant year for our Company. We have achieved a lot in terms of restructuring and refocusing our Company on its core strengths, as well as delivering profit after tax (before significant items) of \$42.7 million, which represents growth of 20.2% and is at the upper end of our guidance.

I am confident that the Strategic Review initiatives we have commenced implementing since 3 June 2003, have enabled us to establish a solid framework from which we will improve the quantity and quality of our Company's earnings in FY04 and thereafter.

We anticipate that our revenue in the first quarter of FY04 (1Q04) will be constrained by disruption resulting from the Bondi Junction and Market Street refurbishments, volatile consumer sentiment and the fact that we are a cyclical business that is coming off strong sales growth rates of 5.8% in 1Q03, 3.4% in 2Q03 and 2.7% in 3Q03.

Nevertheless, we are on track to deliver 1.5% to 2.5% sales revenue growth in FY04, as outlined at the Strategic Review announcement on 3 June 2003 and reiterate our profit forecast (pre RPS) for FY04 in the range of \$52- \$56 million.

I look forward to being able to report back to you on progress we are making, through the implementation of the Strategic Review initiatives, over the next 12 months.



Mark McInnes
Chief Executive Officer

FIVE YEAR FINANCIAL STATISTICS

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FIVE YEAR FINANCIAL STATISTICS

| | 2003 \$000 | 2002 \$000 | 2001 \$000 | 2000 \$000 | 1999* \$000 |
|--|----------------|----------------|----------------|----------------|----------------|
| SALES AND PROFIT | | | | | |
| Sales | | | | | |
| – Continuing business | 1,674,525 | 1,668,182 | 1,547,481 | 1,528,135 | 1,355,034 |
| – Total sales | 1,711,169 | 1,668,182 | 1,547,481 | 1,528,135 | 1,355,034 |
| Gross profit | 622,997 | 587,656 | 566,627 | 539,977 | 470,470 |
| – % of sales | 36.4% | 35.2% | 36.6% | 35.3% | 34.7% |
| Retail contribution – department stores | 47,529 | 53,123 | 27,179 | 58,101 | 43,283 |
| Property segment result (note (ii)) | 2,497 | 2,546 | 4,809 | 17,447 | 16,827 |
| Credit segment result (note (iii)) | 22,069 | 14,936 | 10,601 | 10,217 | 6,970 |
| Foodchain segment result | (45,926) | (37,622) | (8,053) | – | – |
| Sale of property | – | – | 8,886 | 3,200 | – |
| Goods and services tax costs | – | – | – | (18,369) | – |
| Store closure/restructuring | (45,234) | (14,020) | – | – | – |
| Earnings before interest and tax (EBIT) (note (i)) | (19,065) | 18,963 | 43,440 | 70,596 | 67,080 |
| Operating profit after income tax | (25,466) | 6,580 | 28,044 | 35,808 | 40,956 |
| BALANCE SHEET | | | | | |
| Inventory | 289,540 | 287,209 | 287,298 | 283,188 | 245,954 |
| Other current assets | 72,586 | 81,927 | 94,415 | 106,712 | 120,976 |
| Property, plant and equipment (note (ii)) | 246,547 | 272,416 | 266,989 | 420,611 | 343,564 |
| Other non-current assets | 51,076 | 43,636 | 32,663 | 34,034 | 10,658 |
| Total Assets | 659,749 | 685,188 | 681,365 | 844,545 | 721,152 |
| Creditors (note (iv)) | 182,735 | 166,786 | 160,153 | 177,602 | 194,299 |
| Provisions | 56,879 | 62,795 | 53,154 | 66,268 | 55,771 |
| Borrowings | 122 | 339 | 61,781 | 190,943 | 65,689 |
| Total Liabilities | 239,736 | 229,920 | 275,088 | 434,813 | 315,759 |
| Net Assets | 420,013 | 455,268 | 406,277 | 409,732 | 405,393 |
| RATIOS | | | | | |
| EBIT to sales (%) | (1.1%) | 1.1% | 2.8% | 4.6% | 5.0% |
| Basic earnings per share (cents) | (7.5¢) | 1.5¢ | 7.1¢ | 9.1¢ | 10.4¢ |
| Dividend per share (cents) | 6.0¢ | 7.0¢ | 8.0¢ | 8.0¢ | 8.0¢ |
| Debt to equity (%) (note (v)) | 0.0% | 0.1% | 15.2% | 46.6% | 35.7% |
| Return on average shareholder equity (%) | (5.5%) | 1.6% | 6.9% | 8.7% | 8.6% |

NOTES:

(i) EBIT restated to treat abnormals as ordinary activities (1999-2000).

(ii) Sale and leaseback of Sydney and Melbourne CBD stores (2001).

(iii) Credit card receivables were securitised in July 1999. To assist comparison, the contribution in 1999 has been restated to reflect net of securitised interest expense.

(iv) Includes \$79.2 million accrual for reduction of capital (1999).

(v) Includes (iv) above as debt for calculation of debt to equity ratio (1999).

* 53 week year.

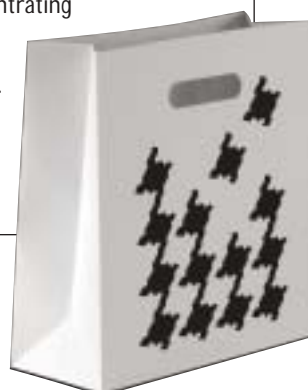
FOCUSING ON OUR CORE STRENGTHS

An excellent department store business.

A RETURN TO OUR CORE RETAIL BUSINESS

David Jones' core department store business has been successfully rebuilt over the past few years and is now an excellent business. It has a strong market position, a powerful brand name, a loyal customer base and is successfully differentiating itself from its competitors in terms of exclusive supply arrangements, quality of service, store ambience and product range.

In order to generate sustainable earnings growth and long-term value for shareholders the Company is concentrating on its core profit generating businesses – its department store and credit card business. David Jones has exited from the Foodchain business and repositioned its Online business.



“MOVING FORWARD, WE ARE FOCUSING ON LEVERAGING OUR CORE DEPARTMENT STORE STRENGTHS INTO ONGOING VALUE AND RETURNS FOR SHAREHOLDERS. OUR OBJECTIVE IS TO RESTORE THE INVESTMENT FUNDAMENTALS OF THE COMPANY BY POSITIONING DAVID JONES AS A WELL-DEFINED AND BRAND ORIENTED RETAIL DEPARTMENT STORE WHICH DELIVERS CONSISTENT, STRONG YIELDS AND STEADY GROWTH.”

Mark McInnes, 3 June 2003

EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

OVERVIEW OF FY03 FINANCIAL PERFORMANCE

David Jones Limited reported a net profit after tax (NPAT) (before RPS dividends and significant items) of \$42.7 million for this financial year ended on 26 July 2003; an increase of 20.2% on last year's NPAT of \$35.5 million.

As foreshadowed at the time of the Strategic Review announcement on 3 June 2003, significant items of \$84.3 million before tax (\$68.2 million after tax) were incurred this year, as a result of which the Company incurred a loss of \$25.5 million (after tax and significant items). This was consistent with the Strategic Review announcement that the one-off significant items were expected to amount to more than \$78 million (pre-tax) and to result in a post tax loss of more than \$20 million in the year.

Full year sales were \$1.711 billion; 2.6% up on last year's sales of \$1.668 billion.

Full year earnings before interest and tax (EBIT) and significant items for the department store and credit card business were \$69.6 million; up 2.3% on last year's EBIT of \$68.0 million.

CORE DEPARTMENT STORE BUSINESS

Sales for the core department store business this year were \$1.675 billion compared to sales of \$1.631 billion last year; an increase of 2.7%, despite a slow-down in consumer spending and a competitive sales environment.

Core department store EBIT declined by 10.5% for the year due to substantial cost increases in rent, occupancy, insurance and other areas.

In addition, the total Cost of Doing Business for the year was 33.7% compared to 32.6% last year. This is in line with the guidance provided at the first half results of a greater than 100 basis points increase in costs in the second half of this year.

Costs were a key factor taken into account in the Strategic Review and a cost program has been set to deliver \$50 million savings in costs over three years.

Retail sales were strong in the first three quarters of the year, the last quarter however experienced a slow down reflecting the one-off impact of two key store refurbishments (Market Street Foodhall and Bondi Junction), an unseasonably warm winter and increased discounting activity by competitors.

Strong retail gross margins of 36.5% were achieved in FY03; 60 basis points higher than the previous year. These strong margins are largely attributed to the continuation, development and expansion of the Company's Brand Strategy.

Well-established stock management practices resulted in aged stock inventory levels for the group being maintained below 5% of total inventory.

CREDIT CARD BUSINESS

The Credit Card business delivered an EBIT of \$22.1 million compared to \$14.9 million last year, an increase of 47.8%, reflecting growth in the overall card base, a strong sales performance, tight cost management and low levels of doubtful debts.

STRATEGIC REVIEW UPDATE & SIGNIFICANT ITEMS

Restructure to Focus on Core Business

On the basis of the Strategic Review findings it was decided that a restructuring of the business would take place during the remainder of the 2003 financial year to enable the Company to refocus on its core department store business. This restructure involved:

- The exit from the Foodchain business at a total exit cost of \$39.0 million – all Foodchain stores ceased trading on 28 June 2003.
- The repositioning of the Online business at a cost of \$6.4 million before tax – as from July 2003, general merchandise ceased being available for sale on Online. The Online site is now primarily an integrated marketing site providing marketing information, access to David Jones card statements, in-store event and investor information, the ability to view bridal and gift registers and between October and December each year, the ability to buy Christmas hampers.

- A thorough review and assessment of the store portfolio – Hornsby store's carrying value written down by \$7.9 million to reflect true value; Fountain Gate lease arrangements re-negotiated at a cost of \$9.8 million by way of a one-off termination fee; Rockingham store to be closed upon expiry of the lease at the end of July 2004 at the cost of \$1.3 million before tax.

Asset Register & Accounting Policy Review

A full review of the Company's asset register and accounting policy was undertaken as part of the FY03 Strategic Review, resulting in adjustments amounting to \$18.6 million before tax.

Total Significant Items

Total significant items for the year were \$84.3 million before tax (\$68.2 million after tax). All of the significant items are one-off costs that have been provided for in full in the 2003 financial year.

CAPITAL MANAGEMENT

Return on Funds Employed (ROFE) for the full year was 14.8% compared to 12.4% pre-significant items last year. The Company is on track to achieving the benchmark ROFE hurdle rate of 15% by FY04 and is committed to strengthening and growing the cash flows of the business to return the excess that is not needed in the ongoing business to shareholders in an efficient manner.

EARNINGS PER SHARE & DIVIDENDS

Basic earnings per share (EPS) before significant items increased by 4.5% from 8.8 cents last year to 9.2 cents this year.

The Board has declared a final dividend of 3 cents per ordinary share fully franked, bringing the total for FY03 to 6 cents per share fully franked (2002: 7 cents per share). The final dividend is payable on 5 November 2003. The Dividend Reinvestment Plan has been suspended prior to payment of the final FY03 dividend.

COST EFFICIENT, WELL RUN BUSINESS

Generating *sustainable savings*.

STRONGER SHAREHOLDER RETURNS

A cost efficiency program has been developed that will generate sustainable savings of \$50 million over three years.

The cost efficiency program is designed to generate savings that more than offset costs arising as a result of investment in key store refurbishments and improved customer service.

It is expected \$10 million per annum will flow through to earnings before interest and tax (EBIT) by the 2006 financial year.



"THROUGHOUT THE THREE MONTH STRATEGIC REVIEW PROCESS WE HAVE BEEN ACUTELY AWARE OF THE IMPORTANCE OF IDENTIFYING AND IMPLEMENTING REALISTIC AND SUSTAINABLE COST SAVING MEASURES WITHOUT JEOPARDISING THE QUALITY OF SERVICE AND POSITIONING OF OUR DEPARTMENT STORES. BY ENSURING OUR MANAGEMENT TEAM WAS INTEGRALLY INVOLVED IN THE REVIEW PROCESS AND ALIGNING EMPLOYEE PERFORMANCE MEASUREMENTS AND REWARDS TO THE ACHIEVEMENT OF COST EFFICIENCIES, I BELIEVE WE HAVE ACHIEVED A CULTURAL CHANGE AND ORGANISATION-WIDE OWNERSHIP OF THE STRATEGIC REVIEW INITIATIVES."

Mark McInnes, 3 June 2003

EXECUTIVE SUMMARY – CONTINUED

OVERVIEW OF CONSOLIDATED PROFIT

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EXECUTIVE SUMMARY

| | CONSOLIDATED | | | |
|---|----------------|----------------|-------------|---------------|
| | 2003 \$m | 2002 \$m | Change % | |
| Sales – Department Stores | 1,674.6 | 1631.1 | + | 2.7% |
| Sales – Foodchain | 36.6 | 37.1 | - | 1.3% |
| Total Sales | 1,711.2 | 1,668.2 | + | 2.6% |
| Gross Profit – Department Stores | 611.8 | 585.6 | + | 4.5% |
| % to sales – Department Stores | 36.5% | 35.9% | | |
| Cost of Doing Business¹ | 564.3 | 532.5 | + | 6.0% |
| % to sales – Department Stores | 33.7% | 32.6% | | |
| EBIT – Department Stores | 47.5 | 53.1 | - | 10.5% |
| % to sales – Department Stores | 2.8% | 3.3% | | |
| Credit | 22.1 | 14.9 | + | 47.8 |
| EBIT – Department Stores + Credit | 69.6 | 68.0 | + | 2.3% |
| % to sales – Department Stores | 4.2% | 4.2% | | |
| Property | 2.5 | 2.5 | | |
| Foodchain | (6.9) | (12.7) | - | 45.8% |
| EBIT – Total | 65.2 | 57.8 | + | 12.8% |
| % to total sales | 3.8% | 3.5% | | |
| Net interest expense | 3.3 | 7.4 | - | 55.4% |
| Profit before tax | 61.9 | 50.4 | + | 22.8% |
| Income tax expense | 19.2 | 14.9 | + | 28.9% |
| Profit after tax before Significant Items | 42.7 | 35.5 | + | 20.2% |
| SIGNIFICANT ITEMS | | | | |
| Effect of discounting interest free sales to fair value | - | (2.6) | | |
| Inventory rebate adjustment | - | (6.9) | | |
| Foodchain restructuring costs | - | (24.8) | | |
| Foodchain business closure | (39.1) | - | | |
| Online business restructure | (6.4) | - | | |
| Store closure provision – Rockingham | (1.3) | - | | |
| Lease termination costs – Fountain Gate | (9.9) | - | | |
| Corporate Head Office | (1.1) | (4.6) | | |
| Hornsby asset write-down to recoverable amount | (7.9) | - | | |
| Other asset write-down to recoverable amount | (8.5) | - | | |
| Corporate Head Office asset write-downs to recoverable amount | (2.3) | - | | |
| Inventory cost refinements | (6.4) | - | | |
| Other adjustments | (1.4) | - | | |
| Total Significant Items (before tax) | (84.3) | (38.9) | + | 116.9% |
| Tax on Significant Items | 16.1 | 10.0 | + | 61.9% |
| Total Significant Items (after tax) | (68.2) | (28.9) | + | 135.8% |
| Profit after tax and Significant Items | (25.5) | 6.6 | - | 487.0% |

¹ Cost of Doing Business includes Corporate Head Office.

OVERVIEW OF PROFIT

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EXECUTIVE SUMMARY

Department Stores

| | 2003 | | 2002 | |
|--|-------------|-------------|-------------|-------------|
| | \$m | % of Sales | \$m | % of Sales |
| Sales – Department Stores ¹ | 1,674.6 | | 1,631.1 | |
| Gross profit – Department Stores | 611.8 | 36.5% | 585.6 | 35.9% |
| Cost of Doing Business ² | 564.3 | 33.7% | 532.5 | 32.6% |
| EBIT – Department Stores | 47.5 | 2.8% | 53.1 | 3.3% |

¹ David Jones Online has been integrated into the Department Store segment.

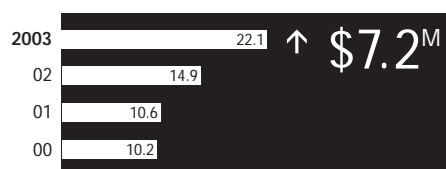
² Cost of Doing Business includes Corporate Head Office.

Dividend Information

| | 2003 Cents Per Share | 2002 Cents Per Share |
|--|----------------------------|----------------------------|
| Basic EPS before Significant Items and after RPS dividends | 9.2 | 8.8 |
| Basic EPS | (7.5) | 1.5 |
| Dividends on ordinary shares | 6.0 | 7.0 |

CREDIT CARD

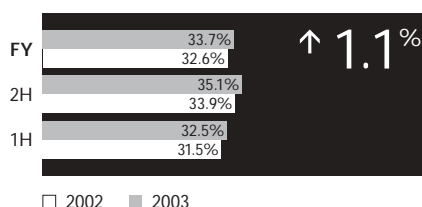
YEAR RESULT (\$ MILLIONS)



This is the contribution from the credit card business to profit (post securitisation of credit card receivables). A four year comparison is provided as receivables before FY 2000 were not securitised therefore comparison is misleading.

DEPARTMENT STORE BUSINESS

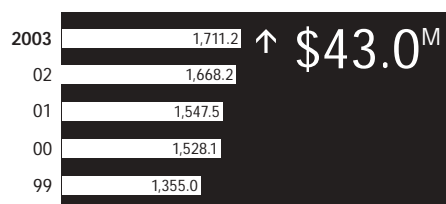
COST OF DOING BUSINESS (CODB)
(AS A PERCENTAGE OF SALES)



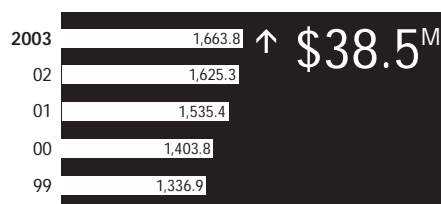
The graph covers the first half (1H), second half (2H) and the full financial year (FY). CODB includes the costs of running the Department Store business and Corporate Head Office.

DAVID JONES SALES

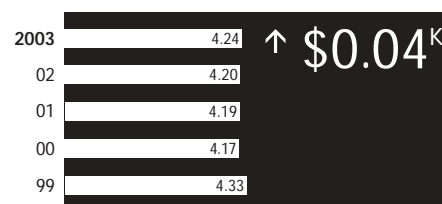
5 YEAR SALES – TOTAL SALES
(\$ MILLIONS)



5 YEAR SALES – LIKE FOR LIKE SALES
DEPARTMENT STORE BUSINESS ONLY (\$ MILLIONS)



SALES PER SQUARE METRE
(\$ THOUSANDS)



Department Store sales excluding David Jones Online, divided by Department Store total selling space at end of year.

Note: In the period 1999-2003, selling floorspace increased by 84,500m² or 25%. This included the acquisition of Aherns during FY 2000 and the opening of new stores such as Chadstone and Southland.

STORES

Hay Street, Perth

Refurbishment of the Hay Street CBD store in Perth was completed in October 2002. The refurbishment has resulted in the store almost doubling in size (it has selling space of 16,900 square metres compared to 8,000 square metres prior to the refurbishment) and includes a new Foodhall, a new generation cosmetics hall and new merchandise concept areas for brands such as Armani, Boss and Orrefors Kosta Boda. Trading in the Hay Street store following completion of the refurbishments has been above expectations.

Bondi Junction, Sydney

Refurbishment work on this store commenced in 2002 and is due for completion in November 2003. The grand opening of the refurbished Bondi Junction Foodhall took place in February 2003 and has been trading very strongly despite ongoing refurbishment within the rest of the store.

The refurbishment at Bondi Junction is part of the larger redevelopment by Westfield of the entire Bondi Junction complex. Whilst development of the entire Westfield centre will not be completed until 2004, the refurbished David Jones store will be open for trading in November 2003 and most importantly for the critical Christmas trading period.

Elizabeth & Market Streets, Sydney

Refurbishment work on the flagship Elizabeth Street and Market Street stores commenced in 2001 and continued throughout the 2003 financial year. During the 2003 year the Market Street Foodhall was completely refurbished. Work commenced on the Foodhall in April 2003 and was reopened on Monday 25 August 2003 in conjunction with a high profile grand opening by Lord Mayor Lucy Turnbull and an advertising and promotional campaign featuring some of Australia's most highly regarded and well known chefs including Luke Mangan, Kylie Kwong and Bill Granger.

Queen Street, Brisbane

Construction work has commenced on the site adjoining the existing store. This is part of stage 1 of the proposed new David Jones store at Queen Street. The new store will increase by more than 7,000 square metres of selling space and will incorporate the existing store and the adjoining site. Minor preparation works have commenced within the existing store. Construction on the adjoining site is expected to be completed in late 2004, at which stage trading will transfer to this site and the existing store will be closed to enable construction relating to stage 2 of the development to commence.

MERCHANDISING AND MARKETING

Brand Strategy

Development and extension of David Jones' well defined Brand strategy continued in financial year 2003. David Jones' strategy is to provide customers with the best national and international brands – this includes a combination of high value/high volume brands, department store exclusive high value/high volume brands and department store exclusive high value brands.

Throughout the course of the calendar year strategic alliances were developed or extended with a number of brands across a range of categories. The roll-out of brands such as Sportscraft, Witchery, Lisa Ho and Ho, Giorgio Armani Cosmetics, David Lawrence, sass & bide, Tommy Hilfiger, Fred Bare, Pumpkin Patch, Peri bedlinen, Natuzzi and Moran furniture, Apple Computers, and Bang & Olufsen is scheduled to take place in Summer 2003 and Winter 2004.

The Merchandise team continues to focus on identifying ways to improve the David Jones offer. Throughout the year the LG brand was successfully introduced in our Electronics category. There has also been continued growth of integrated living areas and associated casual living components in our Homewares department.

AN EFFECTIVE BRAND STRATEGY

Providing customers with a *unique shopping experience*.

OFFERING THE BEST NATIONAL AND INTERNATIONAL BRANDS

Our Brand Strategy has been in place for a number of years. David Jones offers customers the best national and international brands through a combination of;

- high value/high volume brands;
- department store exclusive brands
high value/high volume brands; and
- department store exclusive
high value brands.



“DAVID JONES’ BRAND STRATEGY OVER THE PAST THREE TO FOUR YEARS HAS DELIVERED IMPROVED MARKET POSITIONING, GROWTH IN MARKET SHARE, PROTECTION AGAINST COMPETITOR ACTIVITY AND A LEVEL OF PROFIT AND MARGIN PROTECTION. WE WILL CONTINUE TO POSITION DAVID JONES AS A UNIQUE RETAIL DEPARTMENT STORE AND WILL FURTHER DEVELOP OUR BRAND STRATEGY BY FOCUSING ON EXPANDING OUR EXCLUSIVE SUPPLY ARRANGEMENTS AND ON CONTINUING TO BROADEN THE RANGE OF PRODUCTS AND BRANDS ACROSS ALL OUR CATEGORIES.”

Mark McInnes, 23 September 2003

Marketing

Throughout the 2003 financial year David Jones continued its association with Megan Gale, as the fashion face of our stores, featuring in print and television advertising campaigns and new season catalogues.

Two innovative advertising campaigns were also launched by David Jones in financial year 2003 – the Australian fashion designer campaign and the Australian chefs Foodhall campaign. These campaigns utilised well recognised and respected fashion designers and chefs, coming together to endorse the David Jones brand and offering. To coincide with these campaigns the Company also successfully launched:

- the live broadcast of the Today Show from Hyde Park to promote the grand opening of the Market Street Foodhall;
- its national summer and winter fashion parades showcasing the new seasons fashion;
- in-store cooking demonstrations and events hosted by some of Australia's most highly regarded chefs, as well as tastings and tours in the Market Street Foodhall; and
- new and innovative media concepts including a 12 page insert in the 'Good Living' section of the Sydney Morning Herald as part of the Market Street Foodhall grand opening.

STOCK REPLENISHMENT

The roll-out of our Automated Stock Replenishment program has continued to be successful. This system is now operational across all basic stock areas and has consistently improved our level of in-stock without over investing in stock holding.

CUSTOMER SERVICE

Excellence in Customer Service is an integral component of the David Jones store experience and one of our competitive strengths. Throughout the 2003 financial year a number of initiatives were introduced to continue to improve the customer service levels within our stores. These initiatives included implementation of:

- 'Specialised Selling Skills' modules throughout all our stores. These modules are designed to improve our staff's ability to serve customers in certain specialised product areas such as ladies' and mens' shoes, mens' business shirts, ladies' intimate apparel, mens' and ladies' jeans;
- 'Sales Supervisor Program' in all stores, which is designed to develop the skills of our store supervisors to ensure they are equipped with the knowledge and skills needed to lead their sales teams, build strong customer relationships and undertake effective stocktakes;
- 'Superior Store Management Performance' coaching throughout our store network to develop the skills of our store managers in resolving problems, supporting performance and teaching sales staff.

The Company continued its twice yearly customer satisfaction surveys which provide valuable feedback to enable us to continually improve our customer service levels. Our effective 5 star program, which involves measuring and monitoring the service delivery of our selling team, was also continued with success throughout the year.

EXCELLENCE IN CUSTOMER SERVICE

Continuing the David Jones *tradition*.

EXCELLENCE IN CUSTOMER SERVICE

David Jones' track record of excellence in customer service is one of the core strengths of our business and a key factor that differentiates us from our competitors.



"WE ARE COMMITTED TO CONTINUING TO RAISE THE STANDARD OF SERVICE WE OFFER OUR CUSTOMERS AND TO ENHANCE THEIR SHOPPING EXPERIENCE EACH TIME THEY VISIT A DAVID JONES STORE."

Mark McInnes, 30 September 2003

OUR PEOPLE

Being a customer service oriented business, David Jones is a 'people intensive' business. We have more than 9,000 employees. Our employees are the face of David Jones so we place great importance on implementing Human Resources strategies that are capable of attracting the best people.

During the 2003 financial year a number of important initiatives were taken to ensure that all our employees understand and are working together towards achieving the Strategic Review objectives. These initiatives included:

- Strategic Review Communication and Workshop programs ensuring that the Strategic Review outcomes announced to the ASX on 3 June 2003 were effectively communicated to each employee throughout the business and that they each understood the expectations that the Company has of them and their role in successfully delivering the objectives of the Strategic Review;
- Management Cost Workshop undertaken in March 2003 for three days to identify inefficiencies and opportunities to generate cost savings;
- Short Term Incentive program extensively revised to ensure the performance measures have been linked to achieving key objectives under the Strategic Review;
- Leadership Development programs implemented throughout the Merchandise management teams as part of our continuing 360-degree feedback leadership effectiveness initiatives.

The 2003 financial year provided clear evidence of the effectiveness of David Jones' succession planning. The majority of senior executive appointments in the past 12 months have been filled by internal candidates. The Company is committed to the further development of our people and making sure that career paths are clearly marked out.

NON-MERCHANDISE PROCUREMENT

An outcome of the Strategic Review undertaken in 2003 was the establishment of a professional non-merchandise procurement team of nine executives. These professionals will play an integral role in the Cost Efficiency program announced as part of the Strategic Review outcomes. Their primary role is to review and negotiate all existing and future non-merchandise contracts to ensure they contain the most commercially favourable terms while at the same time, maintaining or enhancing the quality of these inputs.

INFORMATION TECHNOLOGY

A number of initiatives were implemented by the IT group throughout the year. The key projects included;

- installation of 'touch-screen' kiosks in stores enabling easier access to David Jones Gift and Bridal registers;
- working with the Foodhall group to deliver the technology required to ensure compliance with the new Food Legislation;
- upgrading the David Jones website to enable access to Gift and Bridal registers;
- significant improvements in the performance of the David Jones store card systems to enable faster processing;
- undertaking a 'health check' review of the IT portfolio resulting in a three year roadmap to address issues of currency in our technology and identification of projects that will enable further efficiencies throughout David Jones. The most significant of the future projects is the implementation of new Point of Sale solutions in stores, scheduled for 2005 to 2007.

RESTORING OUR INVESTMENT FUNDAMENTALS

The *investment fundamentals* of the Company.

THE KEY FOCUS OF THE STRATEGIC REVIEW

The Strategic Review initiatives that are being implemented are designed to strengthen and grow the cash flows of the business and to enable the Company to return excess cash flows, not needed in the ongoing business, to shareholders in an efficient manner.

As a sign of the Company's ongoing commitment to enhancing returns and value for shareholders and the Directors' confidence in the management team and the future earnings potential of the business a 3 cent fully franked dividend per share for the second half of FY03 is being paid to shareholders – bringing the total dividend for FY03 to 6 cents fully franked per share.



"WE ARE CONFIDENT THAT THE STRATEGIC INITIATIVES ANNOUNCED ON 3 JUNE 2003 WILL DELIVER TO SHAREHOLDERS A VALUE ENHANCING COMPANY, WITH A CLEAR PATH TO ON-GOING EARNINGS GROWTH AGAINST A BACKGROUND OF STRONG CASH FLOWS."

Mark McInnes, 3 June 2003

BOARD OF DIRECTORS

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BOARD OF DIRECTORS



Robert Savage

Independent Non-Executive Chairman

Non-Executive Director for 4 years since 25 October 1999 and appointed Chairman on 17 July 2003. Member Remuneration and Nominations Committee and Audit Committee. Age 61, resident Sydney. Chairman and Director of Mincom Limited. Director of Smorgon Steel Limited and Perpetual Trustee Australia Limited. Member of the Board of Advice of Sydney University Faculty of Business and Economics and Member of the Advisory Board of Siemens Australia Limited.

Mr Savage has had extensive business experience gained during a 35-year career with IBM in marketing, finance, software development and management roles. During this period, he worked in Australia, throughout Asia and in the United States. Roles at IBM included: Managing Director and Chairman of IBM Australia; General Manager-Government for all of IBM's business activity with governments throughout Asia Pacific and South Asia; and as Chairman and CEO of IBM Hong Kong, China and Taiwan.



John Coates AO LLB

Independent Non-Executive Director

Non-Executive Director for 8 years since 6 October 1995. Member Audit Committee. Age 53, resident Sydney. Partner of Kemp Strang Lawyers, Chairman of Burson-Marsteller Australia, Member of the Grant Samuel Advisory Board, President of the Australian Olympic Committee Inc, Member of the International Olympic Committee, Vice President of International Council of Arbitration for Sport, Council Member of International Rowing Federation and Director of Roseville College Foundation Ltd.

John Coates has had a heavy involvement in sports administration at the highest national and international levels over the past 25 years bringing with it extensive private and public sector experience including on various Commonwealth and State statutory authorities and culminating in his leading role in the delivery of the multi-faceted Sydney Olympics.

As a Solicitor John Coates has practiced mainly in commercial and property law. His relevant public company board experience includes shopping centre management and property development. The Board and senior management utilize his wide experience to advise and assist in some of the Company's key public and commercial relationships.



Mark McInnes MBA

Chief Executive Officer

Appointed Chief Executive Officer on 3 February 2003. Age 38, resident Sydney. Joined David Jones Limited in July 1997.

Mr McInnes is an experienced retailer with 20 years of success in department store, specialty stores and manufacturing businesses. He has a Master of Business Administration from Melbourne University. During his previous role in the merchandising and marketing sections of David Jones he has worked to recover and restore the David Jones core department store value proposition in areas of branding, supplier relationships margin, inventory control, differentiation, delivery of global premium brands and Australian designer brands.

The skills and experience of Mr McInnes over his career have been characterised by achievement of key financial outcomes and sustainable strategy implementation.



Stephen Goddard BSc (Hons), MSc

Finance Director

Appointed to the Board on 3 February 2003 as Finance Director. Age 45, resident Sydney. Stephen Goddard has more than 20 years experience in the Australian retail sector across a broad range of areas including Finance, Operations, Strategic Planning, Merchandise, Stores, Logistics and Supply Chain. Of these 20 years, 15 years have been spent in senior management and strategic roles in major Australian department stores including six years at David Jones and ten years at Myer Grace Bros (part of Coles Myer Limited). As such, Mr Goddard brings to the Board extensive and broad ranging retail experience.

Stephen Goddard joined David Jones in 1997 as Operations Director, and was responsible for successfully overhauling the Company's IT systems, building the early supply chain base and developing plans to refurbish the key city stores. He was appointed Chief Financial Officer in July 2001 and has played an integral role in the June 2003 Strategic Review, in particular in critical areas such as the new capital management policy, the store portfolio review and the development and implementation of the Cost Efficiency program. His involvement in the Strategic Review is integral to its successful implementation over the next three years.



Reg Clairs AO

Independent Non-Executive Director

Non-Executive Director for 4 years since 22 February 1999. Chairman Remuneration and Nominations Committee. Age 65, resident Brisbane. Director of Commonwealth Bank of Australia and National Australia Day Council. Previous to his appointment as a Director, he was Chief Executive Officer of Woolworths Limited.

Prior to joining the Board of David Jones Limited, Mr Clairs had a career of 33 years with Woolworths Ltd, culminating as the CEO for 5 years from December 1993 to December 1998. During these years he gained valuable retail experience at State, National and International levels. The successful 'Fresh Food People' theme was developed during his appointment as National Marketing Manager.

Mr Clairs has also held several positions on industry bodies, including Chair of the Australian Supermarket Institute and a Board member of C.I.E.S., an international retail organisation.



John Harvey LLB B.Juris Dip.Grad.ACC CA

Independent Non-Executive Director

Non-Executive Director for 2 years since 8 October 2001. Chairman Audit Committee. Age 58, resident Melbourne. Chief Executive Officer of Mt Eliza Business School, Trustee of the Melbourne Cricket Ground Trust, Non-Executive Member of the Board of Freehills. Previous to his appointment as a Director he was Chief Executive Officer of PricewaterhouseCoopers in Australia.

Mr Harvey has had a 25 year professional career with Price Waterhouse during which he provided professional advisory services to many multinational and Australian national companies, including retailers. He was a registered company auditor for 20 years. His experience provides the financial expertise necessary to chair the Audit Committee.

Mr Harvey served on the Global Board of PricewaterhouseCoopers and has also served on the Boards of Opera Australia, Docklands Authority and Board of Taxation.



Katie Lahey BA (Hons) MBA

Independent Non-Executive Director

Non-Executive Director for 8 years since 6 October 1995. Member Remuneration and Nominations Committee. Age 53, resident Sydney. Chief Executive of the Business Council of Australia, Member of Major Performing Arts Board and Garvan Research Foundation.

In her Chief Executive roles in the public and private sectors, Ms Lahey has gained extensive experience in managing large complex organisations and achieving significant change within these organisations. She has skills in general management, marketing, media, human resources management, finance and an extensive knowledge of the workings of Government at all levels. Her current and previous positions have enabled her to have a detailed knowledge of the business issues facing large and small organisations. Her practical hands-on experience has been supplemented with her academic achievements.

MANAGEMENT COMMITTEE



The Management Committee is currently comprised of nine members all of whom are pictured on this page. The role of the Management Committee is to implement group policy, manage the corporate processes and review strategy and resources.



Mark McInnes
Chief Executive Officer

Stephen Goddard
Finance Director

Colette Garnsey
Group General Manager Apparel,
Cosmetics and Marketing

Patrick Robinson
Group General Manager
Home and Food

Paul Zahra
Group General Manager
Stores and Visual Merchandising

Teresa Gallo
Group General Manager
Human Resources

Karen MacRae
Group General Manager
Information Technology

Damian Eales
Group General Manager
Supply Chain & Procurement

John Bolas
General Manager
Property & Projects

CORPORATE GOVERNANCE STATEMENT

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

This statement outlines David Jones Limited's corporate governance practices.

David Jones Limited (the Company) and the Board are committed to achieving and demonstrating high standards of corporate governance. Following the release of the ASX Corporate Governance Council best practice recommendations in March 2003, an extensive review of the Company's corporate governance framework was conducted. The Company's framework is largely consistent with the recommendations, however a few changes are being made as a result of this review and other recent corporate governance developments. It is the Company's intention to implement in all material respects and report on its compliance with the ASX Corporate Governance Council recommendations in 2004.

BOARD OF DIRECTORS

The role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Composition of the Board

The names of the Directors of the Company in office at the date of this statement along with details of their experience, expertise, qualifications, terms of office and independent status are set out on pages 22 and 23. There are seven Directors on the Board, comprising five independent Non-Executive Directors, and two Executive Directors at the date of this statement.

The composition of the Board is determined using the following principles:

- the Board is to be comprised of both executive and Non-Executive Directors, with a majority of Non-Executive Directors who satisfy the criteria for independence;
- the Directors shall be from different backgrounds with complementary skills and experience;
- the Chairman must be an independent Non-Executive Director;

- the same individual must not exercise the roles of Chairman and Chief Executive Officer; and
- all Directors shall bring independent judgement to bear in decision-making.

The Board has adopted specific principles in relation to Non-Executive Directors' independence. A Non-Executive Director is considered to be independent when not a member of management and:

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

Materiality for these purposes is determined with reference to both quantitative and qualitative bases. Where a Director holds a position of interest which raises the issue of materiality, whether it is material or not will be considered on a case by case basis having regard to the specific circumstances.

Term of Office

The Company's Constitution specifies that all Directors (with the exception of the Managing Director) must retire from office no later than the third annual general meeting following their last election. Where eligible, a Director may stand for re-election.

Board Processes

The full Board currently holds not less than eight scheduled meetings per year, plus strategy meetings and other additional meetings as necessary to address any specific significant matters that may arise. The agenda for scheduled Board meetings incorporates standing items including the Chief Executive Officer's report, financial reports, Board Committee reports, strategic matters, governance and compliance. Executives are regularly involved in Board discussions and Directors have other opportunities, including visits to business units, for contact with a wider group of employees.

A meeting of Non-Executive Directors is also held on the same date as each scheduled Board meeting to discuss the operation of the Board and a range of other matters.

The number of Board meetings, Non-Executive Directors' meetings and Board Committee meetings held during the year is set out in the Directors' Report on page 30.

CORPORATE GOVERNANCE STATEMENT – CONTINUED

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

Responsibilities

The Board is responsible for protecting the rights and interests of shareholders and is accountable to them for the management of the Company. Key responsibilities include:

- selection and appointment of Chief Executive Officer
- approving strategic direction, financial objectives and goals for management
- monitoring management performance against these goals and objectives;
- ensuring there are appropriate standards of corporate governance and ethical standards;
- evaluating the performance and determining the remuneration of the Chief Executive Officer;
- ensuring that appropriate risk management systems, internal controls, reporting systems and compliance frameworks are in place and operating effectively; and
- ensuring there are plans and procedures for recruitment, development, remuneration and succession planning for senior executives.

Commitment

It is the Company's practice to allow its Non-Executive Directors to accept appointments outside the Company.

The commitments of Non-Executive Directors are considered prior to a Director's appointment to the Board. Board commitments are reviewed on an ongoing basis as part of each Board meeting.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist Directors to disclose potential conflicts of interest. Where a significant conflict exists, the Director concerned declares their interests in those dealings to the Company and takes no part in decisions or discussions relating to them.

Independent Professional Advice

Subject to prior consultation with the Chairman, the Directors have the right to seek independent professional advice at the Company's expense, in the furtherance of their duties as Directors of the Company.

Performance Evaluation

The Board has in place a process to review its performance annually. The core elements of this performance evaluation process are summarised below:

- a self assessment process whereby the performance of all Directors is reviewed by the Chairman, and the performance of the Chairman is reviewed by the other Directors. This review includes the performance of each Committee under its respective charter;
- a performance assessment of the Board and the Chairman involving interviews and surveys with key stakeholders including the Company's senior management; and
- development and implementation of an action plan by the Board, based on the above, to address opportunities for on-going performance improvement.

This evaluation process was last formally undertaken in December 2002 / January 2003 with the assistance of an independent adviser. The performance evaluation of the Board is being further considered in relation to current evaluation practices of Boards in other ASX listed companies, and the performance evaluation process applied annually to the Company's executives.

BOARD COMMITTEES

To assist in the execution of responsibilities, the Board has in place two Board committees comprising a Remuneration and Nominations Committee and an Audit Committee.

All matters determined by committees are submitted to the full Board as recommendations for Board decision, and minutes of committee meetings are tabled at a subsequent Board meeting.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee comprises three independent Non-Executive Directors – Reg Clairs (Chairman), Katie Lahey and Robert Savage. Details of these Directors' qualifications, experience and attendance at Remuneration and Nominations Committee meetings are set out on pages 22 to 23, and page 30. The Chief Executive Officer and the Group General Manager – Human Resources attend the Remuneration and Nominations Committee at its request and direction. The Committee also has access to other Directors, executives and advisers as it may require. The Remuneration and Nominations Committee meet no less than three times per year and may, at the discretion of the Chairman, meet more frequently to fulfil its duties.

The primary purpose of the Remuneration and Nominations Committee is documented in a charter that has been approved by the Board and is reviewed on an annual basis. The key responsibilities of the Remuneration and Nominations Committee, also set out in the charter, cover Company remuneration policy and practice, nomination, termination and other related activities as detailed below:

Remuneration Policy and Practice

The Remuneration and Nomination Committee review and make recommendations to the Board with the aim of ensuring all remuneration policy and practice delivers the following:

- assists in the achievement of Company strategy and objectives;
- enables the attraction, retention and motivation of high calibre Directors and executives;
- provides reasonable, competitive and equitable remuneration for Directors and executives by considering relevant comparative information and independent expert advice and ensuring the Company achieves its desired market position;
- provides the required balance between fixed, short-term and long-term incentive components;
- provides reasonable and equitable choice in packaging components; and
- relates remuneration to individual and Company performance.

The Remuneration and Nomination Committee provides the Board with recommendations and the opportunity to periodically review the nature, composition and eligibility of management incentive schemes, level of remuneration of Directors and executives reporting to the Chief Executive Officer, the annual remuneration charge for management as well as superannuation arrangements. The Committee conducts regular reviews of remuneration policy and practice to ensure there is proper implementation including alignment between individual and Company performance.

Nominations and Terminations

The agreed process for the appointment of Non-Executive Directors to the Board is reviewed at the time the need for a new Director is identified or an existing Director is required to stand for re-election. The Committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. For the purpose of objectivity, the selection process is supported throughout by independent consultants.

The Committee reviews and makes recommendations for Board approval, of the appointment, contract terms, and termination of the Chief Executive Officer.

It provides the Board with the opportunity to review the appointment or termination of any executive reporting to the Chief Executive Officer, and the Company Secretary, prior to implementation.

Other Activities

The Committee undertakes an annual review of the Company's succession plan for the Chief Executive Officer, direct reports to the Chief Executive Officer and senior management and also when management changes occur. The review includes authorising the implementation of appropriate executive development programs; ensuring optimal arrangements are in place for developing executives nominated as successors.

The Committee also reviews ongoing compliance to policy including Equal Employment Opportunities, Anti-Discrimination, and the assessment and monitoring of Human Resource policies.

AUDIT COMMITTEE

The Audit Committee comprises three independent Non-Executive Directors – John Harvey (Chairman), John Coates and Robert Savage. Details of these Directors' qualifications, experience and attendance at Audit Committee meetings are set out on pages 22 to 23, and 30. The internal auditors, external auditors, the Chief Executive Officer and Finance Director attend Audit Committee meetings at the discretion of the Committee.

The Audit Committee has appropriate financial expertise and all members have a working knowledge of the industry in which the Company operates.

The Audit Committee meets not less than four times per year and it is the Committee's policy to meet with the internal and external auditors regularly in the absence of management.

The role of the Audit Committee is documented in a charter that has been approved by the Board and is reviewed on an annual basis.

The main responsibilities of the Audit Committee are to:

- review the half year, annual and concise financial reports and other financial information distributed externally, including new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- oversee the efficient operation of the risk management framework;
- review, monitor and assess the propriety of related party transactions;
- monitor the establishment of the internal control environment including prevention and detection of fraud;
- review the Company's policies and procedures for convergence with International Financial Reporting Standards;

- oversee and appraise the scope and quality of the audits conducted by the Company's internal and external auditors;
- monitor the provision of non-audit services provided by the external auditor;
- review the nomination and performance of the internal and external auditors.

In fulfilling the responsibilities, the Audit Committee:

- reviews any significant disagreements between the auditors and management; and
- provides the internal and external auditors with a clear line of direct communication at any time to either the Audit Committee or the Board.

AUDITORS

The Audit Committee reviews the performance of the external auditors on an annual basis and requires the external auditors to confirm, in writing, that they have complied with all professional and regulatory requirements relating to auditor independence prior to the completion of each year's accounts. The Audit Committee will put the Company's external audit to tender at least every five years. If the incumbent firm is re-tendering, it must do so on the basis of rotating the audit partner and independent review partner.

An analysis of the fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in Note 4 to the full financial report.

The Audit Committee is satisfied the provision of non-audit services in 2003 is compatible with external auditor independence.

The Audit Committee also reviews the relationship with internal audit and evaluates the overall effectiveness of the function. The Committee monitors the progress of the internal audit program and the implementation of agreed action plans by management. Details of the internal control framework are set out below.

CORPORATE GOVERNANCE STATEMENT – CONTINUED

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

INTERNAL CONTROL AND RISK MANAGEMENT Internal Control Framework

The Board has instigated an internal control framework designed to safeguard the Company's assets and interests and to ensure the integrity of reporting. The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. Key elements of the internal control framework include the following:

- **Internal and external audit functions** – the internal audit function has been outsourced to Deloitte Touche Tohmatsu. They have performed internal audits of business areas identified as carrying high levels of risk as well as full audits of a number of stores. The external auditors, Ernst & Young, perform an annual audit of the financial statements.
- **Management Committee meetings** – the Management Committee meets weekly. These meetings enable issues to be promptly identified and addressed.
- **Code of Ethics** – Human Resources issues a Code of Ethics booklet to all new employees and Directors. The booklet, entitled 'The Importance of Being Honest', details the standards expected of all employees and Directors;
- **Strategic Plan** – a comprehensive rolling Three Year Strategic Plan is prepared by management and approved by the Board each year.
- **Financial reporting** – there is a comprehensive budgeting system with an annual budget approved by the Directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly.
- **Treasury policy** – the policy sets out guidelines in respect of financial risk management, specifically addressing the management of interest rate risk, foreign exchange rate risk, liquidity risk and credit risk (created from treasury transactions). It addresses operational risk arising from the management of these financial risks through a control and authorisation framework.

- **Capital expenditure policy** – the policy details the definition of capital expenditure, provides guidelines for the control and authorisation of expenditure, conduct of post implementation reviews, and accounting and administrative responsibilities.

BUSINESS RISK MANAGEMENT

The Board is responsible for ensuring material risks facing the Company have been identified and the appropriate and adequate control, monitoring and reporting mechanisms are in place. The Company has developed a risk identification, analysis and mitigation process. The process produces a risk report that identifies key business risks, determines responsibilities and risk mitigation activities for each key business risk. The process is designed to ensure internal operating and external risks are identified, assessed, addressed and monitored to minimise risk in the achievement of the Company's business objectives.

The risk report is updated annually, and reviewed half yearly by the Board and Audit Committee. This risk profile is used by the internal auditors to allocate assurance resources to those business risks which are key to the operation of the Company. External audit also make use of this profile.

ETHICAL STANDARDS Code of Ethics

The Company has a Code of Ethics to promote ethical and responsible practices and decision making of Directors, the Chief Executive Officer, senior executives, managers and all other employees. Guidelines on ethical conduct are prescribed in a booklet called 'The Importance of Being Honest' which sets out in detail the standards and expectations with which each Director, executive and employee of the Company is required to comply. The Code has been fully endorsed by the Board and is provided to all Directors and employees as part of their formal induction process. All employees have access to a confidential ethics hotline, encouraging the raising of ethical concerns.

In summary, the Code reflects the following requirements:

- adherence to ethical standards in everything that is done;
- respect for property and the ownership of that property;
- maintenance of professional work relationships;
- no tolerance for discrimination and harassment;
- avoidance of situations in which personal interests conflict or could be seen to conflict with the interests of the Company;
- adherence to Company policy on the acceptance of gifts and benefits;
- non disclosure of confidential information; and
- to compete vigorously, but to do so fairly, honestly and objectively.

The Code is currently being reviewed and updated to ensure it continues to uphold the reputation of the Company in the market place as one of fairness, honesty and integrity in all dealings with customers, suppliers, employees and the local communities in which it operates.

Dealing in Company Securities

Consistent with the legal prohibitions on insider trading, all Directors, members of senior management and other employees are prohibited from dealing in the Company's shares, options or other securities while in possession of David Jones price-sensitive information.

David Jones price-sensitive information is information that a reasonable person would expect to have a material effect on the price or value of David Jones securities.

Directors and senior managers may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:

- in the two months preceding the lodgement of the Company's half-year and annual results with the ASX;
- whilst in possession of price-sensitive information; and
- if trading for short-term gain.

Directors must advise the Chairman, and senior management the Company Secretary, of a proposed dealing in the Company's shares, options or other securities prior to any transaction, and confirm they are not in possession of any unpublished price sensitive information. The ASX is notified of any transactions conducted by Directors.

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

The Company has written procedures and practices to ensure compliance with the continuous disclosure requirements of the ASX Listing Rules. Continuous disclosure involves the timely announcement of information to the ASX, analysts, brokers, shareholders, the media and the public in relation to material events and developments as they occur.

Once the Board becomes aware of information concerning the Company that would be likely to have a material effect on the price or value of the Company's securities, the Board ensures that the information is released to the Company Announcements office of the ASX. The Board has appointed a committee comprising the Chief Executive Officer, Finance Director and the General Manager – Corporate Affairs and Investor Relations to continually monitor compliance and to ensure appropriate communications with the ASX through the office of the Company Secretary, in consultation with the General Counsel, where appropriate.

The Board aims to keep shareholders informed of all major developments affecting the Company's activities and its state of affairs through distribution of the concise annual report. The Board encourages full participation of shareholders at the annual general meeting to ensure a high level of accountability and identification with the Company's strategy and goals. The Company's senior management and auditors attend the annual general meeting to answer questions of shareholders if required.

All recent Company announcements, media briefings, details of Company meetings, press releases and annual reports for the last five years as well as information on the Company's corporate governance practices are placed on the Company's website at www.davidjones.com.au.

DIRECTORS' REPORT

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The Directors of David Jones Limited (the Company) submit their report in respect of the 52 weeks ended 26 July 2003.

DIRECTORS

The names of the Company's Directors in office during the financial year and until the date of this report are as follows. Details of qualifications, age, experience and special responsibilities are shown on pages 22 and 23. Directors were in office for the entire period unless otherwise stated.

| | |
|---------------------|---|
| Robert Savage | Chairman (appointed Chairman 17 July 2003) and independent Non-Executive Director |
| Richard Warburton | Chairman and independent Non-Executive Director (retired 17 July 2003) |
| Mark McInnes | Chief Executive Officer and Executive Director (appointed 3 February 2003) |
| Peter Wilkinson | Chief Executive Officer and Executive Director (retired 31 January 2003) |
| Stephen Goddard | Finance Director and Executive Director (appointed 3 February 2003) |
| Reg Clairs AO | Independent Non-Executive Director |
| John Coates AO | Independent Non-Executive Director |
| John Harvey | Independent Non-Executive Director |
| Katie Lahey | Independent Non-Executive Director |
| Elizabeth Nosworthy | Independent Non-Executive Director (resigned 3 June 2003) |

COMPANY SECRETARY

The Company Secretary is John Simmonds FCIS ASIA. John Simmonds was appointed to the position of Company Secretary on 11 March 1982. He was previously Assistant Company Secretary and prior to that worked in the investment division of Westpac Banking Corporation. He has been a Chartered Secretary since 1979 and re-qualified in 1993.

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

| DIRECTOR | DIRECTORS' MEETINGS* | | | | AUDIT COMMITTEE MEETINGS | | REMUNERATION AND NOMINATIONS COMMITTEE MEETINGS | | VARIOUS SUB COMMITTEE MEETINGS* | |
|---------------------|----------------------|----|-----------|---|--------------------------|---|---|---|---------------------------------|----|
| | SCHEDULED | | SPECIAL** | | | | | | | |
| | A | B | A | B | A | B | A | B | A | B |
| Robert Savage | 11 | 12 | – | 1 | 1 | 1 | 5 | 6 | 7 | 11 |
| Richard Warburton | 11 | 11 | 1 | 1 | 4 | 5 | 5 | 6 | 9 | 12 |
| Mark McInnes | 7 | 7 | – | 1 | | | | | 2 | 2 |
| Peter Wilkinson | 5 | 5 | – | – | | | | | 8 | 11 |
| Stephen Goddard | 7 | 7 | 1 | 1 | | | | | 2 | 2 |
| Reg Clairs | 11 | 12 | 1 | 1 | | | 6 | 7 | 9 | 11 |
| John Coates | 12 | 12 | – | 1 | 5 | 6 | | | 9 | 11 |
| John Harvey | 12 | 12 | 1 | 1 | 6 | 6 | | | 1 | 1 |
| Katie Lahey | 11 | 12 | – | 1 | | | 5 | 7 | | |
| Elizabeth Nosworthy | 10 | 11 | 1 | 1 | 5 | 5 | | | | |

A number of meetings attended.

B number of meetings held during the time the Director held office during the year.

* a meeting of Non-Executive Directors always coincides with meetings of Directors to discuss the operation of the Board and a range of other matters; attendance is as per Directors' meetings disclosure above.

** special Board meeting called at short notice – all Directors briefed but not all able to attend.

+ held to deal with finalisation of announcements and Foodchain.

During the year, individual Directors visited many of the stores to improve their understanding of the Company's operations.

PRINCIPAL ACTIVITIES

The principal activity of the Company and its controlled entities (consolidated entity) during the course of the financial year was the operation of department stores.

CONSOLIDATED RESULTS

The consolidated net loss of the consolidated entity for the year was \$25.466 million after deducting income tax expense of \$3.138 million and significant items (after tax) of \$68.168 million.

REVIEW OF OPERATIONS

A detailed review of operations is shown on pages 1 to 21.

DIVIDENDS

Dividends paid or declared by the Company since the end of the previous financial year were:

| Type | Rate per Share | Total Amount \$000 | Franked/ Unfranked | Date of Payment |
|---|----------------|--------------------|--------------------|-----------------|
| ● As proposed and provided for in last year's report: | | | | |
| – Final – ordinary | \$0.03 | 12,089 | fully franked | 23 Oct 2002 |
| ● In respect of the current financial year: | | | | |
| <i>Paid or declared during the year</i> | | | | |
| – Interim – reset preference | \$4.0833 | 2,654 | fully franked | 1 Feb 2003 |
| – Interim – ordinary | \$0.03 | 12,226 | fully franked | 6 May 2003 |
| – Final – reset preference | \$4.0167 | 2,611 | fully franked | 1 Aug 2003 |
| <i>Paid or declared after end of year</i> | | | | |
| – Final – ordinary | \$0.03 | 12,348 | fully franked | 5 Nov 2003 |

All dividends paid or declared by the Company since the end of the previous financial year were fully franked at 30%.

STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

- Announcement of outcomes of the major strategic review in June 2003 which included the closure of Foodchain by David Jones, the repositioning of David Jones Online, planned capital expenditure reduction and a clear strategy to concentrate on core businesses.
- Retirement of Richard Warburton as Chairman and appointment of Robert Savage as Chairman.
- Retirement of Peter Wilkinson as CEO and appointment of Mark McInnes as CEO.
- Announcement of management structure changes.

EVENTS SUBSEQUENT TO REPORTING DATE

Other than the item disclosed below, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

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 the 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. In addition, the Company has entered into a new agreement to lease a proposed store in the Fountain Gate centre under different terms.

LIKELY DEVELOPMENTS

Information as to likely developments in the operations of the consolidated entity and the expected results of those operations in subsequent financial years has not been included in this report because the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the consolidated entity.

DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the companies within the consolidated entity, as notified by the Directors to the Australian Stock Exchange in accordance with Section 205G (1) of the *Corporations Act 2001*, at the date of this report is as follows:

| Director | Ordinary Shares in David Jones Limited | Reset Preference Shares in David Jones | Options in David Jones Limited | Long Term Incentive Plan* |
|-----------------|---|---|--------------------------------------|------------------------------|
| Robert Savage | 34,448 | – | – | – |
| Mark McInnes | – | – | 1,200,000 | 100,000 |
| Stephen Goddard | 225 | – | 1,200,000 | 125,000 |
| Reg Clairs AO | 125,418 | – | – | – |
| John Coates AO | 37,943 | – | – | – |
| John Harvey | 30,000 | – | – | – |
| Katie Lahey | 9,107 | – | – | – |

* Initial Offered Amount of Long Term Incentive Plan Rights for which zero ordinary shares will be allocated if no performance measures are met, or between 50% to 150% of the Initial Offered Amount will be allocated as ordinary shares depending on the level of achievement against performance measures (see page 36 for further details).

DIRECTORS' AND EXECUTIVES' REMUNERATION

Non-Executive Directors

The Remuneration and Nominations Committee is responsible for recommending to the Board fees applicable to Non-Executive Directors.

In accordance with a recommendation from the Remuneration and Nominations Committee, the Board intends that new Directors will not be entitled to participate in the Non-Executive Directors' retirement allowance plan. For existing Directors, the maximum retirement allowance payable under the plan will be capped at the multiple applicable for nine years' service, being 3.286 times average annual Directors' fees over the three years prior to the date of ceasing to be a Non-Executive Director.

Executive Directors and Senior Executives

The Remuneration and Nominations Committee is responsible for recommending to the Board remuneration policies, fees, salaries, short and long-term incentives applicable to Executive Directors and senior executives of the Company.

The Remuneration Policy is designed to forge a performance culture and to ensure that the way the Company recognises and reward employees through remuneration, is in the best interests of the individual, the Company and shareholders.

The remuneration policy achieves this in the following ways:

- applying a 'pay for performance' philosophy which ensures how an executive is remunerated is linked to their individual performance as well as the Company's performance;
- providing remuneration that is market competitive to ensure the Company has the ability to retain and motivate strong performing employees as well as attract high calibre prospective employees. To this end, the Company annually subscribes to several surveys which enables external benchmarking against the remuneration levels in the labour markets in which it competes; and
- by undertaking an annual evaluation process on the performance of all executives, the results of which contribute to the determination of any salary adjustment an individual executive may receive.

Executives may also receive a bonus through the Short Term Incentive Scheme, receipt of which is dependent on the executive reaching the required level of performance in their role, their achievement of specific financial objectives and their measured contribution to the achievement of Company objectives during the financial year. These objectives are reviewed, communicated and assessed annually to drive an individual, team and Company wide focus on the generation and delivery of profitable results.

For Executive Directors and senior executives a Long Term Incentive Plan is in place and acts to both retain the executive and facilitate a longer-term Company performance focus by incentivising and rewarding their achievement of increased business value for shareholders over time.

DIRECTORS' REPORT – CONTINUED

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DIRECTORS' REPORT

Details of the nature and amount of each element comprising the remuneration package of each Non-Executive Director, Executive Director and each of the five named officers of the Company receiving the highest remuneration for financial year ended 26 July 2003 are shown below:

| | Directors' Fees | Committee Fees | Sub Total | Super-annuation | Total Remuneration Paid 2003 | RETIREMENT ALLOWANCE | |
|-----------------------------------|-----------------|----------------|------------------------|-----------------|------------------------------|----------------------|---|
| | | | | | | Provided in 2003 | Accumulated Entitlement at 26 July 2003 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| NON-EXECUTIVE DIRECTORS | | | | | | | |
| Richard Warburton ⁺ | 126,829 | 30,257 | 157,086 | 14,137 | 171,223 | 71,385 | 420,788 [*] |
| Katie Lahey | 50,000 | 15,000 | 65,000 | 5,850 | 70,850 | 28,465 | 168,438 |
| John Coates | 50,000 | 15,000 | 65,000 | 5,850 | 70,850 | 28,465 | 168,438 |
| Robert Savage | 50,000 | 15,000 | 65,000 | 5,850 | 70,850 | 6,962 | 72,188 |
| Reg Clairs | 50,000 | 15,000 | 65,000 | 5,850 | 70,850 | 2,935 | 96,250 |
| John Harvey | 50,000 | 26,000 | 76,000 | 6,840 | 82,840 | 28,498 | 52,247 |
| Elizabeth Nosworthy ⁺⁺ | 41,667 | 12,500 | 54,167 | 4,875 | 59,042 | 27,735 | 167,708 [*] |
| | | | \$547,253 [#] | | | | |

⁺ Richard Warburton retired 17 July 2003.

⁺⁺ Elizabeth Nosworthy resigned 3 June 2003.

^{*} Retirement allowance accumulated over seven years' service and paid subsequent to 26 July 2003 following retirement/resignation as a Director.

[#] In accordance with a resolution of shareholders at the 1999 annual general meeting, the maximum aggregate amount permitted to be paid to Directors under the Company's constitution is \$700,000 per annum (excluding mandatory superannuation contribution).

| | Base Salary | Bonus ^{**} | Separation Pay | Super-annuation | Subtotal | AMORTISED COST [@] | | Total |
|-------------------------------|-------------|---------------------|------------------------|-----------------|-----------|-----------------------------|-----------------|-----------|
| | | | | | | Options | LTI Plan Rights | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| EXECUTIVE DIRECTORS | | | | | | | | |
| Mark McInnes ⁺ | 598,584 | 116,788 | – | 53,433 | 768,805 | 53,344 | 18,652 | 840,801 |
| Stephen Goddard ⁺⁺ | 612,419 | 108,112 | – | 50,610 | 771,141 | 53,344 | 23,315 | 847,800 |
| Peter Wilkinson [*] | 454,063 | – | 1,159,983 [#] | 30,000 | 1,644,046 | 70,908 | 25,435 | 1,740,389 |
| OTHER OFFICERS | | | | | | | | |
| Colette Garnsey | 365,558 | 69,449 | – | 37,245 | 472,252 | 20,004 | 8,393 | 500,649 |
| Patrick Robinson | 351,231 | 28,322 | – | 31,122 | 410,675 | 20,004 | 8,393 | 439,072 |
| Paul Zahra | 300,339 | 44,315 | – | 37,349 | 382,003 | 8,304 | 4,010 | 394,317 |
| Teresa Gallo | 267,589 | 60,872 | – | 24,083 | 352,544 | 3,394 | 12,124 | 368,062 |
| Peter Helson | 273,455 | 29,754 | – | 24,884 | 328,093 | 20,004 | 7,461 | 355,558 |
| Donald Grover ⁺⁺⁺ | 220,632 | 100,164 | 427,730 ^{##} | 21,295 | 769,821 | 33,964 | 9,157 | 812,942 |

⁺ Mark McInnes was appointed Chief Executive Officer and a Director on 3 February 2003. Prior to this appointment he was the Company's Merchandise Director. Amounts shown above cover Mark McInnes' remuneration during the period that he was Merchandise Director and Chief Executive Officer. Amounts received in his position as Merchandise Director, totalling \$370,061 are made up of base salary \$232,508, bonuses \$116,788 and superannuation contributions \$20,765.

⁺⁺ Stephen Goddard was appointed Finance Director on 3 February 2003. Prior to this appointment he was the Company's Chief Financial Officer. Amounts shown above include Stephen Goddard's remuneration during the period that he was Chief Financial Officer and Finance Director. Amounts received in his position as Chief Financial Officer, totalling \$420,987 are made up of base salary \$289,669, bonuses \$108,112 and superannuation contributions \$23,206.

^{*} Peter Wilkinson retired 31 January 2003 on which date all options and LTI Plan Rights lapsed.

^{**} Amount reflects bonuses paid in financial year 2003, but relating to financial year 2002.

[#] Separation pay of \$1,159,983 includes all employee entitlements in line with statutory obligations and Company policy, including annual leave, long service leave and amounts payable under the terms of his executive contract.

⁺⁺⁺ Donald Grover resigned 21 February 2003 on which date all options and LTI Plan Rights lapsed.

^{##} Separation pay of \$427,730 includes all employee entitlements in line with statutory obligations and Company policy, including annual leave, long service leave and amounts payable under the term of his executive contract.

[@] The Company has adopted the fair value measurement provisions of ED108 'Share-Based Payments' whereby the fair value of such grants is being amortised on a straight-line basis over the vesting period and disclosed as part of Director and executive emoluments.

OPTIONS

During the financial year, there were no options granted over unissued ordinary shares to any Directors or officers, as part of their remuneration.

No options have been exercised during or since the end of the financial year.

At the date of this report unissued ordinary shares under option are:

| Date Of Grant | Expiry Date | Exercise Price | Number of Options Outstanding | Fair Value per Option at Grant Date \$ |
|------------------|------------------|----------------|-------------------------------|--|
| 17 December 1998 | 17 December 2003 | \$1.5700 | 2,150,000 | 0.2426 |
| 16 December 1999 | 16 December 2004 | \$1.4047 | 2,425,000 | 0.2291 |
| 16 January 2001 | 16 January 2006 | \$1.3280 | 2,585,000 | 0.1951 |
| | | | 7,160,000 | |

Options 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.

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

In undertaking the valuation of the options, PwCS have used the binomial option pricing model that takes into account factors such as the Company's 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.

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

LONG TERM INCENTIVE PLAN

The Board considers the motivation and retention of the Chief Executive Officer and the Finance Director and other senior executives and officers to be vital to the Company's long-term performance.

The Long Term Incentive Plan (LTI Plan) is an employee incentive scheme intended to improve Company performance, ensure the alignment of management with shareholder interests and to retain high calibre executives. The Company designed the LTI Plan and the terms of the proposed offers in consultation with Mercer Human Resource Consulting (Mercer), independent remuneration specialists. Only senior executives of the Company who are able to directly influence the long-term success of the Company participate in the LTI Plan. Currently 46 senior executives are eligible to be made an offer to participate in the LTI Plan, but the final number of offers to participate is subject to final consideration by the Board. It is currently proposed that an offer be made under the LTI Plan to senior executives each financial year, and that the LTI Plan will continue to operate indefinitely, although this will be subject to ongoing review by the Board in light of changing business requirements and market circumstances. Of the Directors of the Company, only Executive Directors are eligible to participate in the LTI Plan. Mark McInnes and Stephen Goddard are the only Executive Directors and accordingly are the only Directors who are eligible to participate. Details of any securities issued under the LTI Plan to an Executive Director will be published in the annual report of the Company. In accordance with the ASX Listing Rules approval from shareholders will be obtained before participation in the LTI Plan commences for any Executive Director. No securities have been issued under the LTI Plan to any Director to date.

An offer under the LTI Plan grants an individual the right to a certain number of ordinary shares in the Company which may vest 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, under the initial offer made, no shares will be granted by any means prior to 31 July 2004, and then are allocated only if performance measures are met.

At 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. These measures are based on proven drivers of shareholder value and were revised by the Board as part of the strategic review to ensure a closer alignment with the revised Company strategy. Consequently for existing offers the revenue measure has been waived and the two remaining measures are total shareholder return and capital management. No other changes have been made. 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.

Allocations under the LTI Plan are in place for 35 nominated executives. As a result of these allocations, a minimum number of zero ordinary shares and between 422,400 and 1,265,000 ordinary shares may be issued under the LTI Plan depending on the level of achievement under the performance measures.

| | NUMBER OF LTI PLAN RIGHTS* | | |
|------------------|----------------------------|-----------------------|---|
| | Granted During Year | Lapsed During Year | Outstanding as at Date of this Report |
| Directors | | | |
| Mark McInnes | 100,000 | – | 100,000 |
| Stephen Goddard | 125,000 | – | 125,000 |
| Peter Wilkinson | 300,000 | 300,000 | – |
| Officers | | | |
| Teresa Gallo | 65,000 | – | 65,000 |
| Colette Garnsey | 45,000 | – | 45,000 |
| Patrick Robinson | 45,000 | – | 45,000 |
| Peter Helson | 40,000 | – | 40,000 |
| Paul Zahra | 21,500 | – | 21,500 |
| Donald Grover | 90,000 | 90,000 | – |

* Initial Offered Amount

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 the date of grant on 30 August 2002 to be in the range of \$0.33 to \$0.45, with a mid-point assessment of \$0.39.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

The Company has indemnified the following current Directors of the Company, Robert Savage, Mark McInnes, Stephen Goddard, Reg Clairs, John Coates, John Harvey and Katie Lahey against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith or indemnification is otherwise not permitted under the *Corporations Act 2001*. The indemnity stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also indemnified the current Directors of its controlled entities and certain members of the Company's senior management for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith or indemnification is otherwise not permitted under the *Corporations Act 2001*. The indemnity stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses and covers a period of seven years after ceasing to be a Director or ceasing employment with the Company.

Insurance Premiums

The Company has paid insurance premiums for three-year cover in respect of Directors' and Officers' liability insurance contracts, for current officers, including executive officers of the Company and Directors, executive officers and Secretaries of its controlled entities. The insurance premiums relate to:

- costs and expenses incurred by the relevant officer in defending proceedings; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

Deeds of Insurance and Indemnity

The Company has entered into deeds of access, insurance and indemnity with all the Directors of the Company.

The principal provisions of the deeds relate to:

- the granting of certain indemnities in favour of the Directors in respect of liability which they incur as an officer of the Company or related body corporate;
- the provision of access to board papers; and
- an undertaking to maintain, and to the extent permitted by law pay the premiums on, an insurance policy which insures Directors against liability incurred as an officer of the Company or a related body corporate (except liability arising out of a wilful breach of duty or breach of certain provisions of the *Corporations Act 2001*) during their term of office and for seven years after they cease to be a Director.

ENVIRONMENT

The consolidated entity has developed a risk mapping process to consider all aspects of business risks. Environmental matters are an important part of that process. All significant environmental risks have been reviewed and the consolidated entity has no legal obligation to take corrective action in respect of any environmental matter.

To the best of the knowledge and belief of Directors, the Company is not in breach of any environmental legislation in any State or Territory.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order amounts in this report and the accompanying financial report have been rounded to the nearest one thousand dollars unless otherwise indicated.

Signed in accordance with a resolution of the Directors.



Robert Savage

30 September 2003

STATEMENT OF FINANCIAL PERFORMANCE

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

DAVID JONES LIMITED AND CONTROLLED ENTITIES

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STATEMENT OF FINANCIAL PERFORMANCE

| | | CONSOLIDATED | |
|---|------|--------------------|----------------|
| | Note | 2003 \$'000 | 2002 \$'000 |
| Revenue from sale of goods | 3 | 1,711,169 | 1,668,182 |
| Cost of sales | | (1,088,172) | (1,080,526) |
| Gross profit | | 622,997 | 587,656 |
| Other revenues from ordinary activities | 3 | 55,269 | 56,459 |
| Employee benefits expense | | (287,382) | (286,480) |
| Lease and occupancy expenses | | (182,032) | (149,700) |
| Depreciation, amortisation and recoverable amount write-downs | | (89,254) | (67,574) |
| Advertising and visual expenses | | (29,219) | (30,305) |
| Administration expenses | | (48,933) | (39,136) |
| Borrowing costs | | (4,553) | (8,084) |
| Carrying amount of assets sold | | (305) | (1,366) |
| Other expenses from ordinary activities | | (58,916) | (49,902) |
| Profit/(Loss) from ordinary activities before income tax expense | | (22,328) | 11,568 |
| Income tax expense relating to ordinary activities | | (3,138) | (4,988) |
| Net Profit/(Loss) from ordinary activities after related income tax expense attributable to members of the Parent Entity | | (25,466) | 6,580 |
| Share issue costs | | (74) | (4,425) |
| Net (decrease) in retained profits on the initial adoption of: Revised AASB 1028 'Employee Benefits' | 2(b) | (980) | – |
| Total revenue and expenses attributable to members of the Parent Entity recognised directly in equity | | (1,054) | (4,425) |
| Total changes in equity from non-owner related transactions attributable to members of the Parent Entity | | (26,520) | 2,155 |
| Basic earnings per share | 6 | (7.5) cents | 1.5 cents |
| Basic earnings per share before non-recurring significant items | 6 | 9.2 cents | 8.8 cents |
| Diluted earnings per share | 6 | (7.5) cents | 1.5 cents |
| Diluted earnings per share before non-recurring significant items | 6 | 9.2 cents | 8.8 cents |

The consolidated statement of financial performance is to be read in conjunction with the accompanying notes, discussion and analysis.

DISCUSSION AND ANALYSIS ON STATEMENT 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

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DISCUSSION AND ANALYSIS ON STATEMENT OF FINANCIAL PERFORMANCE

This discussion and analysis is provided to assist readers in understanding the concise financial report. It should be read in conjunction with the overview of operations and business on pages 1 to 21.

REVENUE

The consolidated entity's revenue from retail sales for 2003 increased by 2.6% to \$1,711.2 million and other revenue for 2003 decreased by 2.3% to \$55.2 million, when compared to the previous year.

Revenue comprises:

| | 2003 \$m | 2002 \$m |
|---------------|----------------|----------------|
| Retail sales | 1,711.2 | 1,668.2 |
| Other revenue | 55.2 | 56.5 |
| | 1,766.4 | 1,724.7 |

GROSS PROFIT

Gross profit for the core retail business increased \$26.2 million or 4.5% due to higher sales and an improvement in the gross profit percentage as compared to the previous year.

COST OF DOING BUSINESS

Cost of Doing Business (CODB) relates to department stores and corporate head office. CODB (excluding non-recurring significant items) increased \$31.8 million or 6.0% for the year to \$564.3 million. CODB as a percentage of core business retail sales increased from 32.6% to 33.7% in 2003.

CREDIT CARD EARNINGS

Credit card earnings for 2003 increased by \$7.2 million or 47.8% on the previous year to \$22.1 million. A major factor in the strong growth of credit card earnings was the 12% increase in the size of the card receivables portfolio during year. Higher revenues, a reduction in operating expenses and a collections management focus have enabled the 2003 result to be achieved.

DAVID JONES ONLINE

From 2003 this business was combined with department store segment. As announced on 3 June 2003, David Jones Online has been repositioned to focus on integrated marketing activities and as such, has ceased the sale of general merchandise (other than Christmas hampers).

FOODCHAIN BY DAVID JONES

In 2003 the business incurred an operating loss (excluding non-recurring significant items) of \$6.9 million (2002: \$12.7 million). As announced on 3 June 2003, the Foodchain business has closed and all store leases have been either assigned or terminated. As at 26 July 2003, the Company has no further actual or contingent liabilities in respect of Foodchain store leases. Closure costs in relation to the Foodchain business amounted to \$39.0 million and are detailed in Note 4 of this report.

INCOME TAX

Income tax expense for 2003 amounted to \$3.138 million (2002: \$4.988 million). Income tax expense and the effective tax rate is lower than the previous year due to a loss from ordinary activities before income tax of \$22.328 million (2002: Profit from ordinary activities before income tax expense of \$11.568 million). Income tax expense also includes the effect of \$9.3 million (2002: \$1.6 million) of non-deductible restructuring costs.

STATEMENT OF FINANCIAL POSITION

AS AT 26 JULY 2003 AND 27 JULY 2002

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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STATEMENT OF FINANCIAL POSITION

| | | CONSOLIDATED | |
|-------------------------------|------|---------------|---------------|
| | Note | 2003 \$000 | 2002 \$000 |
| CURRENT ASSETS | | | |
| Cash assets | | 17,345 | 19,138 |
| Receivables | | 47,875 | 53,092 |
| Inventories | | 289,540 | 287,209 |
| Prepayments | | 7,366 | 9,697 |
| Total current assets | | 362,126 | 369,136 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 246,547 | 272,416 |
| Intangibles | | 12,178 | 14,051 |
| Deferred tax assets | | 34,040 | 26,943 |
| Other assets | | 4,858 | 2,642 |
| Total non-current assets | | 297,623 | 316,052 |
| Total assets | | 659,749 | 685,188 |
| CURRENT LIABILITIES | | | |
| Payables | | 182,735 | 166,786 |
| Interest bearing liabilities | | 122 | 217 |
| Current tax liabilities | | 3,097 | 10,983 |
| Provisions | | 28,370 | 30,674 |
| Total current liabilities | | 214,324 | 208,660 |
| NON-CURRENT LIABILITIES | | | |
| Interest bearing liabilities | | – | 122 |
| Deferred tax liabilities | | 313 | 312 |
| Provisions | | 20,768 | 18,284 |
| Other deferred liabilities | | 4,331 | 2,542 |
| Total non-current liabilities | | 25,412 | 21,260 |
| Total liabilities | | 239,736 | 229,920 |
| Net assets | | 420,013 | 455,268 |
| EQUITY | | | |
| Contributed equity | | 394,559 | 385,888 |
| Retained profits | 7 | 25,454 | 69,380 |
| Total equity | 8 | 420,013 | 455,268 |

The consolidated statement of financial position is to be read in conjunction with the accompanying notes (including Note 12 – Off Balance Sheet Arrangements), discussion and analysis.

DISCUSSION AND ANALYSIS ON STATEMENT OF FINANCIAL POSITION

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

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

The major movements are:

- **Cash assets** decreased by \$1.8 million or 9.4% on the previous year.
- **Receivables** are \$5.2 million lower this year as compared to last year due to a reduction in the amount receivable from trade suppliers.
- **Property, plant and equipment** decreased by \$25.9 million on the previous year. The reduction is due to lower capital expenditure, the write-off of assets relating to Foodchain, David Jones Online and Corporate Head Office, and a recoverable amount write-down of \$7.9 million in relation to the Hornsby store.
- **Deferred tax assets** increased by 26.3% in 2003 to \$34.0 million, due to timing differences relating to provisions and depreciation.
- **Intangibles** decreased in 2003 by \$1.9 million due to the amortisation of goodwill relating to the Aherns department store business in Western Australia.
- **Payables** increased by \$15.9 million, due to an increase in both trade and sundry creditors.
- **Tax liabilities** have decreased by 69.8% in 2003 to \$3.4 million. This is attributable to a \$1.3 million refund in 2003 from over payments of tax in 2002 and timing difference movements of \$6.0 million in 2003 (2002: \$13.2 million) primarily relating to the amounts disclosed as significant items (see Note 4).
- **Interest bearing liabilities** (borrowings) decreased by \$0.2 million in 2003 to \$0.1 million. The level of debt incurred by the Company will vary from time to time, in line with seasonal funding requirements.
- **Contributed equity** increased in 2003 due to the issue of \$8.7 million in ordinary shares through the Company's Dividend Reinvestment Plan. The Dividend Reinvestment Plan has been suspended.
- **Debt to equity ratio** at the end of the year was 0.0% compared to 0.1% last year. This is due to the issue of reset preference shares in July 2002 and the subsequent reduction in borrowing requirements.

STATEMENT 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

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STATEMENT OF CASH FLOWS

| | CONSOLIDATED | |
|---|-----------------|-----------------|
| | 2003 | 2002 |
| | \$000 | \$000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers (inclusive of goods and services tax) | 1,768,353 | 1,710,241 |
| Payments to suppliers and employees (inclusive of goods and services tax) | (1,668,420) | (1,595,965) |
| Interest received | 1,256 | 692 |
| Borrowing costs paid | (4,553) | (8,084) |
| Income taxes paid | (19,182) | (17,997) |
| Income tax refund received | 1,256 | 10,480 |
| Net cash provided by operating activities | 78,710 | 99,367 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for property, plant and equipment | (61,850) | (70,578) |
| Proceeds from sale of property, plant and equipment | 185 | 905 |
| Repayment of Employee Share Plan loans on forfeited shares | 87 | 76 |
| Repayment of Employee Share Plan loans from dividend payments | 36 | 52 |
| Net cash used in investing activities | (61,542) | (69,545) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments for share issue costs: | | |
| Dividend reinvestment plan | – | (226) |
| Reset preference shares | (74) | (4,199) |
| Proceeds from issue of reset preference shares | – | 65,000 |
| Repayment of borrowings | (217) | (61,442) |
| Dividends paid: | | |
| Ordinary shares | (15,570) | (21,367) |
| Reset preference shares | (3,101) | – |
| Net cash provided by (used in) financing activities | (18,962) | (22,234) |
| Net increase/(decrease) in cash held | (1,793) | 7,588 |
| Cash at beginning of the financial year | 19,138 | 11,550 |
| Cash at end of the financial year | 17,345 | 19,138 |

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes and discussion and analysis.

DISCUSSION AND ANALYSIS ON STATEMENT 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

Cash flows from operating activities decreased from \$99.4 million in 2002 to \$78.7 million in 2003, due to an increase in the Cost of Doing Business relating to restructuring and other costs and reduced income tax refunds (2003: \$1.0 million. 2002: \$10.5 million). This was offset by higher operating cash flows from the Credit segment and lower borrowing costs.

Net cash used in financing activities was impacted by the proceeds from the issue of ordinary shares via the dividend reinvestment plan of \$8.7 million. Dividends paid in cash on ordinary shares were \$5.8 million lower than the previous year due to a reduction in the dividend rate.

Capital expenditure for the year of \$61.9 million (2002: \$70.6 million) is comprised of the following major categories:

| | 2003 \$m | 2002 \$m |
|------------------------|-------------|-------------|
| Stores | 52.1 | 52.0 |
| Information technology | 7.6 | 14.4 |
| Other | 2.2 | 4.2 |
| | 61.9 | 70.6 |

NOTES TO THE CONCISE FINANCIAL STATEMENTS

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE CONCISE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF CONCISE FINANCIAL REPORT

The concise financial report has been prepared in accordance with the *Corporations Act 2001*, accounting standard AASB 1039 'Concise Financial Reports' and applicable Urgent Issues Group Consensus Views. The financial statements and specific disclosures required by AASB 1039 have been derived from the consolidated entity's full financial report for the financial year. Other information included in the concise financial report is consistent with the consolidated entity's full financial report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financial and investing activities of the consolidated entity as the full financial report.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

A full description of the accounting policies adopted by the consolidated entity may be found in the consolidated entity's full financial report.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

2. CHANGES IN ACCOUNTING POLICIES

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

(a) 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.

(b) 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.

| | Note | CONSOLIDATED | |
|--|------|------------------|------------------|
| | | 2003 \$000 | 2002 \$000 |
| 3. REVENUE FROM ORDINARY ACTIVITIES | | | |
| Revenue from sale of goods | | 1,711,169 | 1,668,182 |
| Other operating revenue | | 55,269 | 56,459 |
| Total revenue from ordinary activities | | 1,766,438 | 1,724,641 |
| 4. SIGNIFICANT ITEMS | | | |
| The impact of significant items of expense on profit from ordinary activities before income tax was: | | | |
| Foodchain business closure | 10 | | |
| Lease exit costs | | 14,734 | 5,304 |
| Restructuring costs | | 5,003 | 200 |
| Non-current assets written off | | 19,313 | 19,336 |
| Total | | 39,050 | 24,840 |
| Online business restructure | | | |
| Lease exit costs | | 171 | – |
| Restructuring costs | | 2,372 | – |
| Non-current assets written off | | 3,883 | – |
| Total | | 6,426 | – |
| Other restructuring | | | |
| Store closure provision – Rockingham | | 1,296 | – |
| Lease termination costs – Fountain Gate | 13 | 9,940 | – |
| Corporate head office | | 1,143 | 4,601 |
| Total | | 12,379 | 4,601 |
| Write-down in value of plant and equipment to recoverable amount | | | |
| Stores: | | | |
| – Hornsby | | 7,944 | – |
| – Other | | 8,430 | – |
| Corporate head office | | 2,260 | – |
| Total | | 18,634 | – |
| Accounting policy refinements and other adjustments | | | |
| Inventory cost refinements | | 6,390 | 6,876 |
| Other adjustments | | 1,406 | – |
| Effect of discounting interest free sales to fair value | | – | 2,542 |
| Total | | 7,796 | 9,418 |
| Total significant items | | 84,285 | 38,859 |

NOTES TO THE CONCISE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE CONCISE FINANCIAL STATEMENTS

| | | CONSOLIDATED | |
|--|--|---------------|---------------|
| | | 2003 \$000 | 2002 \$000 |
| 5. 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 |
| Over provision relating to 2001 | | (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 2(a)) | | | |
| Franked at 30% – three cents per share | | 12,089 | 12,089 |
| | | 24,304 | 28,016 |
| Reset Preference Shares | | | |
| Interim dividend of \$4.0833 (2002: Nil) per share paid 3 February 2003 for the period 1 August 2002 to 31 January 2003 inclusive: | | | |
| Franked at 30% | | 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 |
| | | 5,265 | 447 |
| Total dividends provided for or paid | | 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 |
| Satisfied by issue of shares | | 8,745 | 10,300 |
| | | 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 |

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

- (a) franking credits that will arise from the payment of the current tax liability;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- (d) 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.

| | CONSOLIDATED | |
|--|----------------|----------------|
| | 2003 cents | 2002 cents |
| 6. 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 (refer Note 4) | 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 EPS: | | |
| – 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 on 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.

NOTES TO THE CONCISE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE CONCISE FINANCIAL STATEMENTS

| | Note | CONSOLIDATED | |
|---|------|----------------|----------------|
| | | 2003 \$000 | 2002 \$000 |
| 7. RETAINED PROFITS | | | |
| Retained profits at beginning of year | | 69,380 | 91,264 |
| Net profit/(loss) attributable to members of the parent entity | | (25,466) | 6,580 |
| Net effect of initial adoption of: | | | |
| Revised AASB 1028 'Employee Benefits' | 2(b) | (980) | – |
| Net effect on dividends from: | | | |
| Initial adoption of AASB 1044 'Provisions Contingent Liabilities and Contingent Assets' | 2(a) | 12,089 | – |
| Dividends recognised during the year | 5 | (29,569) | (28,464) |
| Total dividends | | (17,480) | (28,464) |
| Retained profits at end of year | | 25,454 | 69,380 |
| 8. TOTAL EQUITY RECONCILIATION | | | |
| Total equity at beginning of year | | 455,268 | 406,277 |
| Total change in parent entity interest in equity recognised in statement of financial performance | | (26,520) | 2,155 |
| Transactions with owners as owners: | | | |
| Contributions of equity: | | | |
| Issue of reset preference shares | | – | 65,000 |
| Issue of ordinary shares under dividend reinvestment plan | | 8,745 | 10,300 |
| Dividends | 7 | (17,480) | (28,464) |
| Total equity at end of year | | 420,013 | 455,268 |

9. SEGMENT INFORMATION

(a) 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 comprising the David Jones' Card; and
- Property comprising the land and buildings owned by David Jones Limited and its controlled entities.

(b) Segment Accounting Policies

Segment accounting policies are the same as the consolidated entity's accounting 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, 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.

9. SEGMENT INFORMATION – CONTINUED

| 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 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 CONCISE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE CONCISE FINANCIAL STATEMENTS

CONSOLIDATED

2003
\$000

2002
\$000

10. 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 9 – 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 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) |

CONSOLIDATED

| | 2003 \$000 | 2002 \$000 |
|--|---------------|---------------|
|--|---------------|---------------|

11. LEASE COMMITMENTS**OPERATING LEASE COMMITMENTS**

Future operating lease rentals not provided for in the financial statements and payable:

| | | |
|---|------------------|------------------|
| – within one year | 79,997 | 78,577 |
| – later than one year but not later than five years | 347,586 | 354,127 |
| – later than five years | 1,833,713 | 1,911,996 |
| | 2,261,296 | 2,344,700 |

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 | 122 | 217 |
| Non-current | – | 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 12.

12. OFF BALANCE SHEET ARRANGEMENTS

The Statement 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; and
- 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.

NOTES TO THE CONCISE FINANCIAL STATEMENTS – CONTINUED

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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NOTES TO THE CONCISE FINANCIAL STATEMENTS

12. OFF BALANCE SHEET ARRANGEMENTS – CONTINUED

(a) Sale and Leaseback Arrangement – continued

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; and
- 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.

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 Statement of Financial Position. The difference between the net cash inflows and outflows is recognised as an expense in the Statement 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' card holders 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 Statement 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.

13. EVENTS SUBSEQUENT TO BALANCE 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 4).

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 11.

DIRECTORS' DECLARATION

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

In the opinion of the Directors of David Jones Limited the accompanying concise financial report of the Consolidated Entity, comprising David Jones Limited and its controlled entities, for the 52 weeks ended 26 July 2003 set out on pages 38 to 52:

- (a) has been derived from and is consistent with the full financial report for the financial year; and
- (b) complies with accounting standard AASB 1039 'Concise Financial Reports', Urgent Issues Group Consensus Views, and the *Corporations Act 2001*.

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

DAVID JONES LIMITED AND ITS CONTROLLED ENTITIES

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INDEPENDENT AUDIT REPORT TO MEMBERS OF DAVID JONES LIMITED

SCOPE

The Concise Financial Report and Directors' Responsibility

The concise financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the Directors' Declaration for 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 the year.

The Directors of the Company are responsible for preparing a concise financial report that complies with accounting standard AASB 1039 'Concise Financial Reports', 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 concise financial report.

Audit Approach

We conducted an independent audit on the concise 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 concise 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 concise financial report is presented fairly in accordance with accounting standard AASB 1039 'Concise Financial Reports'. We formed our audit opinion on the basis of these procedures, which included:

- testing that the information in the concise financial report is consistent with the full financial report; and
- examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures in the concise financial report that were not directly derived from the full financial report.

We have also performed an independent audit of the full financial report of the Company for the 52 weeks ended 26 July 2003. Our audit report on the full financial report was signed on 30 September 2003, and was not subject to any qualification. For a better understanding of our approach to the audit of the full financial report, this report should be read in conjunction with our audit report on the full financial report.

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 concise 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 concise financial report of David Jones Limited complies with accounting standard AASB 1039 'Concise Financial Reports'.



Ernst & Young

Sydney
30 September 2003



S J Ferguson
Partner

SHAREHOLDER INFORMATION

AS AT 12 SEPTEMBER 2003

DAVID JONES LIMITED

Current shareholder information is available on the Company's website which is updated regularly.

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Top 20 Ordinary and Reset Preference Shareholders (RPS)

| Shareholder | Ordinary | % | No. | RPS | % | No. |
|--|--------------------|--------------|-----|----------------|--------------|-----|
| Westpac Custodian Nominees Limited | 34,296,716 | 8.33 | 1 | 56,468 | 8.69 | 1 |
| J P Morgan Nominees Australia Limited | 23,777,917 | 5.78 | 2 | | | |
| National Nominees Limited | 21,805,594 | 5.30 | 3 | | | |
| Suncorp Custodian Services Pty Limited <AET> | 6,950,482 | 1.69 | 4 | | | |
| Queensland Investment Corporation | 4,405,155 | 1.07 | 5 | | | |
| ANZ Nominees Limited | 4,299,185 | 1.04 | 6 | 26,430 | 4.07 | 2 |
| Citicorp Nominees Pty Limited | 3,809,656 | 0.93 | 7 | | | |
| Commonwealth Custodial Services Limited | 3,704,956 | 0.90 | 8 | | | |
| Government Superannuation Office <a/c State Super Fund> | 3,603,186 | 0.88 | 9 | | | |
| USB Nominees Pty Ltd <Prime Broking a/c> | 3,078,363 | 0.75 | 10 | | | |
| NRMA Nominees Pty Limited | 2,868,762 | 0.70 | 11 | | | |
| AMP Life Limited | 2,817,735 | 0.68 | 12 | | | |
| ANZ Nominees Limited | | | | 20,000 | 3.08 | 3 |
| Mr Vijay Vijendra Sethu | | | | 20,000 | 3.08 | 4 |
| RBC Global Services Australia Nominees Pty Ltd <BK Cust a/c> | | | | 16,500 | 2.54 | 5 |
| Permanent Trustees Company Limited <YFM0005 a/c> | | | | 11,211 | 1.72 | 6 |
| Argo Investments Limited | 2,640,872 | 0.64 | 13 | 10,000 | 1.54 | 7 |
| Transport Accident Commission | 2,419,809 | 0.59 | 14 | | | |
| Equity Trustees Limited <EQT High Inc Wholesale a/c> | | | | 5,000 | 0.77 | 8 |
| Troxfield Pty Ltd <The Rosebery Super Fund a/c> | | | | 5,000 | 0.77 | 9 |
| Employers Mutual Limited | | | | 4,824 | 0.74 | 10 |
| Weresyd Proprietary Limited <ST2 a/c> | | | | 3,395 | 0.52 | 11 |
| Edward Furnival Griffin & Deborah Ann Griffin <Griffin Super Fund a/c> | | | | 3,135 | 0.48 | 12 |
| Fortis Clearing Nominees P/L <Settlement a/c> | | | | 2,794 | 0.43 | 13 |
| AMITS Enterprises Pty Ltd | | | | 2,500 | 0.38 | 14 |
| Australian Industrial Sands Pty Ltd | | | | 2,500 | 0.38 | 15 |
| Mrs Jennifer P T Darvall | | | | 2,500 | 0.38 | 16 |
| Matrix Investments Pty Ltd <Matrix Holdings a/c> | | | | 2,500 | 0.38 | 17 |
| Matrix Investments Pty Ltd <Matrix Holdings a/c> | | | | 2,500 | 0.38 | 18 |
| Permanent Trustee Company Ltd <PTC0090 a/c> | | | | 2,500 | 0.38 | 19 |
| Weresyd Proprietary Limited (SH a/c) | | | | 2,382 | 0.37 | 20 |
| Permanent Trustee Australia Limited <PAR0002 a/c> | 2,120,812 | 0.52 | 15 | | | |
| GIO General | 2,046,072 | 0.50 | 16 | | | |
| Cogent Nominees Pty Limited | 2,035,388 | 0.49 | 17 | | | |
| Yanawe Investments Pty Limited | 1,926,100 | 0.47 | 18 | | | |
| ANZ Nominees Limited | 1,610,830 | 0.39 | 19 | | | |
| Gwynvill Securities Pty Ltd | 1,330,700 | 0.32 | 20 | | | |
| | 131,548,290 | 31.97 | | 202,139 | 31.08 | |

The 20 largest ordinary shareholders hold 31.97% of the ordinary shares of the Company.

The 20 largest reset preference shareholders hold 31.08% of the reset preference shares of the Company.

SHAREHOLDER INFORMATION

SHAREHOLDER INFORMATION – CONTINUED

AS AT 12 SEPTEMBER 2003

DAVID JONES LIMITED

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SHAREHOLDER INFORMATION

SUBSTANTIAL SHAREHOLDINGS

Substantial Shareholder Notices Received up to 12 September 2003

| | Ordinary Shares | Extent of Interest | Date of Last Notification |
|---------------------------|-----------------|--------------------|---------------------------|
| Barclays Global Investors | 21,329,127 | 5.18% | 21.8.03 |

CLASS OF SHARES AND VOTING RIGHTS

At 12 September 2003 there were 76,153 holders of the ordinary shares of the Company and 4,833 holders of the reset preference shares of the Company.

The voting rights attaching to the ordinary shares set out in clause 5.8 of the Company's Constitution are on a show of hands, every member present has one vote; and on a poll, every member present has one vote for each fully paid share held by the member and in respect of which the member is entitled to vote.

The voting rights attaching to the reset preference shares are set out in clause 2.2 of the Company's Constitution. Reset preference shareholders are not entitled to vote at any general meeting of the Company except in certain circumstances, in which case reset preference shareholders will have one vote per reset preference share held. Reset preference shareholders 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.

DIVIDEND SCHEDULE

Details of dividends paid on ordinary shares and reset preference shares during the current and previous financial year are set out in the Directors' Report on page 31.

For a full up to date schedule of all dividends paid by David Jones Limited, since listing in 1995, these are set out in the 'For Investors' section of the David Jones website.

DISTRIBUTION OF SHAREHOLDERS

| Category | Ordinary Shares as at 12 September 2003 | Ordinary Shares as at 19 September 2002 | Reset Preference Shares as at 12 September 2003 | Reset Preference Shares as at 19 September 2002 |
|-------------------------------|---|---|---|---|
| 1 – 1,000 | 8,279 | 8,545 | 4,783 | 5,015 |
| 1,001 – 5,000 | 58,798 | 61,585 | 43 | 47 |
| 5,001 – 10,000 | 5,896 | 7,086 | 1 | 2 |
| 10,001 – 100,000 | 3,083 | 4,029 | 6 | 6 |
| 100,001 and over | 97 | 114 | 0 | 0 |
| | 76,153 | 81,359 | 4,833 | 5,070 |
| Less than a marketable parcel | 2,493 | 2,820 | 1 | 0 |

OPTIONS AS AT 12 SEPTEMBER 2003

| | | | | |
|-----------|--|---|----------|------------|
| 2,150,000 | executive options expiring 17 December 2003 exercisable at \$1.5700* | – | unlisted | 24 holders |
| 2,425,000 | executive options expiring 16 December 2004 exercisable at \$1.4047 | – | unlisted | 30 holders |
| 2,585,000 | executive options expiring 16 January 2006 exercisable at \$1.3280 | – | unlisted | 34 holders |

7,160,000

* Adjusted following capital return of 20 cents per share paid to shareholders on 10 August 1999.

SHAREHOLDER REWARDS SCHEME

Shareholders who own a minimum of 2,000 ordinary shares in David Jones Limited are entitled to participate in the Shareholder Rewards Scheme, whereby discounts are provided on a range of merchandise. Discount is only available on purchases made with the David Jones Shareholder Credit Card. An annual membership fee of \$50 is applied to new ordinary shareholders who purchase shares and enroll in the scheme after 1 October 2001. The fee is not applied to ordinary shareholders enrolled in the scheme prior to this date. Reset preference shareholders are not entitled to participate in the Shareholder Rewards Scheme.

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. For details of individual stores, these 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.



John A Simmonds FCIS ASIA

Company Secretary

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.

