Appendix 4D

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary half year report

For the 27 weeks ended 30 December 2007
Compared to the 26 weeks ended 24 December 2006

				$A'000
Revenues from continuing operations	up	27.2%	to	190,126
Profit from continuing operations after tax attributable to members	up	38.4%	to	14,133
Net profit for the period attributable to members	up	38.4%	to	14,133

Dividends	Amount per share	Franked amount per share
Interim dividend	29¢	100%

Record date for determining entitlements to the dividend	4 April 2008
Dividend payment date	18 April 2008

Commentary on the Company's trading result is included in the media release and on pages 2 to 3 of the half year report enclosed.

Overview of Financial Performance

Sales grew from $149.5m to $190.1m and net profit after tax grew from $10.2m to $14.1m, representing growth of 27.2% and 38.4% respectively, from the corresponding period last year. The half year ended 30 December 2007, incorporates 27 weeks trading compared to 26 weeks for the corresponding period last year impacting the comparability between the periods of sales and net profit after tax.

Sales growth was driven by 14 new store openings, comparable store sales growth (excluding the additional week) of 9.2% and continued growth from stores opened during the prior year. Comparable stores growth was consistently strong through the period which can be contributed to our balanced offering of everyday needs and variety merchandise aimed at value conscious consumers.

Gross margin, increased from 48.2% to 48.6% of sales compared to the corresponding period last year. This reflects a combination of strengthening our competitive stance, our ever changing product mix and improvements in quality and value moderating the favourable impacts from a strong exchange rate.

Operating costs, excluding depreciation and amortisation, as a percentage of sales decreased from 36.5% to 35.8%, compared to the corresponding period last year. This was inclusive of significant investment in divisional and area management, training and development at store level and increased resources in recruiting, OH&S and property.

Depreciation and amortisation as a percentage of sales increased from 1.6% to 1.7% reflecting our recent expenditure in logistics and continued store expansion program.

The financial position supports our increased dividend ratio, planned investment in IT and logistics and our planned store opening program.

Operational Performance

The strong trading result for the half is a reflection of the continued attention to product selection, ranging, allocations and pricing, and the efforts of store staff to present the offer to our customers.

Fourteen new stores were opened during the period and we finished the half with 144 stores. Five stores were opened in New South Wales, three in Queensland, three in Victoria, two in South Australia and a further store in Western Australia.

During the period our focus remained on planning for our future logistics capability including evaluating site availability in Queensland, with plans to open a new facility in FY2011. In the shorter term we will concentrate on opportunities such as overseas freight consolidation and alternative distribution methods which are natural steps towards our longer term goals.

The evaluation and selection of a new Enterprise Resource Planning system was completed during the period, with implementation to commence in mid 2008 and the first phase due to be fully operational in mid 2009.

Outlook for the remainder of FY2008

The Company is confident of achieving an increased full year NPAT of between $16.3m to $16.5m, up from $14.8m to $15.0m forecast at the start of the year, reflecting the robust first half result and encouraging post December trading.

The upgraded profit forecast reflects a continuation of strong everyday trading in the second half and further investment in key areas of the business. In addition, eight new stores are planned in the second half where profit contribution from these stores is not expected to cover their opening costs. Plans for store openings in Tasmania are progressing well.

With store numbers increasing by 20 stores per annum, the Company still believes it is less than half the long term projected national footprint of up to 400 stores. As a result, the Company will continue its planned investments in all areas, with particular focus on Information Technology and Logistics.

Given the strong financial position, the Board has declared a fully franked interim dividend of 29 cents per share reflecting the upgraded full year forecast and the increased dividend payout ratio announced at the Annual General Meeting

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entity for the half year ended 30 December 2007.

Directors
The names of the directors in office during the whole of the half year and up to the date of this report are:

BJ Beattie
Chairman, Non-executive director, Chairman of the Remuneration Committee and Member of the Audit Committee
GJ Masters
Managing Director
AC McMorron
Non-executive director, Chairman of the Audit Committee and Member of the Remuneration Committee
J Shuster
Non-executive director and Member of the Audit and Remuneration Committees

BAE Saunders was a director of the company for the period 25 June 2007 to 4 July 2007.

Review of operations
The profit of the consolidated entity for the half year after providing for income tax amounted to $14,132,964. The half year ended 30 December 2007, incorporates 27 weeks trading compared to 26 weeks for the corresponding period last year. This impacts on the comparability between the periods including sales, net profit after tax, cash flows and balance sheet.

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

Seasonality
The half year reflects trading results that cannot be reasonably expected for the remainder of the year, due to the seasonal nature of the consolidated entity's activities.

The balance sheet as at 30 December 2007 reflects a reduced level of borrowings as compared to other times during the year due to the seasonal nature of the consolidated entity's activities.

Dividends
On 12 October 2007, a final fully franked dividend of 14 cents per share totalling $3,599,161 was paid. On 20 February 2008, the directors declared a fully franked interim dividend of 29 cents per share to be paid on 18 April 2008.

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

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Rounding off amounts to nearest thousand dollars
The consolidated entity is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Signed in accordance with a resolution of the directors:

BJ Beattie
Chairman

GJ Masters
Managing Director
20 February 2008

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Auditor's Independence Declaration

As lead auditor for the review of The Reject Shop Limited for the year ended 30 December 2007, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Dale McKee
Partner
PricewaterhouseCoopers

Melbourne
20 February 2008

Consolidated Income Statement
For the Half Year Ended 30 December 2007

	Note	**30 December 2007 $'000**	24 December 2006 $'000
Revenues from continuing operations			
Sales revenue	2	**190,126**	149,501
Other income	2	**66**	81
		190,192	149,582
Cost of sales		**97,774**	77,389
Store expenses		**55,565**	42,748
Administrative expenses		**10,128**	9,580
Warehousing expenses		**5,806**	4,673
		169,273	134,390
Finance costs	3	**645**	453
Profit before income tax		**20,274**	14,739
Income tax expense	4	**6,141**	4,524
Profit Attributable To Members Of The Reject Shop Limited		**14,133**	10,215

Earnings per Share		**Cents**	**Cents**
Basic Earnings Per Share	22	55.0	40.0
Diluted Earnings Per Share	22	54.2	39.3

The above income statements should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet
As at 30 December 2007

	Note	30 December 2007 $'000	24 June 2007 $'000
Current Assets			
Cash assets	5	10,800	5,102
Receivables	6	803	673
Inventories	7	34,426	26,877
Derivative financial instruments		216	-
Other	8	798	385
Total Current Assets		47,043	33,037
Non-Current Assets			
Property, plant and equipment	9	37,080	31,899
Deferred tax assets	10	4,260	3,540
Total Non-Current Assets		41,340	35,439
Total Assets		88,383	68,476
Current Liabilities			
Payables	11	20,323	15,485
Borrowings	12	1,969	4,343
Tax liabilities	13	5,491	2,210
Provisions	14	5,409	5,897
Derivative financial instruments		-	857
Other	15	6,630	4,442
Total Current Liabilities		39,822	33,234
Non-Current Liabilities			
Borrowings	16	3,192	2,455
Provisions	17	4,026	3,302
Total Non-Current Liabilities		7,218	5,757
Total Liabilities		47,040	38,991
Net Assets		41,343	29,485
Equity			
Contributed equity	18	4,241	3,985
Reserves	19	1,573	505
Retained profits	20	35,529	24,995
Total Equity		41,343	29,485

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

Consolidated Statement of Recognised Income and Expense
For the Half Year Ended 30 December 2007

	Note	**30 December 2007 $'000**	24 December 2006 $'000
Total equity at the beginning of the period		29,485	26,635
Net revaluation of cash flow hedges	19	1,073	(371)
Deferred tax credited directly to equity	18	55	55
Net income recognised directly in equity		1,128	(316)
Profit for the period	20	14,133	10,215
Share based remuneration	19	196	165
Dividends provided for or paid	20	(3,599)	(4,474)
Total equity at the end of the period		41,343	32,225

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

Consolidated Cash Flow Statement
For the Half Year Ended 30 December 2007

	Note	30 December 2007 $'000	24 December 2006 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		208,807	164,181
Payments to suppliers and employees (inclusive of goods and services tax)		(185,328)	(147,446)
Interest received		66	81
Borrowing costs paid		(645)	(453)
Income tax paid		(3,524)	(2,449)
Net cash inflows from operating activities	21	19,376	13,914
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		45	22
Payments for property, plant and equipment		(8,487)	(6,795)
Net cash used in investing activities		(8,442)	(6,773)
Cash Flows from Financing Activities			
Sale and leaseback		1,651	-
Payments under finance lease		(288)	(463)
Repayment of borrowings		(3,000)	-
Dividends paid		(3,599)	(4,474)
Net cash used in financing activities		(5,236)	(4,937)
Net increase/(decrease) in cash held		5,698	2,204
Cash at the beginning of the period		5,102	5,640
Cash at the end of the period	21	10,800	7,844

The above cash flow statements should be read in conjunction with the accompanying notes.

Note 1: Basis of preparation of half-year report

This general purpose financial report for the interim half year reporting period ended 30 December 2007 has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 24 June 2007 and any public announcements made by The Reject Shop Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

With exception of the item noted below, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Where a contract meets the definition of a financial guarantee, the contract is recognised at fair value at inception and then recognised at the greater of the ammortised cost, or the best estimate of total payments under the contract terms.

In implementing this change, no provision for financial guarantees was required to be recognised in the balance sheet.

	30 December 2007 $'000	24 December 2006 $'000
Note 2: Revenue From Continuing Operations		
Sales Revenue		
Sales of goods	190,126	149,501
Revenue from non-operating activities		
Interest	66	81
	66	81
	190,192	149,582

Note 3: Expenses

Profit before income tax expense includes the following expenses:

Interest and finance charges paid/payable	645	453
Depreciation and amortisation	3,255	2,442
Net loss on disposal of property, plant and equipment	6	15
Rental expenses relating to operating leases:		
Minimum lease payments	19,538	15,821
Provision for rent escalations	574	160
Rent paid on percentage of sales basis	150	180
Employee benefits expenses	36,874	28,996

Note 4: Income Tax

(a) Income tax expense		
Current tax	6,861	5,269
Deferred tax	(720)	(780)
Under / (Over) provided in prior years	-	35
	6,141	4,524
Deferred income tax expense included in income tax expense comprises:		
Increase in net deferred tax assets	(720)	(780)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	20,274	14,739
Tax at the Australian tax rate of 30% (2007 – 30%)	6,082	4,422
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	59	49
Sundry	-	18
	6,141	4,489
Under / (Over) provided in prior years	-	35
Income tax expense	6,141	4,524

	30 December 2007 $'000	24 June 2007 $'000
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited in equity		
Current tax – credited directly to equity	(55)	(55)

Note 5: Current Assets – Cash Assets

Cash on hand	574	442
Cash at bank	10,226	4,660
	10,800	5,102

Note 6: Current Assets – Receivables

Other debtors	803	673

Note 7: Current Assets – Inventories

Inventory at cost	34,215	26,678
Inventory at net realisable value	211	199
	34,426	26,877

Note 8: Current Assets – Other

Prepayments	548	209
Other current assets	250	176
	798	385

Note 9: Non-Current Assets – Property, Plant And Equipment

Leasehold improvements		
At cost	14,977	11,163
Less accumulated depreciation	(5,794)	(5,293)
	9,183	5,870
Under finance lease and hire purchase	2,789	2,422
Less accumulated amortisation	(750)	(617)
	2,039	1,805
Plant and equipment*		
At cost	37,116	34,582
Less accumulated depreciation	(17,678)	(15,659)
	19,438	18,923
Under finance lease and hire purchase	13,404	11,956
Less accumulated amortisation	(6,984)	(6,655)
	6,420	5,301
Total property, plant and equipment	37,080	31,899

*Plant and equipment includes fixtures, fittings and motor vehicles

	30 December 2007 $'000	24 June 2007 $'000

Note 10: Non Current Assets – Deferred Tax Assets

The balance comprises temporary differences attributable to:

	30 December 2007 $'000	24 June 2007 $'000
Amounts recognised in profit or loss		
Employee benefits	1,542	1,441
Non deductible accruals	1,414	1,038
Inventories	616	615
Lease incentives	259	74
Sundry items	342	322
	4,173	3,490
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:		
Finance leases	(6)	(19)
Depreciation	119	66
Sundry items	(26)	3
Net deferred tax assets	4,260	3,540

Note 11: Current Liabilities – Payables

	30 December 2007 $'000	24 June 2007 $'000
Unsecured liabilities		
Trade creditors	14,565	13,088
Sundry creditors and accruals	5,758	2,397
	20,323	15,485

Note 12: Current Liabilities –Borrowings

	30 December 2007 $'000	24 June 2007 $'000
Secured Liabilities		
Commercial bills	-	3,000
Finance lease liability	17	73
Hire purchase liability	1,952	1,270
	1,969	4,343

Note 13: Current Liabilities – Tax Liabilities

	30 December 2007 $'000	24 June 2007 $'000
Income tax	5,491	2,210

Note 14: Current Liabilities – Provisions

	30 December 2007 $'000	24 June 2007 $'000
Employee entitlements	5,409	5,897

Note 15: Current Liabilities – Other

	30 December 2007 $'000	24 June 2007 $'000
Accrued expenses	5,129	3,672
Deferred income	1,501	770
	6,630	4,442

	30 December 2007 $'000	24 June 2007 $'000

Note 16: Non-Current Liabilities –Borrowings

Secured liabilities		
Finance lease liability	64	72
Hire purchase liability	3,128	2,383
	3,192	2,455

Note 17: Non-Current Liabilities – Provisions

Employee entitlements	1,037	887
Provision for rent escalation	2,989	2,415
	4,026	3,302

Note 18: Equity – Contributed Equity

Movements on ordinary share capital

Date	Details	No. of shares	Issue Price per share $	Contributed Equity $'000
26 June 2006	Opening balance	25,313,295		3,442
3 July 2006	Exercise of performance rights including transfer of share-based payments reserve on exercise of performance rights	125,000	-	210
21 July 2006	Exercise of performance rights including transfer of share-based payments reserve on exercise of performance rights	105,000	-	182
17 August 2006	Exercise of performance rights including transfer of share-based payments reserve on exercise of performance rights	20,000	-	35
23 February 2007	Proceeds from exercise of options	40,000	$1.52	61
	Deferred tax credits	-		55
24 June 2007	Closing balance	25,603,295		3,985
10 July 2007	Exercise of performance rights including transfer of share-based payments reserve on exercise of performance rights	105,000	-	201
	Deferred tax credits	-		55
30 December 2007	Closing balance	25,708,295		4,241

	30 December 2007 $'000	24 June 2007 $'000
Note 19: Equity - Reserves		
Capital profits reserve	739	739
Share based payments reserve	618	623
Hedging reserve – cash flow hedges	216	(857)
	1,573	505

Note 20: Equity – Retained Profits

	30 December 2007 $'000
Retained profits at the beginning of the financial period	24,995
Net profit attributable to members of the consolidated entity	14,133
Dividends provided for or paid	(3,599)
Retained profits at reporting date	35,529

	30 December 2007 $'000	24 December 2006 $'000

Note 21: Cash Flow Information

Reconciliation of Cash

Cash at the end of the half year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	30 December 2007 $'000	24 December 2006 $'000
Cash on hand	574	445
Cash at bank	10,226	7,966
Bank overdrafts	-	(567)
	10,800	7,844

Reconciliation of Cash Flow from operations with profit from ordinary activities

	30 December 2007 $'000	24 December 2006 $'000
Profit from ordinary activities after Income Tax	14,133	10,215
Non-cash flows in profit from ordinary activities		
Amortisation of leased assets	119	109
Depreciation	3,136	2,333
Loss on sale of property, plant and equipment	6	15
Non-cash share based expense	196	165
Fair value adjustment to derivatives	1,073	(371)
Current tax credited directly to equity	55	55
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries		
Increase in receivables and other assets	(759)	(427)
Increase in inventories	(7,549)	(2,917)
Increase in trade and other creditors and other provisions	6,405	2,717
Increase in income tax payable	3,281	2,800
Increase in deferred taxes	(720)	(780)
Net cash provided by operations	19,376	13,914

Note 22:Earnings per share	30 December 2007 Cents	24 December 2006 Cents
Basic earnings per share	55.0	40.0
Diluted earnings per share	54.2	39.3
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	25,700,006	25,538,486
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	26,070,887	26,004,305

Note 23:Net Tangible Assets Per Share	30 December 2007 $	24 June 2007 $
Net tangible asset backing per ordinary share	160.8	115.2
Total shares outstanding as at end of period	25,708,295	25,603,295

	30 December 2007 $'000	24 December 2006 $'000
Note 24: Dividends		
Final fully franked dividend paid on 9 October 2007	3,599	2,557
Special fully franked dividend paid on 15 September 2006		1,917
Balance of franking account at half year adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years	21,326	17,128

Note 25: Contingent Liabilities

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

Letters of credit established for acquisition of goods for resale	165	50
ANZ Bank indemnity guarantee to landlords	1,489	2,355
	1,654	2,405

Note 26: Segment

The Reject Shop operates within the one geographic segment (Australia) and the one business segment (retailing of discount variety merchandise).

Note 27: Dividend Reinvestment Plan

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

Note 28: Matters Subsequent to the End of the Half Year

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

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 6 to 16 are in accordance with the *Corporations Act 2001,* including:
   - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 December 2007 and of it's performance, as represented by the results of it's operations and it's cash flows, for the half year ended on that date; and

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

This declaration is made in accordance with a resolution of the directors.

BJ Beattie
Chairman

GJ Masters
Managing Director

Melbourne
20 February 2008

PRICEWATERHOUSECOOPERS

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Independent Auditor's Review Report to the members of The Reject Shop Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of The Reject Shop Limited, which comprises the balance sheet as at 30 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for The Reject Shop Limited Group (the consolidated entity). The consolidated entity comprises both The Reject Shop Limited and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity 's financial position as at 30 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of The Reject Shop Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

For further explanation of a review, visit our website http:/www.pwc.com/au/financialstatementaudit.

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

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 30 December 2007 and of its performance for the half-year ended on that date; and
(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

PricewaterhouseCoopers

PricewaterhouseCoopers

Dale McKee
Partner

Melbourne
February 2008