EVERYONE'S A WINNER AT

THE REJECT SHOP

Company Announcements Office
Australian Securities Exchange Limited **15 September 2010**

Amended Annual Report and Appendix 4E – 27 June 2010

The Reject Shop Limited have today lodged an amended version of its Annual Report and Appendix 4E which was originally lodged on 18 August 2010.

There have been no changes to numbers or amounts within the financial statements.

However, on a number of pages throughout the document where the dollar amounts have been expressed in thousands in accordance with Class Order 98/100, the headings at the top of certain columns did not denote such amounts were expressed in thousands.

For clarity, headers on the following pages have been amended where necessary to designate “$’000” rather than the previous “$”.

Pages amended: 28, 29, 32, 37, 38, 39, 40, 42, 43, 44, 45, 46, 47, 50 and 59.

D Briggs

Darren Briggs
Chief Financial Officer / Company Secretary

The Reject Shop Limited ABN 33 006 122 676
245 Racecourse Road, Kensington, Vic, Australia, 3031
Tel: (03) 9371 5555 **Fax:** (03) 9372 1211

Appendix 4E

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary final report

For the 52 week financial period ended 27 June 2010
Compared to the 52 week financial period ended 28 June 2009

Results for announcement to the market

				$A'000
Sales revenue from continuing operations	up	14.2%	to	470,826
Profit from continuing operations after tax attributable to members	up	22.9%	to	23,351
Net profit for the period attributable to members	up	22.9%	to	23,351

Dividends	Amount per share	Franked amount per share
Interim dividend (paid 19 April 2010)	39.0 cents	100%
Final dividend	28.0 cents	100%

Record date for determining entitlements to final dividend	27 September 2010
Dividend payment date	11 October 2010

Commentary on the Company's trading results is included in the media release and on pages 2 to 5 of the annual report enclosed.

EVERYONE'S A WINNER AT

THE REJECT SHOP

Annual Report 2010

200 stores and counting

CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

3.30pm Wednesday 20 October 2010

Crowne Plaza

Bridge Room No.1

1-5 Spencer Street

Melbourne, Vic 3000

The Reject Shop Limited is a company limited by shares, incorporated and domiciled in Australia. The address of the Company's registered office is 245 Racecourse Road, Kensington VIC 3031. The financial statements are presented in Australian currency and were authorised for issue by the directors on 18 August 2010. The company has the power to amend and re-issue these financial statements.

EVERYONE'S A WINNER AT
THE REJECT SHOP

HIGHLIGHTS

- Sales up 14.2% to $470.8 million
- Sales Growth of over 14% for the fifth consecutive year
- Net Profit Growth over 20% for sixth consecutive year
- 27 new stores opened - a company record
  - across all states
  - 5 in one day

The Reject Shop - Caroline Springs, Victoria

CHAIRMAN'S REPORT

14.2% sales growth

22.9% NPAT growth

90.0c earnings per share

Dear shareholder,

I am pleased to present my first report as Chairman of The Reject Shop, having assumed the role in July 2010 upon the retirement of Mr Brian Beattie.

Before commenting on the year and the future direction of the business, I would like to take the opportunity to thank Brian for his significant contribution to the Company since its listing in 2004. In his time as Chairman, Brian has brought his extensive retail experience to the Company and overseen its growth from under 100 stores to almost 200 stores nationwide, and seen sustained delivery of excellent returns to shareholders over the period. In addition, he has overseen the development of the platforms now in place that will sustain the next phases of our growth. We all wish him, and his family, well in his retirement.

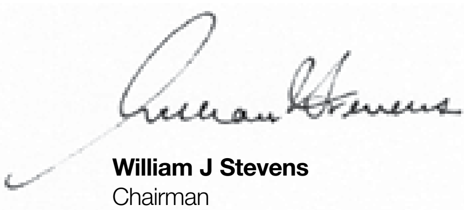
The Company has delivered a solid trading result this year, particularly given the uncertainty in consumer spending patterns over recent times. Sales grew to $470.8 million, and profit increased to $23.4 million. As a result, Earnings per Share grew by 22%. Maintenance of the dividend payout ratio, with modest gearing funding a portion of the significant capital expenditure during the year, has enabled shareholder returns, by way of dividends, to also grow by 22%.

While the current economic environment and the retail sector may remain volatile, I believe that our underlying business remains strong. We continue to identify areas for improvement, and work on these progressively, in conjunction with our core strategy of moving towards 400 stores nationwide.

Having implemented the new SAP Information Technology platform successfully in 2009, our attention this year was on opening our new distribution centre in Ipswich, Queensland. Although there is still work ahead of us to optimise the use and economic benefits of this northern facility, it was opened ahead of schedule and on budget. In addition, we have re-engineered our supply chain to accommodate the introduction of this second distribution centre via the use of overseas consolidation hubs.

Looking ahead, the Company has identified strategic priorities which will ensure the long term growth plans are catered for, and that profitability continues. The introduction of overseas consolidation and the continued store expansion over the past few years has resulted in a business that has become more complex. However, with the structures we have put in place, we believe that there are additional operational opportunities still available that will enable us to deliver continued growth in benefits to our shareholders – while enabling our supportive customers to benefit from our everyday low prices.

The Board is active in setting the direction of the business with management, however much of the overall performance and implementation of strategic initiatives belongs in the hands of our people. Again they have delivered. It is their passion, energy and commitment which make the Company successful, and, on behalf of my fellow Directors, I sincerely thank all of our staff for their continued efforts this year.

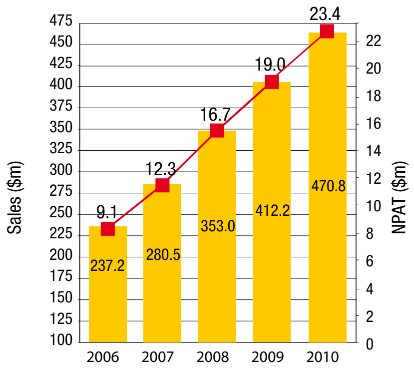


William J Stevens
Chairman

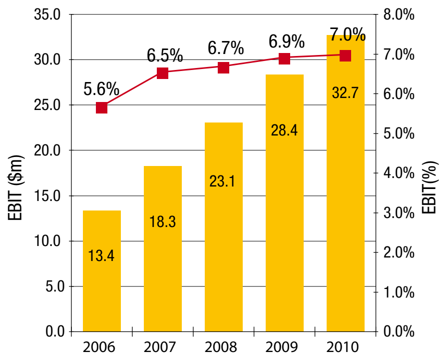
"…deliver continued growth"

FINANCIAL HIGHLIGHTS

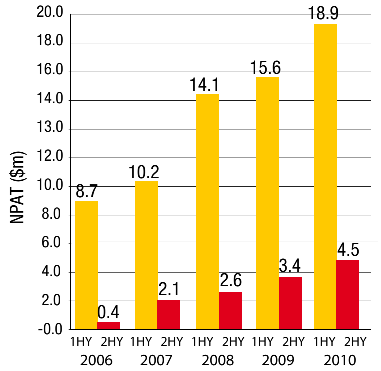
Sales and NPAT Growth Continues



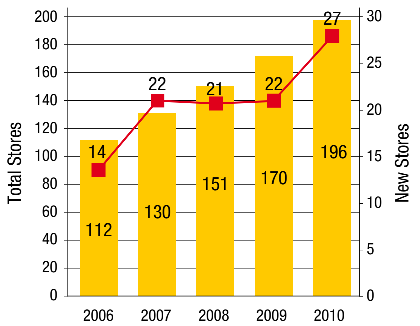
EBIT Margin Growth Continues



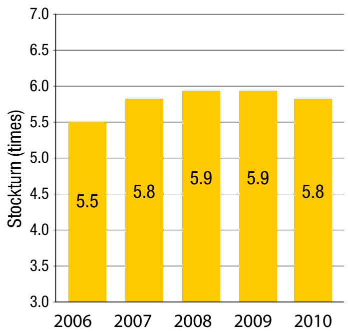
Building Everyday Trade



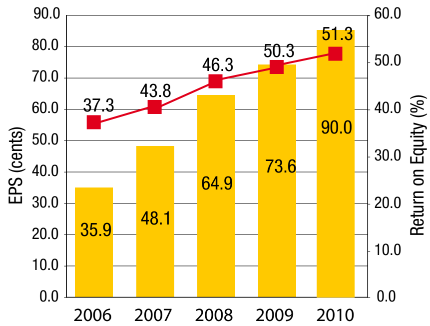
Store Expansion Nationwide



Stockturns Remain Strong



Shareholder Returns Growing



L-R: Bill Stevens, Chris Bryce, Kevin Elkington and Brian Beattie (Retired)

MANAGING DIRECTOR'S REPORT

Supply Chain Diversified

Queensland Distribution Centre Opens

Store Expansion Continues

I am pleased to present my first report as Managing Director, having assumed the role in September last year. This has been a challenging but rewarding year. We have continued to invest heavily in our business to support our planned growth while operating in a challenging market.

Overview of Financial Performance

Sales grew by 14.2% to $470.8 million for the full year. This reflects moderate comparable store sales growth for the year of 1%, but with good performance from 27 new store openings. Earnings Before Interest and Tax grew by 15.4% over the prior year.

Below the EBIT line there were some one-off tax benefits during the year which resulted in net profit after tax growing by 22.9% to $23.4 million for the year.

Comparable sales growth for the year reflected a combination of many factors. This included a poor "in-stock" position at the start of the year and the impact of accelerated new store openings on available stocks during the peak trading period of Christmas and early January. The second half was impacted by cycling against the stimulus payments and some price deflation. As a result of the strengthening Australian dollar, we reduced our prices on the prior year in order to provide continued value to our customers. On the positive side the contribution from our 27 new stores was strong with a number performing above initial expectations.

The gross margin impact of the improving exchange rate was offset by the reduction in prices and increased value to our customers.

Operating costs were well controlled during the period. Additional one-off costs were incurred with the opening of our new distribution centre in Ipswich, Queensland, but will provide ongoing benefits.

Depreciation and amortisation as a percentage of sales increased as we absorbed a full years depreciation on our SAP implementation as well as substantially increasing our store network.

Net interest expense remained constant at $1.3 million as the increased borrowings to support the investment in new stores, infrastructure spend on SAP and the new Ipswich distribution centre was offset by lower interest rates.

The effective company tax rate fell to 25.7% of pre-tax profits reflecting the additional deductions available for the significant capital investment during the year, benefits derived from introducing an Employee Share Trust and qualifying Research and Development expenditure. The effective tax rate is expected to return closer to the statutory rate in future periods.

As a result of our continued investment in new stores and increased overseas sourcing we have utilised our balance sheet and increased debt to support our growth. Last year we reviewed our debt structure and implemented a three year facility aligned to our projected requirements. Our current and projected debt remains within the debt facilities available and we continue to meet our covenants.

Overview of Retail Industry Trends

The retail environment was challenging throughout the year with heavy discounting. Prior year stimulus payments made sales growth a challenge for most retailers. Given our variety of merchandise, we monitor a vast array of retailers to ensure our offer remains attractive and price competitive. We are comfortable with our competitive stance and overall offer but we remain diligent. We believe it is appropriate to maintain a cautious outlook given the volatility in consumer spending over the past 18 months.

Operational Developments and Opportunities

Our store opening program was a highlight for the year with 27 new stores - a Company record. The performance of these stores was particularly pleasing given the tough trading conditions we faced.

We currently operate 200 stores across Australia in all states and territories with the exception of the Northern Territory. With our national footprint growing we have enhanced our resources to source new sites and maintain our existing portfolio. Our store base is now more diverse, and the challenge is to continually refine our processes to service these stores.

The strategic investments made in the past two years in SAP and the Ipswich distribution centre provide the capacity to service 400 stores nationally. Further investment in range planning and demand forecasting will be required to capitalise on the investments made to date.

15.4% EBIT growth

27 new stores

"200 stores and counting…"

The time and effort required to provide the infrastructure for future growth has been a significant activity for many of our staff over the past two years. Balancing these initiatives and maintaining current trading has been extremely challenging.

These growth initiatives have also come with significant capital investment and additional operating costs, however the benefits will be realised progressively. To service two distribution centres we have had to diversify our supply chain substantially over the last twelve months. We have introduced and expanded the use of overseas consolidation freight centres progressively since March last year. This represents a necessary cost to the business to ensure the right stock arrives in the right quantities at the right distribution centres at the right time. The change has not impacted our service to stores, although tangible financial benefits will be realised in the future.

The new distribution centre opened ahead of schedule and on budget with the facility starting to process merchandise more efficiently. Further efficiency gains will be realised. The facility is currently servicing just over 80 stores with an overall growth capacity of 200 stores. Whilst there are freight benefits in servicing stores closer to the distribution centre, the fixed costs currently outweigh these benefits. However, our future store growth plans justify both the capital investment as well as bearing the additional costs in the short term.

Our next priority is to match the technically improved processing capability of Ipswich in Melbourne. Planning is underway with a timeline for a change currently scheduled for FY2012-13.

With an established future growth profile we must ensure we develop our organisational structure to support the business as it grows. We are currently supplementing our support services internally with our merchandise team contining to grow with both additional buyers and planning resources. We have also expanded other areas of our store support centre such as Information Technology and Human Resources which are integral to the business going forward.

Outlook

We have set ourselves some significant milestones over the past few years and met each one to date. Work still remains in a number of key areas however we have given ourselves the tools and infrastructure to meet our long term growth plans. There are a number of benefits to be derived from our recent investments. The costs currently being incurred will realise benefits progressively over the next few years. I believe we are well placed to take advantage of these opportunities.

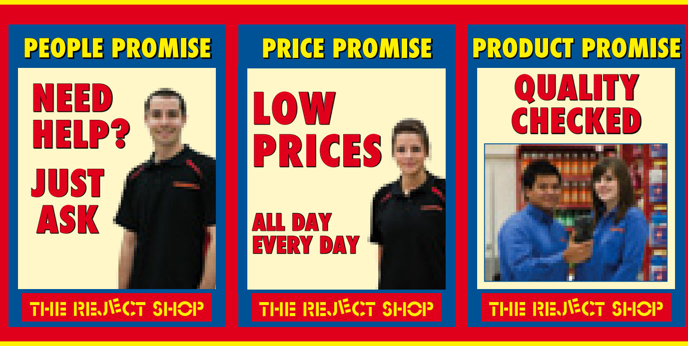
We have identified and secured opening dates for another 17 new stores for FY2011. The rate of new store growth relative to prior years has been impacted by the slowdown in retail centre developments over the past 18 months. We believe this is a short term impact and have already identified a strong base of store openings for FY2012.

It will be another challenging year but we still believe we can absorb the impact of the current retail climate and some additional costs while maintaining profit growth. Our underlying Earnings Before Interest and Tax growth will be more than 20% with a corresponding NPAT result of between $26.0 million and $26.5 million. This is after taking into account the tax benefits in FY2010 not available in FY2011 and additional interest costs.

Our People

Echoing the sentiments of our Chairman, I would like to take the opportunity to thank each and every one of our staff for their outstanding efforts during the year. This has been an incredible year of change and challenge across the business, starting with the new store opening program and culminating with the opening of the new distribution centre. All through the year we demanded a lot from our people and they did not let us down. All need to be congratulated on their passion and commitment to our business and I look forward to continuing our growth path going forward.

Chris Bryce
Managing Director



INVESTING IN OUR FUTURE

Retail Stores

Where we were 5 years ago?

- We operated 98 stores
- We only operated stores in QLD, NSW, VIC and SA
- We opened around 10 stores per annum

Where are we now?

- We operate 200 stores nationwide in all states
- We aim to open 20 stores per annum
- We have a robust refurbishment program to ensure our stores remain fresh
- We invest capital and resources to improve productivity and in-store standards

Where will we be in 5 years?

- We will operate our first store in Northern Territory
- We will still be opening stores in new markets and supplementing existing areas
- We believe we will have in excess of 300 stores
- We will still have store growth ahead of us

Logistics/Supply Chain

Where we were 5 years ago?

- Our semi-automated distribution centre had not been built
- Seasonal and catalogue merchandise was distributed from woolsheds
- Our service to store was primarily "push" distribution

Where are we now?

- We service our stores from Distribution Centres at Melbourne Airport and Ipswich in Queensland
- Our Ipswich distribution centre is fully automated
- Our catalogue and seasonal merchandise is distributed nationwide from our Altona facility
- We utilise overseas freight centres to consolidate and optimise stockflow into the Melbourne and Brisbane ports
- Service to our stores is a balance of "push" and "pull" distribution

Where will we be in 5 years?

- Our Melbourne distribution capability will be upgraded to match our Qld capability
- Our service to stores will be predominantly "pull" distribution
- We will service stores in WA directly from overseas

Our investments today provide the basis for our long-term growth

IT Systems Capability

Where we were 5 years ago?

- Store communications were sent via fax or phone
- Pricing at stores was produced manually
- Stock and sales information was available weekly

Where are we now?

- Our primary communication to stores is via our portal
- Sales and stock information is available hourly
- Our new Enterprise Resource Planning (ERP) system has been operating effectively for over a year
- Our POS systems are currently being upgraded nationwide

Where will we be in 5 years?

- Our core operating system will remain scalable
- We will utilise advanced planning and forecasting tools to improve stockflow
- Our distribution facilities will be supported by improved management systems

Customer Offering

Where we were 5 years ago?

- Our everyday lines were less than 10% of sales
- People believed we sold factory seconds and “rejects”

Where are we now?

- We offer products at very competitive prices
- We pride ourselves on the quality of our product
- Our offer remains a balance of everyday needs and variety merchandise

Where will we be in 5 years?

- We will continue to provide quality products at great value
- Our offer will resonate well with a wider customer base

Our People

Where we were 5 years ago?

- We had 1,800 full-time, part-time or casual employees nationally
- Store training was only undertaken at stores
- Minimal use was made of external training

Where are we now?

- We currently have over 3,100 full-time, part-time or casuals employees nationally
- We induct and train on-line
- We provide our store and DC staff with accredited training
- We are identifying and developing staff actively to provide "future leaders"

Where will we be in 5 years?

- We will have employed over 1,000 new team members
- We will have a workforce in excess of 4,000
- We will have promoted over 500 of our staff to new roles
- We will have trained over 2,000 staff

THE BOARD OF DIRECTORS

Bill Stevens *FCA*
Non-Executive Chairman

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

Chris Bryce *BCom, CA*
Managing Director

Prior to joining The Reject Shop, Chris spent over ten years with PricewaterhouseCoopers in Australia and the United States. Chris was CFO and then General Manager of a computer and internet company, before joining The Reject Shop as Chief Financial Officer in February 2003. Chris also was Company Secretary from April 2006 to August 2008. Chris remained Chief Financial Officer until his appointment as Managing Director on 14 September 2009 and became a Director on 15 October 2009

Kevin Elkington
LLB, B.Juris, FCIS
Non-Executive Director

Kevin is currently Managing Director of EKM Legal, a specialist law firm, providing specialised intellectual property and commercial advice to Australian and overseas clients. He has had a 28 year career as a corporate lawyer and company secretary in some of Australia's leading public companies including Coles Myer. He was previously a Director for Austin Group Limited and is currently a member and regular lecturer at the Australian Institute of Chartered Secretaries.

Kevin joined the Board of The Reject Shop Limited in February 2008.

Brian Beattie
Non-Executive Chairman (retired)

Brian has extensive management experience in the retail industry spanning more than 30 years, including eight years with Woolworths Limited and 24 years with Coles Myer Ltd including five years as Managing Director of Target and three years as Managing Director of Coles Supermarkets. He was Chief Executive Officer of the Victoria Racing Club for 8 years. Brian was chairman of the Austin Group until 2006.

Brian joined the Board of The Reject Shop Limited in February 2004 and retired on 12th July 2010.

L-R: Bill Stevens, Kevin Elkington and Chris Bryce

THE MANAGEMENT TEAM

Ron Jones
General Manager - Retail Operations

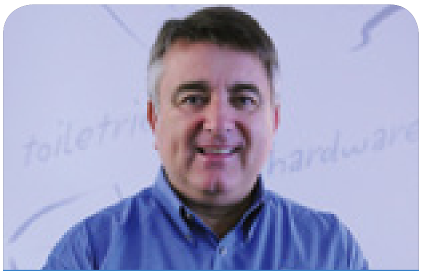
Ron began his retail career in the United Kingdom and during his over 40 year career has held senior retail operational positions in New Zealand, the United States and Australia. In 1988, Ron relocated to Australia with Bi-Lo Supermarkets, and after holding senior positions with various companies joined The Reject Shop in February 2000.

Andy McShanag
General Manager - Merchandise

Andy started with The Reject Shop as a casual 24 years ago and progressed to the level of Area Manager before moving into the merchandise department in 1996, where he has held several senior roles including Senior Buyer and then Merchandise Controller. Andy was appointed General Manager - Merchandise in June 2009.

Darren Briggs *BCom, CA, ACIS*
Chief Financial Officer and Company Secretary

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



Philip Beckett
General Manager - Logistics

Philip has 39 years experience in senior management roles in retail distribution, including 21 years with Coles Myer Ltd. Philip is a member of the Logistics Association of Australia. Philip joined The Reject Shop in January 2002.

Phillip Nutbean *AREI*
General Manager - Property

Phillip has worked in commercial and retail real estate for over 30 years including four years with Coles Myer Ltd. Phillip joined The Reject Shop, first as a consultant in 1995 and then as Property Manager from May 2001.

Jeff Bell
General Manager - Human Resources

Jeff has a broad and extensive background in human resources across a variety of industry sectors. He has held senior management positions in large automotive, manufacturing and retail organisations including Arnott's and Venture Stores. Jeff joined The Reject Shop in November 1995.

Darren O'Connor *BAppSc*
Chief Information Officer

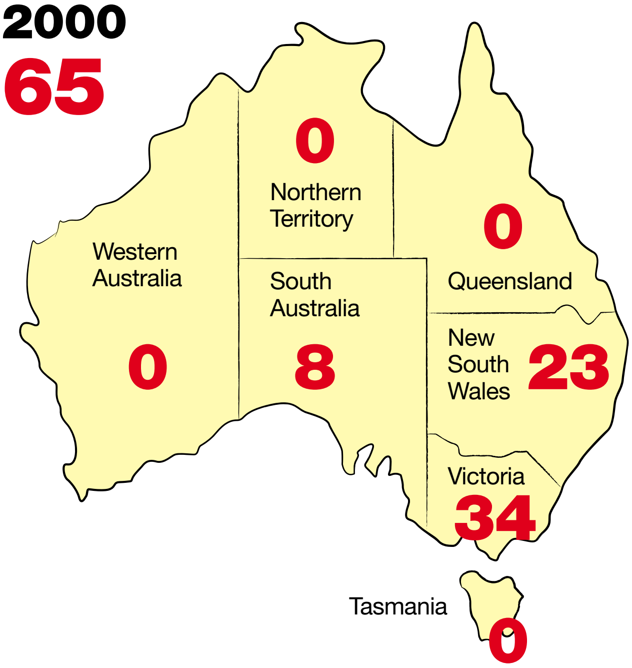
Darren has had over 25 years experience in IT development, analysis, support and management in both Australia and the United Kingdom specialising in managing information systems in branch model organisations such as retailers, rural suppliers and gaming companies. Darren joined The Reject Shop in July 2001.

Allan Penrose
General Manager - Marketing

Allan has over 20 years experience in advertising and marketing roles within the retail industry and retail services, with his most recent roles being at Target Australia and before that Solomon Partnership. Allan joined The Reject Shop in August 2010.

CONTINUED STORE GROWTH NATIONWIDE

2000
65



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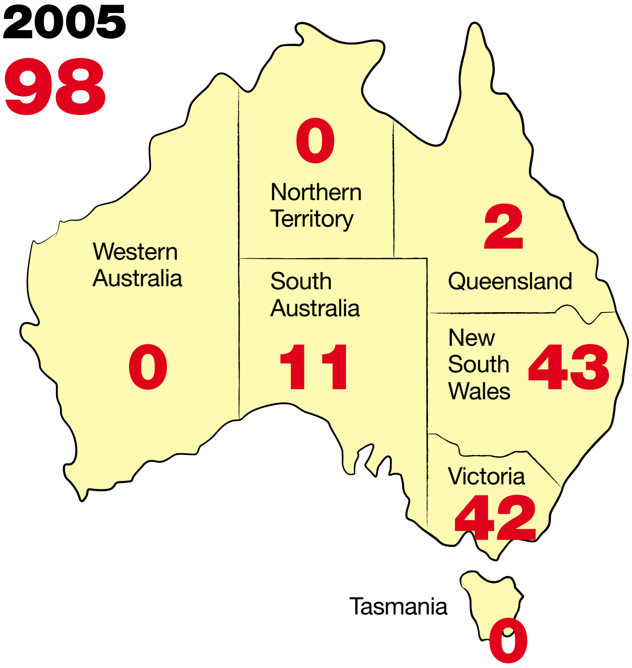

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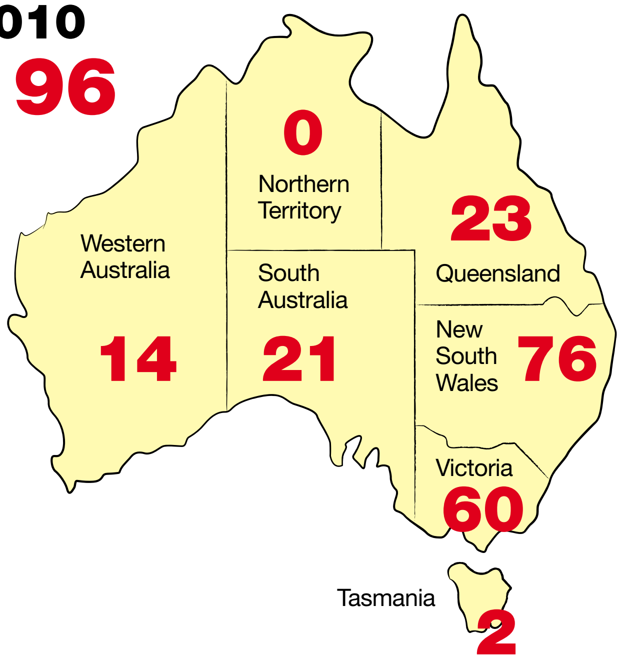
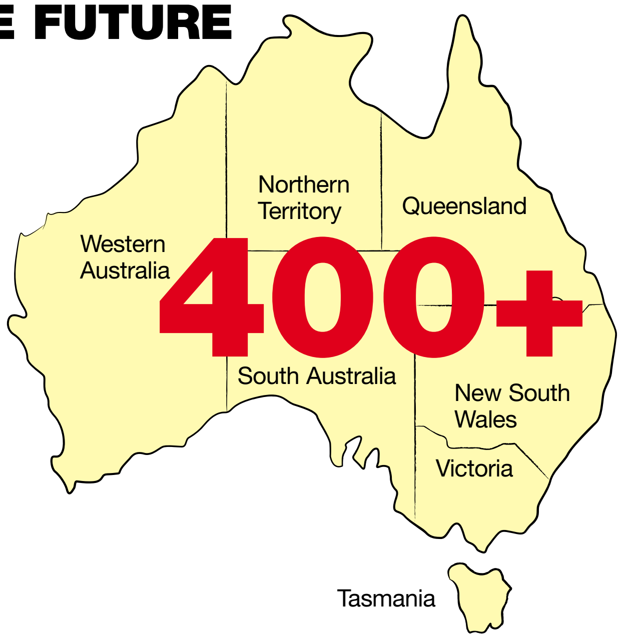


THE FUTURE



Corporate Governance Statement and Financial Report

for the financial period ending 27 June 2010

CORPORATE GOVERNANCE STATEMENT

The Company and the Board have set and maintained high standards of corporate governance. The Company has complied, where practicable, with the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in August 2007.

A summary of the Company's main corporate governance practices are outlined below and were in place for the entire period, unless otherwise stated.

The Board of Directors

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

Composition of the Board

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

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

BJ Beattie retired as a Director and Chairman of the Board on 12 July 2010 and WJ Stevens was appointed as Chairman on 14 July 2010. The board is actively seeking an additional non-executive Director to replace Mr Beattie and expects to complete this appointment in the near future.

There are currently three directors including two non-executive directors. Each non-executive director is individually assessed, on an annual basis, for independence based on the following criteria:

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

Materiality is assessed on both qualitative and quantitative bases.

The Managing Director is not considered an independent director based on the above criteria. All remaining directors satisfy all criteria above and are considered independent directors.

Details of each directors' experience is contained on page 8 and their attendance at Board and Committee meetings is contained in the Directors' Report on page 15 in this annual report.

Responsibilities of the Board

The Board delegates responsibility for the day-to-day management of the Company to the Managing Director and senior management, however retains responsibility for:

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

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

To assist in meeting its responsibilities the Board has established the Audit and Remuneration Committees, each with their own separate charter and structure. Significant matters arising from these Committee meetings are tabled at the subsequent Board meeting. Having regard to the size of the Board, it has not been considered necessary to appoint a separate Nomination Committee.

Annual Performance Reviews

The Company conducted an annual performance evaluation of all directors in September 2009 with the current review scheduled for September 2010. Results of these reviews are announced at the Annual General Meeting each year.

Rotation of Directors

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

Audit Committee

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

Composition of the Audit Committee

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

WJ Stevens (Chairman)

KJ Elkington

BJ Beattie was a member of the Audit Committee for the entire period and until his retirement on 12 July 2010.

The board is actively seeking an additional non-executive Director to replace Mr Beattie. This person will also be a member of the Audit Committee.

Role of the Audit Committee

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

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

Responsibilities of the Audit Committee

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

Role of the External Auditor

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

Risk Management and Assessment

It is the role of the Audit Committee to oversee the management of risk within the business on behalf of the Board. The Company has established policies and practices which mitigate business and financial risk including but not limited to the following key areas:

Business Risks

- Identification of non-compliance with policy and procedures;
- Occupational, health and safety;
- Prevention and detection of fraud,
- Property portfolio management, including new site or relocation evaluations;
- Public, product and regulatory liability exposure;
- Disaster recovery and business continuity assessment and planning;
- Insurance;
- Protection of intellectual property, including key employees; and
- Data integrity, management and retention.

Financial Risks

- Capital expenditure;
- Foreign exchange exposure;
- Significant areas of expenditure;
- Stock and working capital management; and
- Cash management.

The Company's Audit and Loss Prevention and Product Compliance functions provide ongoing assurance to the Board and management that established procedures and requirements are being met. In addition, a comprehensive analysis of the risks noted above is prepared for review by the Audit Committee at the end of each half.

The Managing Director and the Chief Financial Officer have made the following certifications to the Board:

CORPORATE GOVERNANCE STATEMENT

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

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

Continuous Disclosure Policy

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

Annual and half year reports, media and analysts' presentations and press releases are available on the Company's website.

Code of Conduct

The Company has an established corporate code of conduct which forms the basis for a shared view of the Company, its mission and its ethical standards and code of conduct by senior management and employees. After approval by the Board this code has been adopted by all senior executives.

The Company has a Share Trading Policy which restricts the trading of securities by directors and employees to specified periods during the period, namely between 24 hours and 30 working days after announcement of the Company's half yearly results, and between 24 hours after the announcement of the Company's period-end result and 30 working days after the close of the Company's annual general meeting.

Remuneration Committee

The Remuneration Committee Charter outlines the composition and responsibilities of the Remuneration Committee, as outlined below:

Composition of the Remuneration Committee

Under the Remuneration Charter, and consistent with the Corporate Governance Council recommendations, the Committee consists of at least three members, a majority of which must be non-executive directors, with the chairperson of the Committee being a non-executive director.

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

The Remuneration Committee currently comprises the following members:

WJ Stevens (Chairman, appointed 14 July 2010)

KJ Elkington

BJ Beattie was the Chairman of the Remuneration Committee for the entire period until his retirement on 12 July 2010.

The board is currently actively seeking an additional non-executive Director to replace Mr Beattie who will also be a member of the Remunertaion Committee.

Role of the Remuneration Committee

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

- The remuneration and appointment of senior executives and non-executive directors;
- Policies for remuneration and compensation programs of the Company; and
- All equity based compensation plans.

To adequately fulfil their role, the Remuneration Committee obtains and considers all relevant advice and information including industry trends in remuneration policy, market rates for the positions of Managing Director, other senior executives and non-executive directors, and movements in general wage rates.

Information regarding director and key management personnel remuneration is provided in the Directors' Report and on pages 52 to 56 of this annual report.

DIRECTORS' REPORT

Your directors present their report on the Company and its subsidiaries for the financial period ended 27 June 2010.

Directors

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

WJ Stevens

Non-executive Director, Chairman of Audit Committee. WJ Stevens was appointed Chairman of the Board and Chairman of the Remuneration Committee on 14 July 2010 and continues in these offices at the date of this report.

CJ Bryce was appointed as Managing Director on 14 September 2009 and as a director on 15 October 2009 and continues in office at the date of this report.

KJ Elkington

Non-executive Director, Member of Audit Committee and Member of the Remuneration Committee.

BJ Beattie was Chairman of the Board and Chairman of the Remuneration Committee and Member of the Audit Committee for the whole of the financial period and up until his retirement on 12 July 2010.

GJ Masters was Managing Director from the beginning of the financial period until his resignation on 11 September 2009.

Details of the experience and expertise of the directors and the Company Secretary are outlined on pages 8 and 9 of this annual report.

Retirement of Director

In accordance with the Company's Constitution, KJ Elkington will retire as a director at the Annual General Meeting and will offer himself for re-election.

Meetings of Directors

The number of meetings of the Board of directors and Committees held during the period ended 27 June 2010 and the number of meetings attended by each director were:

	Director Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
Director	A	B	A	B	A	B
BJ Beattie	15	15	4	4	2	2
GJ Masters	2	2	XX	XX	XX	XX
CJ Bryce	13	13	XX	XX	XX	XX
KJ Elkington	15	15	3	4	1	2
WJ Stevens	15	15	4	4	2	2

A – Number of meetings attended

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

XX - Not a member of relevant Committee

Principal Activities

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

DIRECTORS' REPORT

Dividends

Dividends paid to members during the financial period were:

(I) A final ordinary dividend for the financial period ended 28 June 2009 of 23.0 cents per share totalling $5,973,806 paid on 12 October 2009; and

(II) An interim ordinary dividend for the financial period ended 27 June 2010 of 39.0 cents per share totalling $10,129,497 was paid on the 19 April 2010.

Since the end of the financial period the directors have declared the payment of a final ordinary dividend of 28.0 cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on 11 October 2010.

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

Review of Operations

The profit of the consolidated entity for the financial period after providing for income tax amounted to $23,351,292 (2009: $18,994,824). A detailed review of operations is provided on pages 2 to 5 of this annual report.

Significant Changes in the State of Affairs

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

Matters Subsequent to the End of the Financial Period

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

Likely Developments and Expected Results of Operations

Likely developments in the operations of the consolidated entity and the expected results of those operations in future financial periods are contained on pages 2 to 5 of this annual report.

Environmental Regulation

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Insurance of Officers

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

Proceedings on Behalf of the Company

No person has applied for Leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the period.

Rounding of Amounts

The Company is a kind referred to in Class Order 98/100, issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the directors' and financial reports. Amounts in these reports have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Remuneration Report

The remuneration report is set out in the following sections:

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

B – Details of remuneration

C – Service agreements

D – Share-based compensation

E – Additional information

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

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

The objective of the Company's Remuneration Committee is to ensure that directors and executives are remunerated fairly and within accepted market and industry rates. The composition, role and responsibility of the Committee is outlined in the Corporate Governance Statement on page 14 of this annual report.

Directors' fees

The current aggregate limit for directors' fees at 30 June 2010 is $350,000 per annum. Effective 1 September 2009, the fee payable (including superannuation) to the Chairman was $160,000 p.a. (FY2009: $155,050) and to a non-executive director was $90,700 p.a. (FY2009: $87,500). The Chairman's remuneration is inclusive of Committee fees while non-executive directors who take on additional responsibilities receive additional fees. The Managing Director does not receive directors' fees.

Directors' fees are reviewed annually, with external remuneration consultants providing advice to ensure fees reflect market rates. There are no guaranteed annual increases in any director's fees.

Non-executive directors do not participate in the short or long term incentive schemes.

Officers and executive salaries

The executive salary and reward framework has four components:

- Base pay and benefits;
- Cash incentives;
- Long-term incentives via participation in the Company's Performance Rights Plan; and
- Other remuneration such as superannuation payments.

The combination of these comprises the executive's total remuneration.

DIRECTORS' REPORT

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

Base pay and benefits

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

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure competitiveness with the market but there are no guaranteed base pay increases in any senior executive's contracts, except as specifically stated in this report. An executive's pay is also reviewed on promotion.

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

Short term cash incentives

The Remuneration Committee has established earnings before interest and tax (EBIT) as the appropriate financial performance target to trigger payment of cash incentives for each period. This criterion was determined based on comparative research against the market and advice from external consultants. The audited financial report is the basis for measuring achievement against the financial performance target.

Further incentives may also be paid at the discretion of the Remuneration Committee to individual executives as recognition of exceptional achievement in any given period.

Long Term Incentive Plans

Performance Rights Plan

The Company implemented the Performance Rights Plan on 27 April 2004, to form the basis of The Reject Shop's ongoing long-term incentive scheme for selected senior employees. The Remuneration Committee has chosen Earnings Per Share (EPS) as the appropriate financial performance target. This criterion was determined based on comparative research against the market and advice from external consultants. The audited financial report is the basis for measuring achievement against the financial performance target.

Performance rights, which are an entitlement to a share, vest one year after the performance target has been achieved and only if the employee remains employed at that date. For financial reporting purposes the value of each right granted at grant date is measured using a Black-Scholes option pricing model.

Performance rights are generally granted on an annual basis and are exercisable based on the Company achieving compound growth in EPS over a 3 year period commencing from the prior audited financial period. The Board will continue to assess and review the Company's long-term incentive program.

In addition, CJ Bryce was issued 50,000 performance rights on 13 October 2009 as part of his employment contract as Managing Director. These performance rights will vest in August 2015 subject to satisfactory performance by Mr Bryce in his role as Managing Director over the vesting period.

B – Details of remuneration

The following persons along with the directors were the key management personnel with the authority and responsibility for planning, directing and controlling the activities of the Company and consolidated entity, directly or indirectly, during the financial period. The key management personnel includes the five highest paid employees:

DR Jones	–	General Manager, Store Operations
AM McShanag	–	General Manager, Merchandise
DJ O'Connor	–	Chief Information Officer
PG Beckett	–	General Manager, Logistics
DR Briggs*	–	Chief Financial Officer and Company Secretary
P Nutbean	–	General Manager, Property
RJ McGough	–	General Manager, Marketing (Retired 30 June 2010)
J Bell	–	General Manager, Human Resources

*CJ Bryce was Chief Financial Officer until 14 September 2009 at which time he was appointed Managing Director. DR Briggs was Financial Controller until his appointment as Chief Financial Officer on 12 October 2009. He continued his role as Company Secretary for the whole of the financial period and to the date of this report.

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 27 June 2010 and the period ended 28 June 2009 unless otherwise stated.

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

2010	Short-term benefits			Post-employment benefits		Share-based payments			Proportion of Remuneration as performance related
Name	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement Benefits	Performance Rights	Proportion of Remuneration as equity related	Total	
	$	$	$	$	$	$	%	$	%
Non-executive Directors									
BJ Beattie	146,160	-	-	13,154	-	-	-	159,314	-
KJ Elkington	82,927	-	-	7,463	-	-	-	90,390	-
WJ Stevens	82,927	-	-	7,463	-	-	-	90,390	-
Total Non-executive Directors	**312,014**	**-**	**-**	**28,080**	**-**	**-**	**-**	**340,094**	**-**
Executive Directors									
CJ Bryce*	464,407	82,204	15,654	43,579	-	107,350	15.1%	713,194	26.6%
GJ Masters**	543,558	-	2,323	50,072	-	81,293	12.0%	677,246	-
Total Executive Directors	**1,007,965**	**82,204**	**17,977**	**93,651**	**-**	**188,643**		**1,390,440**	
Other Key Management Personnel									
DR Jones	340,961	44,572	-	32,684	-	59,033	12.4%	477,250	21.7%
AM McShanag	321,101	21,586	2,610	30,829	-	35,393	8.6%	411,519	13.9%
DJ O'Connor	236,835	25,924	799	16,044	-	39,707	12.4%	319,309	20.6%
PG Beckett	214,233	18,922	4,809	15,892	-	35,314	12.2%	289,170	18.8%
DR Briggs	222,411	25,972	221	15,785	-	10,874	4.0%	275,263	13.4%
P Nutbean	151,153	18,303	16,225	14,709	-	27,924	12.2%	228,314	20.2%
RJ McGough	167,898	14,990	1,722	16,236	-	-	-	200,846	7.5%
J Bell	156,845	18,498	292	14,254	-	27,257	12.6%	217,146	21.1%
Total Other Key Management Personnel	**1,811,437**	**188,767**	**26,678**	**156,433**	**-**	**235,502**		**2,418,817**	**-**
Total	**3,131,416**	**270,971**	**44,655**	**278,164**	**-**	**424,145**		**4,149,351**	**-**

* *CJ Bryce was Chief Finanical Officer until 14 September 2009 at which time he was appointed Managing Director.*

** *GJ Masters was Managing Director until his resignation on 11 September 2009.*

DIRECTORS' REPORT

2009	Short-term benefits			Post-employment benefits		Share-based payments			Proportion of
Name	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement Benefits	Performance Rights	Proportion of Remuneration as equity related	Total	Remuneration as performance related
	$	$	$	$	$	$	%	$	%
Non-executive Directors									
BJ Beattie	142,248	-	-	12,802	-	-	-	155,050	-
AC McMorron	23,311	-	-	2,098	-	-	-	25,409	-
KJ Elkington	80,230	-	-	7,270	-	-	-	87,500	-
WJ Stevens	69,144	-	-	6,223	-	-	-	75,367	-
Total Non-executive Directors	**314,933**	**-**	**-**	**28,393**	**-**	**-**	**-**	**343,326**	**-**
Executive Directors									
GJ Masters	671,875	86,974	5,159	57,319	-	43,899	5.1%	865,226	15.1%
Total Executive Directors	**671,875**	**86,974**	**5,159**	**57,319**	**-**	**43,899**	**5.1%**	**865,226**	**15.1%**
Other Key Management Personnel									
CT McShanag*	365,567	46,298	2,492	32,901	-	31,278	6.5%	478,536	16.2%
DR Jones	332,216	41,518	-	28,459	-	57,575	12.5%	459,768	21.6%
CJ Bryce	275,367	23,849	3,921	23,433	-	49,765	13.2%	376,335	19.6%
DJ O'Connor	231,463	14,170	-	13,745	-	37,567	12.7%	296,945	17.4%
PG Beckett	209,380	17,332	4,376	13,745	-	34,122	12.2%	278,955	18.4%
P Nutbean	148,670	8,380	21,449	13,380	-	26,715	12.2%	218,594	16.1%
J Bell	154,267	7,984	2,601	12,984	-	26,511	13.0%	204,347	16.9%
RJ McGough	165,138	13,512	1,080	14,862	-	7,136	3.5%	201,728	10.2%
DR Briggs	185,794	11,042	-	14,206	-	5,709	2.6%	216,751	7.7%
AM McShanag	251,073	23,368	2,538	22,597	-	29,182	8.9%	328,758	16.0%
Total Other Key Management Personnel	**2,318,935**	**207,453**	**38,457**	**190,312**	**-**	**305,560**	**-**	**3,060,717**	**-**
Total	**3,305,743**	**294,427**	**43,616**	**276,024**	**-**	**349,459**	**-**	**4,269,269**	**-**

* CT McShanag ceased his role as General Manager, Merchandise on 1st June 2009 although he continued in a full-time capacity with the company until 31st July 2009. Thereafter he worked in a part-time consulting capacity before departing the company in December 2009.

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

C – Service agreements

The following key management personnel have service agreements which provide additional terms or benefits not already disclosed. The major provisions of these agreements are set out below:

CJ Bryce, Managing Director:

- A period of notice of 3 months is required by the Company or CJ Bryce to terminate employment.
- In the event of redundancy as a result of the business being sold or a change in ownership, the Company will at its absolute discretion grant all or part of the 50,000 Performance Rights shares due to vest in August 2015.

DJ O'Connor, Chief Information Officer

- A period of notice of 6 months is required by the Company or DJ O'Connor to terminate employment.

All key management personnel are on employment terms consistent with the remuneration framework outlined in this note. Other than those noted above no other key management personnel have a defined period of notice with respect to termination.

D – Share-based compensation

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

2010	Grant Date	Rights Granted during the period	Date Exercisable	Expiry Date	Total fair value of Performance Rights at Grant Date $	Performance Rights granted in prior periods vested during the period
Executive Directors						
CJ Bryce	18 Aug 2009	5,000	1 Jul 2013	18 Aug 2014	58,250	
CJ Bryce	13 Oct 2009	50,000	15 Aug 2015	13 Oct 2016	483,500	21,000
GJ Masters(i)	18 Aug 2009	16,500	1 Jul 2013	18 Aug 2014	192,225	14,400
Other Key Management Personnel						
DR Jones	18 Aug 2009	6,200	1 Jul 2013	18 Aug 2014	72,230	21,000
AM McShanag	18 Aug 2009	5,900	1 Jul 2013	18 Aug 2014	68,735	12,000
DJ O'Connor	18 Aug 2009	4,100	1 Jul 2013	18 Aug 2014	47,765	12,000
PG Beckett	18 Aug 2009	3,700	1 Jul 2013	18 Aug 2014	43,105	12,000
DR Briggs	18 Aug 2009	2,200	1 Jul 2013	18 Aug 2014	25,630	-
P Nutbean	18 Aug 2009	2,900	1 Jul 2013	18 Aug 2014	33,785	9,000
RJ McGough(i)	18 Aug 2009	2,900	1 Jul 2013	18 Aug 2014	33,785	-
J Bell	18 Aug 2009	2,700	1 Jul 2013	18 Aug 2014	31,455	9,000
Total		**102,100**			**1,090,465**	**110,400**

(i) These grants had lapsed as at 27 June 2010.

The fair value of performance rights granted on 18 August 2009 at grant date with an expiry date of 18 August 2014 was $11.65.

The fair value of performance rights granted on 13 October 2009 at grant date with an expiry date of 13 October 2016 was $9.67.

DIRECTORS' REPORT

2009	Grant Date	Rights Granted during the period	Date Exercisable	Expiry Date	Total fair value of Performance Rights at Grant Date $	Performance Rights granted in prior periods vested during the period
Executive Directors						
GJ Masters	19 Aug 2008	1,200	1 Jul 2011	15 Aug 2012	10,272	-
Other Key Management Personnel						
CT McShanag	19 Aug 2008	7,400	2 Jul 2012	19 Aug 2013	60,310	20,000
CT McShanag	19 Aug 2008	400	1 Jul 2011	15 Aug 2012	3,424	
DR Jones	19 Aug 2008	6,900	2 Jul 2012	19 Aug 2013	56,235	20,000
DR Jones	19 Aug 2008	400	1 Jul 2011	15 Aug 2012	3,424	
CJ Bryce	19 Aug 2008	6,000	2 Jul 2012	19 Aug 2013	48,900	15,625
CJ Bryce	19 Aug 2008	300	1 Jul 2011	15 Aug 2012	2,568	
DJ O'Connor	19 Aug 2008	4,800	2 Jul 2012	19 Aug 2013	39,120	12,500
DJ O'Connor	19 Aug 2008	200	1 Jul 2011	15 Aug 2012	1,712	
PG Beckett	19 Aug 2008	4,100	2 Jul 2012	19 Aug 2013	33,415	10,000
PG Beckett	19 Aug 2008	200	1 Jul 2011	15 Aug 2012	1,712	
P Nutbean	19 Aug 2008	3,400	2 Jul 2012	19 Aug 2013	27,710	6,250
P Nutbean	19 Aug 2008	200	1 Jul 2011	15 Aug 2012	1,712	
J Bell	19 Aug 2008	3,300	2 Jul 2012	19 Aug 2013	26,895	6,250
J Bell	19 Aug 2008	200	1 Jul 2011	15 Aug 2012	1,712	
RJ McGough	19 Aug 2008	3,500	2 Jul 2012	19 Aug 2013	28,525	-
DR Briggs	19 Aug 2008	2,800	2 Jul 2012	19 Aug 2013	22,820	-
AM McShanag	19 Aug 2008	3,400	2 Jul 2012	19 Aug 2013	27,710	12,500
AM McShanag	19 Aug 2008	200	1 Jul 2011	15 Aug 2012	1,712	
Total		**48,900**			**399,888**	**103,125**

The fair value of performance rights granted on 19 August 2008 at grant date with an expiry date of 15 August 2012 was $8.56.

The fair value of performance rights granted on 19 August 2008 at grant date with an expiry date of 19 August 2013 was $8.15.

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

Subsequent to period end there has been no grant of performance rights to key management personnel. In addition 43,600 performance rights granted to key management personnel in prior years vested subsequent to period end, of which 43,600 have been exercised.

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

The number of shares issued to directors and other key management personnel on exercise of options or performance rights during the current and prior financial period are outlined in the following tables:

2010	Type	Date Granted	Date Exercised	Number of Shares Issued	Exercise Price $
Executive Directors					
CJ Bryce	Rights	17 Aug 2005	18 Aug 2009	21,000	-
GJ Masters	Rights	15 Aug 2007	15 Sep 2009	14,400	-
Other Key Management Personnel					
DR Jones	Rights	17 Aug 2005	18 Aug 2009	21,000	-
AM McShanag	Rights	17 Aug 2005	18 Aug 2009	12,000	-
DJ O'Connor	Rights	17 Aug 2005	18 Aug 2009	12,000	-
PG Beckett	Rights	17 Aug 2005	18 Aug 2009	12,000	-
DR Briggs	Rights	-	-	-	-
P Nutbean	Rights	17 Aug 2005	18 Aug 2009	9,000	-
RJ McGough	Rights	-	-	-	-
J Bell	Rights	17 Aug 2005	18 Aug 2009	9,000	-
Total				**110,400**	**-**

2009	Type	Date Granted	Date Exercised	Number of Shares Issued	Exercise Price $
Executive Directors					
GJ Masters	Rights	-	-	-	-
Other Key Management Personnel					
CT McShanag	Rights	1 Jun 2004	1 Jul 2008	15,625	-
CT McShanag	Rights	12 Jul 2006	1 Jul 2008	4,375	-
DR Jones	Rights	1 Jun 2004	1 Jul 2008	20,000	-
CJ Bryce	Rights	1 Jun 2004	1 Jul 2008	15,625	-
DJ O'Connor	Rights	1 Jun 2004	1 Jul 2008	12,500	-
PG Beckett	Rights	1 Jun 2004	1 Jul 2008	10,000	-
P Nutbean	Rights	1 Jun 2004	1 Jul 2008	6,250	-
J Bell	Rights	1 Jun 2004	1 Jul 2008	6,250	-
RJ McGough	Rights	-	-	-	-
DR Briggs	Rights	-	-	-	-
AM McShanag	Rights	1 Jun 2004	1 Jul 2008	12,500	-
Total				**103,125**	**-**

No shares were issued to non-executive directors as a result of an exercise of options or performance rights in the current or prior period.

DIRECTORS' REPORT

E – Additional information

Cash Bonuses and Performance Rights

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

	Cash Bonus		Performance Rights				
	Paid %	Forfeited %	Date Granted	Vested %	Forfeited %	Financial periods in which rights may vest	Maximum total value of grants yet to vest $
Executive Directors							
CJ Bryce	100	0	FY2010	0	0	FY2016	483,500
			FY2010	0	0	FY2014	58,250
			FY2009	0	0	FY2013	48,900
			FY2009	0	0	FY2012	2,568
			FY2008	0	0	FY2012	45,346
			FY2007	0	0	FY2011	46,926
GJ Masters	0	100	FY2010	0	100	-	-
			FY2009	0	100	-	-
Other Key Management Personnel							
DR Jones	100	0	FY2010	0	0	FY2014	72,230
			FY2009	0	0	FY2013	56,235
			FY2009	0	0	FY2012	3,424
			FY2008	0	0	FY2012	56,406
			FY2007	0	0	FY2011	58,212
AM McShanag	100	0	FY2010	0	0	FY2014	68,735
			FY2009	0	0	FY2013	27,710
			FY2009	0	0	FY2012	1,712
			FY2008	0	0	FY2012	27,639
			FY2007	0	0	FY2011	27,913
DJ O'Connor	100	0	FY2010	0	0	FY2014	47,765
			FY2009	0	0	FY2013	39,120
			FY2009	0	0	FY2012	1,712
			FY2008	0	0	FY2012	39,816
			FY2007	0	0	FY2011	37,422
PG Beckett	100	0	FY2010	0	0	FY2014	43,105
			FY2009	0	0	FY2013	33,415
			FY2009	0	0	FY2012	1,712
			FY2008	0	0	FY2012	34,286
			FY2007	0	0	FY2011	35,046
DR Briggs	100	0	FY2010	0	0	FY2014	25,630
			FY2009	0	0	FY2013	22,820
P Nutbean	100	0	FY2010	0	0	FY2014	33,785
			FY2009	0	0	FY2013	27,710
			FY2009	0	0	FY2012	1,712
			FY2008	0	0	FY2012	26,544

	Cash Bonus		Performance Rights					
	Paid %	Forfeited %	Date Granted	Vested %	Forfeited %	Financial periods in which rights may vest	Maximum total value of grants yet to vest $
			FY2007	0	0	FY2011	26,730
J Bell	100	0	FY2010	0	0	FY2014	31,455
			FY2009	0	0	FY2013	26,895
			FY2009	0	0	FY2012	1,712
			FY2008	0	0	FY2012	26,544
			FY2007	0	0	FY2011	26,730

Company Performance

The Managing Director and other key management personnel have an at risk component of their remuneration based on the Company's overall financial performance and shareholder returns.

The following table outlines the Company's earnings and share performance since its listing on 1 June 2004:

Period	NPAT	NPAT Growth	EPS cents per share	EPS Growth	Share price at start of period	Share price at end of period	Share price growth	Ordinary dividends paid or declared per share
FY2005	$6.5m	21.4%	26.7	16.2%	$2.00	$2.99	49.5%	$0.17
FY2006*	$9.1m	38.7%	35.9	34.5%	$2.99	$5.95	99.0%	$0.23
FY2007	$12.3m	35.8%	48.1	34.0%	$5.95	$12.80	115.1%	$0.31
FY2008	$16.7m	35.6%	64.9	34.9%	$12.80	$9.37	(26.8)%	$0.48
FY2009	$19.0m	13.9%	73.6	13.4%	$9.37	$11.62	24.0%	$0.55
FY2010	$23.4m	22.9%	90.0	22.3%	$11.62	$16.42	41.3%	$0.67

* *In FY2006 a special dividend of 7.5 cents was also paid.*

Since listing, the Company's profit has grown by 21.4%, 38.7%, 35.8%, 35.6%, 13.9% and 22.9% and return on equity has grown by 53.6%. In addition, cumulative dividends have been paid or declared of $2.48 per share. Performance related remuneration for key management personnel who were key management personnel in both current and prior periods, has grown by 9.7% in FY2010.

Shares under options or performance rights

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

Date of Grant	Expiry Date	Date Exercisable	Value at Grant Date $	Exercise Price $	Number on Issue
15 Aug 2007	15 Aug 2012	1 Jul 2011	11.06	-	35,000
19 Aug 2008	15 Aug 2012	1 Jul 2011	8.56	-	2,600
19 Aug 2008	15 Aug 2013	2 Jul 2012	8.15	-	60,100
18 Aug 2009	18 Aug 2014	1 Jul 2013	11.65	-	54,400
13 Oct 2009	15 Aug 2016	15 Aug 2015	9.67	-	50,000

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

DIRECTORS' REPORT

Shares issued and the exercise of options and performance rights

The following shares of the Company were issued during the period ended 27 June 2010 and to the date of this report on the exercise of options and performance rights:

Date Granted	Issue price of shares $	Number of shares issued
17 August 2005	-	132,000
12 July 2006	-	9,000
15 August 2007	-	14,400
16 August 2006	-	60,500
Total	**-**	**215,900**

No amounts are unpaid on any of these shares.

Remuneration of Auditors

	Consolidated Entity		Parent Entity	
	2010 $	2009 $	2010 $	2009 $
During the period the following fees for services were paid or payable to PricewaterhouseCoopers as the auditor of the parent entity and its related practices:				
Audit and Accounting Related Services				
Audit and review work	205,000	245,000	205,000	245,000
	205,000	245,000	205,000	245,000
Tax Compliance and Consulting Services				
Tax compliance	29,500	26,900	29,500	26,900
Tax consulting advice	24,132	89,301	24,132	89,301
	53,632	116,201	53,632	116,201
Other Services				
Other assurance services	35,000	15,000	35,000	15,000
Total Remuneration	293,632	376,201	293,632	376,201

Independence of Auditors

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

- No non-audit services provided to the Company and reviewed by the Board were considered to impact upon the impartiality and objectivity of the auditor; and
- None of the services undermined the general principles relating to auditor independence as set out in Professional Standard F1, including not reviewing or auditing the auditor's own work, not acting in a management or a decision making capacity for the Company, not acting as advocate for the Company or not jointly sharing economic risk or rewards.

A copy of the auditor's independence declaration is contained on page 27 of this annual report.

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

WJ Stevens
Chairman

CJ Bryce
Managing Director

18 August 2010

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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Auditor's Independence Declaration

As lead auditor for the audit of The Reject Shop Limited for the period ended 27 June 2010, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Dale McKee
Partner
PricewaterhouseCoopers

Melbourne
18 August 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 52 Week Period Ended 27 June 2010

	Note	Consolidated Entity 2010 $'000	Consolidated Entity 2009 $'000	Parent Entity 2010 $'000	Parent Entity 2009 $'000
Revenues from continuing operations					
Sales revenue	2	470,826	412,166	470,826	412,166
Other income	2	127	162	127	162
		470,953	412,328	470,953	412,328
Expenses					
Cost of sales		249,774	221,994	249,774	221,994
Store expenses		143,441	124,238	143,441	124,238
Administrative expenses		28,883	24,943	28,883	24,943
Warehousing expenses		16,088	12,653	16,088	12,653
		438,186	383,828	438,186	383,828
Finance costs	3	1,349	1,473	1,349	1,473
Profit before income tax		31,418	27,027	31,418	27,027
Income tax expense	4	8,067	8,032	8,067	8,032
Profit for the period		23,351	18,995	23,351	18,995
Other comprehensive income					
Changes in the fair value of cash flow hedges		4,102	(2,877)	4,102	(2,877)
Income tax relating to components of other comprehensive income		(1,231)	863	(1,231)	863
Other comprehensive income for the period, net of tax		2,871	(2,014)	2,871	(2,014)
Total Comprehensive Income Attributable To Members Of The Reject Shop Limited		26,222	16,981	26,222	16,981

Earnings per Share		Cents	Cents	Cents	Cents
Basic earnings per share	31	90.0	73.6	90.0	73.6
Diluted earnings per share	31	89.1	72.6	89.1	72.6

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 27 June 2010

		Consolidated Entity		Parent Entity	
	Note	2010	2009	2010	2009
		$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash	5	4,339	865	4,339	865
Receivables	6	3	135	3	135
Inventories	7	50,878	39,705	50,878	39,705
Derivative financial instruments	26	869	-	869	-
Other	8	715	277	715	277
TOTAL CURRENT ASSETS		56,804	40,982	56,804	40,982
NON-CURRENT ASSETS					
Other financial assets	9	-	-	1	1
Property, plant and equipment	10	70,722	49,786	70,722	49,786
Deferred tax assets	11	6,400	6,268	6,400	6,268
TOTAL NON-CURRENT ASSETS		77,122	56,054	77,123	56,055
TOTAL ASSETS		133,926	97,036	133,927	97,037
CURRENT LIABILITIES					
Payables	12	23,432	18,460	24,435	19,463
Borrowings	13	14,149	11,379	14,149	11,379
Tax liabilities	14	700	1,796	700	1,796
Provisions	15	7,963	7,041	7,963	7,041
Derivative financial instruments	26	-	3,233	-	3,233
Other	16	9,413	5,289	9,413	5,289
TOTAL CURRENT LIABILITIES		55,657	47,198	56,660	48,201
NON-CURRENT LIABILITIES					
Borrowings	17	17,178	2,996	17,178	2,996
Provisions	18	8,248	6,414	8,248	6,414
Other	19	1,300	-	1,300	-
TOTAL NON-CURRENT LIABILITIES		26,726	9,410	26,726	9,410
TOTAL LIABILITIES		82,383	56,608	83,386	57,611
NET ASSETS		51,543	40,428	50,541	39,426
EQUITY					
Contributed equity	20	3,366	3,366	3,366	3,366
Reserves	21	4,489	622	4,489	622
Retained profits	22	43,688	36,440	42,686	35,438
TOTAL EQUITY		51,543	40,428	50,541	39,426

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 52 Week Period Ended 27 June 2010

Consolidated Entity 2010	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balance as at 28 June 2009	3,366	739	2,146	(2,263)	36,440	40,428
Total comprehensive income	-	-	-	2,871	23,351	26,222
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(16,103)	(16,103)
Share based remuneration	-	-	532	-	-	532
Reversal of previously non tax effected items	-	-	464	-	-	464
Balances as at 27 June 2010	3,366	739	3,142	608	43,688	51,543

2009	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balance as at 29 June 2008	4,241	739	798	(249)	30,611	36,140
Total comprehensive income	-	-	-	(2,014)	18,995	16,981
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(13,166)	(13,166)
Share based remuneration	(879)	-	1,348	-	-	469
Deferred tax credited directly to equity	4	-	-	-	-	4
Balances as at 28 June 2009	3,366	739	2,146	(2,263)	36,440	40,428

Parent Entity 2010	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balance as at 28 June 2009	3,366	739	2,146	(2,263)	35,438	39,426
Total comprehensive income	-	-	-	2,871	23,351	26,222
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(16,103)	(16,103)
Share based remuneration	-	-	532	-	-	532
Reversal of previously non tax effected items	-	-	464	-	-	464
Balances as at 27 June 2010	3,366	739	3,142	608	42,686	50,541

2009	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balance as at 29 June 2008	4,241	739	798	(249)	29,609	35,138
Total comprehensive income	-	-	-	(2,014)	18,995	16,981
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(13,166)	(13,166)
Share based remuneration	(879)	-	1,348	-	-	469
Deferred tax credited directly to equity	4	-	-	-	-	4
Balances as at 28 June 2009	3,366	739	2,146	(2,263)	35,438	39,426

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

CONSOLIDATED CASH FLOW STATEMENT

For the 52 Week Period Ended 27 June 2010

		Consolidated Entity		Parent Entity	
		2010	2009	2010	2009
	Note	$'000	$'000	$'000	$'000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		517,240	452,530	517,240	452,530
Payments to suppliers and employees (inclusive of goods and services tax)		(473,203)	(416,121)	(473,203)	(416,121)
Interest received		47	153	47	153
Borrowing costs paid		(1,627)	(1,261)	(1,627)	(1,261)
Income tax paid		(10,061)	(9,809)	(10,061)	(9,809)
Net cash inflow from operating activities	25	32,396	25,492	32,396	25,492
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		215	139	215	139
Payments for property, plant and equipment		(29,986)	(17,363)	(29,986)	(17,363)
Net cash outflow from investing activities		(29,771)	(17,224)	(29,771)	(17,224)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	20	-	-	2,081	-
Payments for shares acquired by The Reject Shop Limited Employee Share Trust		-	-	(2,081)	-
Sale & leaseback		-	3,059	-	3,059
Proceeds from borrowings		122,400	71,000	122,400	71,000
Repayment of borrowings		(100,500)	(71,000)	(100,500)	(71,000)
Repayment of finance leases		(4,048)	(3,559)	(4,048)	(3,559)
Dividends paid	22	(16,103)	(13,166)	(16,103)	(13,166)
Net cash inflow/(outflow) from financing activities		1,749	(13,666)	1,749	(13,666)
Net increase/(decrease) in cash held		4,374	(5,398)	4,374	(5,398)
Cash at the beginning of the financial period		(35)	5,363	(35)	5,363
Cash at the end of the period	25	4,339	(35)	4,339	(35)

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

Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

Compliance with IFRS

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

Historical cost convention

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

Financial Statement Presentation

The Company has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Principles of Consolidations

(i) Subsidiaries

A subsidiary is an entity where The Reject Shop Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of the entity so that it operates with The Reject Shop Limited to achieve the objectives of The Reject Shop Limited. The Reject Shop Limited has a 100% owned non-operating subsidiary, TRS Trading Group Pty Ltd, which has not traded since 2003.

The consolidated financial statements incorporate all the assets and liabilities of the subsidiary of The Reject Shop Limited as at 27 June 2010 and the results for the subsidiary for the period. The Reject Shop Limited and its subsidiary are referred to in this financial report as the consolidated entity. All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

(ii) Employee Share Trust

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

(c) Segment Reporting

Change in accounting policy – Operating Segments

The Company has adopted AASB 8 Operating Segment from 28 June 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in a change to the assessment that The Reject Shop has only one operating and business segment. Refer to Note 33 for more information.

(d) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets and liabilities are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

The financial effect of the tax consolidation legislation has been recognised in these financial statements, with no material impact on the consolidated income statement or balance sheet.

The head entity, The Reject Shop Limited, and the controlled entity in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone tax payer in its own right.

The financial effect of the tax consolidation legislation has been recognised in these financial statements, with no material impact on the consolidated income statement or balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

(e) Inventories

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

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

(f) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

The depreciable amount of all fixed assets including capitalised leased assets, is depreciated on a straight line basis over their estimated useful lives. The useful life for each class of asset is:

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

(g) Leases

Leases of property, plant and equipment where the consolidated entity has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in long term borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Leases containing fixed escalation clauses require the escalation amounts to be determined on lease inception and expensed evenly over the lease term, generally between 3 and 8 years.

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

(h) Employee Benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, annual leave and vested sick leave are recognised in respect of employees' services up to the reporting date, and are measured at the amounts expected to be settled, with payments expected beyond 12 months discounted to estimated future cash outflows, using the interest rates on national government bonds.

(ii) Long service leave

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

(iii) Superannuation

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

(iv) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised when there is a contractual or constructive liability and at least one of the following conditions are met:

- There are formal terms in the plan for determining the amount of the benefit;
- The amounts to be paid are determined before the time of completion of the financial report; or
- Past practice has created a constructive obligation.

Liabilities for short term cash incentives are expected to be settled within 12 months and are measured at amounts expected to be paid when settled.

(v) Equity-based compensation benefits

Equity-based compensation benefits are provided to selected employees via the Performance Rights Plan.

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares.

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

- the exercise price;
- the term of the Performance Rights;

- the vesting and performance criteria;
- the impact of dilution;
- the non-tradeable nature of the Performance Rights;
- the share price at grant date and expected price volatility of the underlying share;
- the expected dividend yield; and
- the risk-free interest rate for the term of the Performance Rights.

The fair value of the Performance Rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of Performance Rights that are expected to become exercisable, net of any Performance Rights that have lapsed throughout the period. The employee benefit expense recognised each period takes into account the most recent estimate.

(i) Cash

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

(j) Revenue

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

(k) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The entity designates derivatives as hedges of the cash flows of highly probable forecast transactions (cash flow hedges).

The consolidated entity documents at the inception of the transaction the relationship between the hedging instrument and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are transferred out of equity and included in the cost of the hedged item when the forecast purchase that is hedged takes place.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(l) Foreign Currency Translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(m) Trade and Other Creditors

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

(n) Borrowing Costs

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

NOTES TO THE FINANCIAL STATEMENTS

(o) Impairment of Assets

Assets that are subject to amortisation are reviewed for impairment at each reporting date when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

The Company has defined each individual store as a cash generating unit and accordingly the assessment of the carrying value of the Company's assets is on an individual store basis, with non store assets apportioned appropriately to each store.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(p) Dividends

Provision is made for the amount of any dividends declared, determined or publicly recommended by the Directors on or before the end of the financial period but not distributed at balance date.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate.

(r) Contributed Equity

Ordinary shares are classified as equity.

(s) Earnings per Share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during financial period, adjusted for bonus elements in ordinary shares issued during the period.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(t) Acquisition of Assets

The purchase method of accounting is used for all acquisition of assets. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incremental costs directly attributable to the acquisition.

(u) Software Costs

Costs in relation to software development, including website costs, are charged as expenses in the period in which they are incurred unless they relate to the acquisition or development of an asset, in which they are capitalised and amortised over the period of expected benefit.

(v) Restoration Costs

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

(w) Store Opening Costs

Costs associated in the setup of a new store are expensed in the period in which they are incurred.

(x) Training Subsidies

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

(y) Rounding of Amounts

The Company is a kind referred to in Class Order 98/100, issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the directors' and financial reports. Amounts in these reports have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(z) Critical Accounting Estimates and Judgements

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

(aa) New Accounting Standards and UIG Interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for the 27 June 2010 reporting period. The Company's assessment indicates that there is no new Australian Accounting Standards or interpretations that have been issued but are not yet effective that are expected to have a material impact on the Company's financial report in the period of initial application.

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000

Note 2: Revenue from Continuing Operations

Sales Revenue				
Sales of goods	470,826	412,166	470,826	412,166
Other Income				
Interest	47	153	47	153
Training subsidies	78	-	78	-
Other	2	9	2	9
	127	162	127	162
	470,953	412,328	470,953	412,328

Note 3: Expenses

Profit before income tax expense includes the following expenses:				
Interest and finance charges paid/payable	1,349	1,473	1,349	1,473
Research and development	480	522	480	522
Depreciation and amortisation	8,779	7,454	8,779	7,454
Foreign exchange (gain) / loss	(177)	(106)	(177)	(106)
Net (gain) / loss on disposal of property, plant and equipment	56	66	56	66
Rental expenses relating to operating leases				
Minimum lease payments	58,084	49,993	58,084	49,993
Provision for rent escalation	1,464	1,262	1,464	1,262
Rent paid on percentage of sales basis	506	185	506	185
Employee benefits expense	94,170	82,273	94,170	82,273

NOTES TO THE FINANCIAL STATEMENTS

		Consolidated Entity		Parent Entity	
		2010	2009	2010	2009
		$'000	$'000	$'000	$'000

Note 4: Income Tax Expense

(a) Income tax expense

	2010	2009	2010	2009
Current tax	9,473	8,772	9,473	8,772
Deferred tax	(1,363)	(740)	(1,363)	(740)
(Over) provided in prior periods	(43)		(43)	
	8,067	8,032	8,067	8,032
Deferred income tax expense included in income tax expense comprises:				
Increase in net deferred tax assets	(1,363)	(740)	(1,363)	(740)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2010	2009	2010	2009
Profit before income tax expense	31,418	27,027	31,418	27,027
Tax at the Australian tax rate of 30% (2009 – 30%)	9,425	8,108	9,425	8,108
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share based payments	(349)	140	(349)	140
Capital tax allowance	(766)	(216)	(766)	(216)
Research and Development	(200)	-	(200)	-
	8,110	8,032	8,110	8,032
(Over)/Under provided in prior periods	(43)	-	(43)	-
Income tax expense	8,067	8,032	8,067	8,032

(c) Amounts recognised directly in equity

	2010	2009	2010	2009
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 – recognised directly to equity	464	4	464	4

(d) Tax expense / (income) relating to items of other comprehensive income

	2010	2009	2010	2009
Cash flow hedges	(1,231)	863	(1,231)	863

Note 5: Current Assets - Cash Assets

	Note	2010	2009	2010	2009
Cash on hand	25	663	555	663	555
Cash at bank	25	3,676	310	3,676	310
		4,339	865	4,339	865

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000

Note 6: Current Assets - Receivables

Other debtors	3	135	3	135

Note 7: Current Assets - Inventories

Inventory at cost	50,738	39,479	50,738	39,479
Inventory at net realisable value	140	226	140	226
	50,878	39,705	50,878	39,705

Inventories recognised as an expense during the period ended 27 June 2010 amounted to $249,773,855 (FY2009 - $221,993,507).

Note 8: Current Assets - Other

Prepayments	607	194	607	194
Other current assets	108	83	108	83
	715	277	715	277

Note 9: Non-Current Assets - Other

Financial Assets				
Shares in controlled entities - at cost	-	-	1	1

Note 10: Non-Current Assets - Property, Plant And Equipment

Leasehold improvements				
At cost	22,921	18,321	22,921	18,321
Less accumulated depreciation	(8,776)	(7,532)	(8,776)	(7,532)
	14,145	10,789	14,145	10,789
Under finance lease and hire purchase	5,863	5,863	5,863	5,863
Less accumulated amortisation	(2,027)	(1,448)	(2,027)	(1,448)
	3,836	4,415	3,836	4,415
Plant and equipment*				
At cost	75,257	50,858	75,257	50,858
Less accumulated depreciation	(28,832)	(23,938)	(28,832)	(23,938)
	46,425	26,920	46,425	26,920
Under finance lease and hire purchase	15,835	16,366	15,835	16,366
Less accumulated amortisation	(9,519)	(8,704)	(9,519)	(8,704)
	6,316	7,662	6,316	7,662
Total Property, Plant and Equipment	70,722	49,786	70,722	49,786

* *Plant & equipment includes fixtures, fittings and motor vehicles as well as $16,412,861 (FY2009: $1,989,131) of costs (incl. $684,956 (FY2009: $Nil) in capitalised borrowing costs) associated with the new distribution centre in Queensland.*

NOTES TO THE FINANCIAL STATEMENTS

Movements in Carrying Amounts

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

	Leasehold improvements		Plant and equipment		Total
	At Cost	Leased	At Cost	Leased	
	$'000	$'000	$'000	$'000	$'000
Balance at beginning of the period	10,789	4,415	26,920	7,662	49,786
Additions	5,118	-	24,868	-	29,986
Disposals	(83)	-	(98)	(90)	(271)
Depreciation/amortisation expense	(1,679)	(579)	(5,265)	(1,256)	(8,779)
Balance at end of the period	14,145	3,836	46,425	6,316	70,722

Note 11: Non-Current Assets – Deferred Tax Assets

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	2,291	2,074	2,291	2,074
Non deductible accruals	2,337	1,777	2,337	1,777
Inventories	1,056	825	1,056	825
Lease incentives	818	457	818	457
Sundry items	492	220	492	220
Employee share trust	325	-	325	-
Hedging reserve	-	970	-	970
	7,319	6,323	7,319	6,323
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:				
Finance leases	(4)	(15)	(4)	(15)
Depreciation	-	-	-	-
Sundry items	(53)	(40)	(53)	(40)
Hedging reserve	(269)	-	(269)	-
Research and development	(593)	-	(593)	-
	6,400	6,268	6,400	6,268
Deferred tax assets expected to be recovered within 12 months	5,876	5,855	5,876	5,855
Deferred tax assets expected to be recovered after more than 12 months	524	413	524	413
	6,400	6,268	6,400	6,268

Movements – Consolidated

	Employee Benefits	Inventories	Hedging Reserve	Other	Total
	$'000	$'000	$'000	$'000	$'000
At 30 June 2008	1,725	698	107	2,135	4,665
(Charged) / credited					
- to profit or loss	349	127	-	264	740
- to other comprehensive income	-	-	863	-	863
At 28 June 2009	2,074	825	970	2,399	6,268
(Charged) / credited					
- to profit or loss	217	231	-	915	1,363
- to other comprehensive income	-	-	(1,231)	-	(1,231)
At 27 June 2010	2,291	1,056	(261)	3,314	6,400

Movements – Parent

	Employee Benefits	Inventories	Hedging Reserve	Other	Total
	$'000	$'000	$'000	$'000	$'000
At 30 June 2008	1,725	698	107	2,135	4,665
(Charged) / credited					
- to profit or loss	349	127	-	264	740
- to other comprehensive income	-	-	863	-	863
At 28 June 2009	2,074	825	970	2,399	6,268
(Charged) / credited					
- to profit or loss	217	231	-	915	1,363
- to other comprehensive income	-	-	(1,231)	-	(1,231)
At 27 June 2010	2,291	1,056	(261)	3,314	6,400

Note 12: Current Liabilities – Payables

Unsecured liabilities					
Trade creditors		21,390	16,225	21,390	16,225
Sundry creditors and accruals		2,042	2,235	3,045	3,238
		23,432	18,460	24,435	19,463

Note 13: Current Liabilities – Borrowings

Secured liabilities**					
Overdraft		-	900	-	900
Commercial bills*		12,000	6,500	12,000	6,500
Finance lease liability	23	-	55	-	55
Hire purchase liability	23	2,149	3,924	2,149	3,924
		14,149	11,379	14,149	11,379

* *Commercial bills will be settled within four months. A fixed interest rate of 6.0% is applied to the commercial bills.*
** *Information about the security relating to each of the secured liabilities is provided in Note 17.*

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity 2010 $'000	Consolidated Entity 2009 $'000	Parent Entity 2010 $'000	Parent Entity 2009 $'000

Note 14: Current Liabilities - Tax Liabilities

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Income tax		700	1,796	700	1,796

Note 15: Current Liabilities – Provisions

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Employment entitlements		7,963	7,041	7,963	7,041

Amounts not expected to be settled within the next 12 months

The current provision for employee entitlements includes accrued annual leave, long service leave and bonus accruals. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Leave obligations expected to be settled after 12 months		1,321	1,240	1,321	1,240

Note 16: Current Liabilities - Other

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Accrued expenses		7,984	3,667	7,984	3,667
Deferred income		1,429	1,622	1,429	1,622
		9,413	5,289	9,413	5,289

Note 17: Non-Current Liabilities – Borrowings

	Note	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Secured liabilities**					
Commercial bills*		16,400	-	16,400	-
Hire purchase liability	23	778	2,996	778	2,996
		17,178	2,996	17,178	2,996

* *Commercial bills will be settled between twelve and twenty-four months. A fixed interest rate of 6.0% is applied to the commercial bills.*

** On 27 August 2009, The Reject Shop Limited secured new banking arrangements which included a combination of working capital, asset financing and seasonal facilities which are all subject to annual review.

In addition, the banking arrangements included a long term commercial bill facility totalling $28.4 million which has a termination date of 1 September 2012. This facility was fully drawn down at period end and has a debt amortisation schedule of $3 million per quarter commencing from the quarter ending 30 September 2010. Accordingly $12 million of this long term facility has been included in Note 13 above as Current Borrowings, whilst the balance of $16.4 million has been included as Non-Current Borrowings.

All secured liabilities listed within Note 13 and Note 17 including Bank overdraft and bank loans, finance purchases and hire purchase agreements are secured by a Cross Guarantee and Indemnity between The Reject Shop Limited and TRS Trading Group Pty Ltd supported by:

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

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

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

Note 18: Non-Current Liabilities – Provisions

		Consolidated Entity		Parent Entity	
	Note	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Employment entitlements		1,745	1,375	1,745	1,375
Provision for rent escalation		6,503	5,039	6,503	5,039
		8,248	6,414	8,248	6,414

Movement in provision for rent escalation during the financial period is set out below:

	$'000
Balance at beginning of period	5,039
Transfer to profit and loss	(689)
Additional provision recognised	2,153
Balance at end of period	6,503

The provision attributable to each lease expires over the life of the lease.

Note 19: Non-Current Liabilities – Other

Deferred income	1,300	-	1,300	-

NOTES TO THE FINANCIAL STATEMENTS

Note 20: Contributed Equity

Movements in ordinary share capital:

Date	Details	Number of issued shares	Issue price per share $	Contributed Equity $'000
26 June 2008	Opening Balance	25,708,295		4,241
1 July 2008	Exercise of performance rights	109,375	-	-
1 July 2008	Transfer to share based payment reserve	-	-	(879)
1 July 2008	Deferred tax credit	-	-	4
28 June 2009	**Balance**	**25,817,670**		**3,366**
1 July 2009	Exercise of performance rights	141,000	-	-
15 September 2009	Exercise of performance rights	14,400	-	-
27 June 2010	**Balance**	**25,973,070**		**3,366**

All shares carry one vote per share and rank equally in terms of dividends and on winding up.

Note 21: Equity – Reserves

	Consolidated Entity 2010 $'000	Consolidated Entity 2009 $'000	Parent Entity 2010 $'000	Parent Entity 2009 $'000
Capital profits reserve	739	739	739	739
Share based payments reserve	3,142	2,146	3,142	2,146
Hedging reserve – cash flow hedges	608	(2,263)	608	(2,263)
	4,489	622	4,489	622
Movements:				
Share based payments reserve				
Balance at beginning of period	2,146	798	2,146	798
Performance Rights expense	532	469	532	469
Employee Share Trust	464	879	464	879
Balance at end of period	3,142	2,146	3,142	2,146
Hedging reserve – cash flow hedges				
Balance at beginning of period	(2,263)	(249)	(2,263)	(249)
Transfer to inventory	2,263	249	2,263	249
Revaluation of cash flow hedges	608	(2,263)	608	(2,263)
Balance at end of period	608	(2,263)	608	(2,263)

Nature and purpose of reserves

(i) Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 26. Amounts accumulated in equity are included in the cost of the hedged item when the forecast purchase that is hedged takes place.

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of performance rights issued but not exercised.

	Note	Consolidated Entity 2010 $'000	Consolidated Entity 2009 $'000	Parent Entity 2010 $'000	Parent Entity 2009 $'000

Note 22: Equity – Retained Profits

		2010	2009	2010	2009
Retained profits at the beginning of the financial period		36,440	30,611	35,438	29,609
Net profit attributable to members of the consolidated entity		23,351	18,995	23,351	18,995
Dividends provided for or paid		(16,103)	(13,166)	(16,103)	(13,166)
Retained profits at reporting date		43,688	36,440	42,686	35,438

Since the end of the financial period the directors have declared the payment of a final ordinary dividend of 28.0 cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on 11 October 2010.

Note 23: Commitments

	Note	2010	2009	2010	2009
Finance Leasing Commitments					
Payable:					
Not later than one year		-	59	-	59
Later than one year and not later than five years		-	-	-	-
Minimum lease payments		-	59	-	59
Less future finance charges		-	(4)	-	(4)
Total lease liability		-	55	-	55
Represented by:					
Current liability	13	-	55	-	55
Non-current liability	17	-	-	-	-
			55		55

Finance leases are 3 year lease terms for the purchase of motor vehicles and computer equipment.

	Note	2010	2009	2010	2009
Hire Purchase Commitments					
Payable:					
Not later than one year		2,268	4,228	2,268	4,228
Later than one year and not later than five years		796	3,136	796	3,136
Minimum hire purchase payments		3,064	7,364	3,064	7,364
Less future finance charges		(137)	(444)	(137)	(444)
Total hire purchase liability		2,927	6,920	2,927	6,920
Represented by:					
Current liability	13	2,149	3,924	2,149	3,924
Non-current liability	17	778	2,996	778	2,996
		2,927	6,920	2,927	6,920

Hire purchase contracts are 3 year agreements for the purchase of new store fixtures and fittings.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements payable:				
Not later than one year	59,925	47,384	59,925	47,384
Later than one year and not later than five years	150,859	107,150	150,859	107,150
Later than five years	20,929	11,204	20,929	11,204
	231,713	165,738	231,713	165,738

This does not include any rental payments payable as a percentage of sales contingent on achieving sales thresholds contained within existing operating leases ('percentage rent') as these amounts cannot be reliably measured for future periods. The amount expensed during the current period for percentage rent was $506,467 (FY09: $185,000)

Capital Commitments

The consolidated entity has capital commitments totalling $Nil (FY2009 - $9,468,884), all payable within one year.

Note 24: Contingent Liabilities

Estimates of the maximum amount of contingent liabilities that may become payable:				
Letters of credit established for acquisition of goods for resale	207	47	207	47

Note 25: Cash Flow Information

Reconciliation of Cash Flow from operating activities with profit from ordinary activities

Profit from ordinary activities after Income Tax	23,351	18,995	23,351	18,995
Non-cash flows in profit from ordinary activities				
Amortisation of leased assets	-	28	-	28
Depreciation	8,779	7,426	8,779	7,426
(Gain) / loss on sale of property, plant				
and equipment	56	66	56	66
Non cash share based expense	532	469	532	469
Current tax credited directly to equity	464	4	464	4
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries				
(Increase) / Decrease in receivables and other assets	(306)	654	(306)	654
(Increase) in inventories	(11,173)	(4,388)	(11,173)	(4,388)
Increase in trade, other creditors and other provisions	11,921	4,019	11,921	4,019
Increase / (Decrease) in income tax payable	(1,096)	(1,041)	(1,096)	(1,041)
(Increase) in deferred tax assets	(132)	(740)	(132)	(740)
Net cash provided by operations	32,396	25,492	32,396	25,492

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Non-cash financing and investing activities				
Acquisition of plant and equipment by means of hire purchase agreements	-	3,180	-	3,180

Reconciliation of cash

Cash at the end of the financial period as shown in the statements of cash flows is reconciled to the related items in the balance sheets as follows:

	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Cash on hand	663	555	663	555
Cash at bank	3,676	310	3,676	310
	4,339	865	4,339	865
Less: Bank overdraft	-	(900)	-	(900)
	4,339	(35)	4,339	(35)

Credit standby arrangement and loan facilities

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

	2010		2009	
	Limit	Utilised	Limit	Utilised
	$'000	$'000	$'000	$'000
Interchangeable Working Capital Facility	19,000	1,462	13,250	6,831
Interchangeable Asset Finance Facility	6,600	2,997	8,800	7,022
Foreign Currency Settlement	250	-	250	250
Interchangeable Long Term Facility	28,400	28,400	-	-
Other Facilities	23,715	1,737	23,215	1,486
Total Facilities	77,965	34,596	45,515	15,589

A seasonal facility of $15,000,000 was utilised from 1 October 2009 and repaid in full by 27 December 2009. Other facilities include an ANZ Bank indemnity guarantee to landlords of $2,110,000 of which $1,117,437 was utilised at 27 June 2010.

Note 26: Financial Instruments

Derivative Financial Instruments

	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent 2010 $'000	Parent 2009 $'000
Current assets and (liabilities)				
Forward foreign exchange contracts – cash flow hedges	869	(3,233)	869	(3,233)

NOTES TO THE FINANCIAL STATEMENTS

Financial Risk Management

Forward exchange contracts – cash flow hedges

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

At balance date, the details of outstanding forward exchange contracts to be settled within 6 months are:

				Average Exchange Rate	
		2010	2009	2010	2009
Sell	Buy	$'000	$'000	$'000	$'000
Australian Dollars	United States Dollars	34,087	22,996	0.88	0.71
Australian Dollars	Euro	2,928	1,961	0.67	0.56
Australian Dollars	Pounds Sterling	590	204	0.59	0.49

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

At the balance date these contracts were assets of $869,127 classified in other assets (FY2009 – liabilities of $3,232,476). In the period ended 27 June 2010 there was a gain from the increase in fair value of the asset of $4,101,603 during the period.

During the period $2,262,733 (FY2009 – $249,041) was removed from equity and included in the acquisition cost of goods and a gain of $Nil (FY2007 – $Nil) was transferred to profit and loss.

Forward exchange contracts – Balance Date Sensitivity Analysis

The following table summarises the sensitivity of the consolidated and parent entity as at balance date to movements in the value of the Australian dollar compared to the United States dollar, the principal currency that the consolidated and parent entity has an exposure to. Purchases for imported products are generally paid for on shipment and therefore the consolidated and parent entity does not have a foreign currency payable at balance date. As a consequence, the sensitivity analysis as at balance date relates to the conversion of the United Stated Dollar foreign currency bank account as follows:

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
Sensitivity Analysis – foreign exchange AUD/USD	$'000	$'000	$'000	$'000
For every 1c increase in AUD:USD rate, total exposures (increase) / decrease by				
Income Statement	1	13	1	13
Equity	-	-	-	-
For every 1c decrease in AUD:USD rate, total exposures decrease / (increase) by				
Income Statement	(1)	(14)	(1)	(14)
Equity	-	-	-	-

Interest Rate Risk

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

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing within 1 Year	
	2010 %	2009 %	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Financial Assets						
Cash	3.55	3.13	4,339	865	-	-
Financial Liabilities						
Bank loans and overdrafts	4.97	4.80	-	-	12,000	7,400
Hire purchase liabilities	8.50	8.28	-	-	2,149	3,924
Lease liabilities	-	7.82	-	-	-	55
Total Financial Liabilities			4,339	865	14,149	11,379

	Fixed Interest Rate Maturing			
	1 to 5 years		Over 5 Years	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Financial Assets	-	-	-	-
Financial Liabilities				
Bank loans	16,400	-	-	-
Hire purchase liabilities	778	2,996	-	-
Lease liabilities	-	-	-	-
Total Financial Liabilities	17,178	2,996	-	-
Financial Assets				
Cash	-	-	4,339	865
Receivables and other debtors	3	135	3	135
Total Financial Assets	3	135	4,342	1,000
Financial Liabilities				
Bank loans and overdrafts	-	-	28,400	7,400
Trade, sundry, and other creditors	34,845	25,545	34,845	25,545
Hire purchase liabilities	-	-	2,927	6,920
Lease liabilities	-	-	-	55
Total Financial Liabilities	34,845	25,545	66,172	39,920

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

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
For every 100 basis points increase in interest rates				
Income Statement	(345)	(227)	(345)	(227)
Equity	-	-	-	-
For every 100 basis points decrease in interest rates				
Income Statement	345	227	345	227
Equity	-	-	-	-

Credit Risk

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

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

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

Capital Risk Management

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

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

Liquidity Risk

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

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

Consolidated – At 27 June 2010	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows	Carrying Amount (assets)/liabilities
	$'000	$'000	$'000	$'000	$'000	$'000
Non-derivatives						
Non-interest bearing	34,845	-	-	-	34,845	34,845
Variable rates	-	-	-	-	-	-
Fixed rate	7,415	6,734	17,178	-	31,327	31,327
Total non-derivatives	42,260	6,734	17,178	-	66,172	66,172
Derivatives						
Net settled	-	-	-	-	-	-
Gross settled						
- (inflow)	(38,475)	-	-	-	(38,475)	(38,475)
- outflow	37,606	-	-	-	37,606	37,606
Total derivatives	(869)	-	-	-	(869)	(869)

Consolidated – At 28 June 2009	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Total contractual cash flows $'000	Carrying Amount (assets)/liabilities $'000
Non-derivatives						
Non-interest bearing	25,545	-	-	-	25,545	25,545
Variable rates	900	-	-	-	900	900
Fixed rate	8,616	1,863	2,996	-	13,475	13,475
Total non-derivatives	35,061	1,863	2,996	-	39,920	39,920
Derivatives						
Net settled	-	-	-	-	-	-
Gross settled						
- (inflow)	(21,929)	-	-	-	(21,929)	(21,929)
- outflow	25,162	-	-	-	25,162	25,162
Total derivatives	3,233	-	-	-	3,233	3,233

Net Fair Values

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

Fair Value Measurements

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

As of 28 June 2009, the Company has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

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

The following table presents the group's and parent entity's assets and liabilities measured and recognised at fair value at 27 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

	2010 $'000 Level 2
Derivatives used for hedging	869

NOTES TO THE FINANCIAL STATEMENTS

Note 27: Key Management Personnel Disclosures (Consolidated and Parent)

Non Executive Directors

WJ Stevens* – Chairman (Appointed 14 July 2010)
BJ Beattie – Chairman (Retired 12 July 2010)
KJ Elkington – Non-executive director

**WJ Stevens was a non-executive director for the whole of the financial period until his appointment as Chairman.*

Executive Directors

CJ Bryce* – Managing Director (Appointed 14 September 2009)
GJ Masters – Managing Director (Resigned 11 September 2009)

All of the above persons were directors of The Reject Shop Limited for the entire period ended 27 June 2010, unless otherwise stated.

Other Key Management Personnel

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

DR Jones – General Manager, Store Operations
AM McShanag – General Manager, Merchandise
DJ O'Connor – Chief Information Officer
PG Beckett – General Manager, Logistics
DR Briggs* – Chief Financial Officer and Company Secretary
P Nutbean – General Manager, Property
J Bell – General Manager, Human Resources
RJ McGough – General Manager, Marketing (Retired 30 June 2010)

**CJ Bryce was Chief Financial Officer until 14 September 2009 at which time he was appointed Managing Director. DR Briggs was Financial Controller until his appointment as Chief Financial Officer on 12 October 2009. He continued his role as Company Secretary for the whole of the financial period and to the date of this report.*

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 27 June 2010, unless otherwise stated.

Remuneration of Key Management Personnel

	Consolidated		Equity	
	2010	2009	2010	2009
	$	$	$	$
Short-term employee benefits	3,447,042	3,643,786	3,447,042	3,643,786
Post-employment benefits	278,164	276,024	278,164	276,024
Share-based payments	424,145	349,459	424,145	349,459
	4,149,351	4,269,269	4,149,351	4,269,269

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

The Company has taken advantage of the relief provided by ASIC class order 06/50 and has transferred the detailed remuneration disclosures to the director's report. The relevant information can be found on pages 17 to 26.

Options and Performance Rights Holdings

Details of options and performance rights provided as remuneration and shares issued on the exercise of such options, together with fair values and terms and conditions of the options and performance rights, can be found in the remuneration report on pages 17 to 26 of this annual report.

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

2010	Balance at the start of the period	Performance rights granted during the period	Options exercised during the period	Performance rights vested & exercised during the period	Other changes during the period	Balance at end of the period
Directors						
BJ Beattie	-	-	-	-	-	-
KJ Elkington	-	-	-	-	-	-
WJ Stevens	-	-	-	-	-	-
Executive Director						
CJ Bryce	39,300	55,000	-	(21,000)	-	73,300
GJ Masters*	15,600	16,500	-	(14,400)	(17,700)	-
Other Key Management Personnel						
DR Jones	43,200	6,200	-	(21,000)	-	28,400
AM McShanag	22,800	5,900	-	(12,000)	-	16,700
DJ O'Connor	26,900	4,100	-	(12,000)	-	19,000
PG Beckett	25,300	3,700	-	(12,000)	-	17,000
DR Briggs	2,800	2,200	-	-	-	5,000
P Nutbean	19,500	2,900	-	(9,000)	-	13,400
RJ McGough**	3,500	2,900	-	-	(6,400)	-
J Bell	19,400	2,700	-	(9,000)	-	13,100
CT McShanag**	44,300	-	-	(21,000)	(23,300)	-
Total	262,600	102,100	-	(131,400)	(47,400)	185,900

** GJ Masters resigned as Managing Director during the year and all non-vested performance rights were lapsed prior to 27 June 2010.*

*** RJ McGough and CT McShanag resigned during the year and all non-vested performance rights were lapsed prior to June 2010.*

NOTES TO THE FINANCIAL STATEMENTS

2009	Balance at the start of the period	Performance rights granted during the period	Options exercised during the period	Performance rights vested & exercised during the period	Other changes during the period	Balance at end of the period
Directors						
BJ Beattie	-	-	-	-	-	-
AC McMorron	-	-	-	-	-	-
KJ Elkington	-	-	-	-	-	-
WJ Stevens	-	-	-	-	-	-
Executive Director						
GJ Masters	14,400	1,200	-	-	-	15,600
Other Key Management Personnel						
CT McShanag	56,500	7,800	-	(20,000)	-	44,300
DR Jones	55,900	7,300	-	(20,000)	-	43,200
CJ Bryce	48,625	6,300	-	(15,625)	-	39,300
DJ O'Connor	34,400	5,000	-	(12,500)	-	26,900
PG Beckett	31,000	4,300	-	(10,000)	-	25,300
P Nutbean	22,150	3,600	-	(6,250)	-	19,500
J Bell	22,150	3,500	-	(6,250)	-	19,400
RJ McGough	-	3,500	-	-	-	3,500
DR Briggs	-	2,800	-	-	-	2,800
AM McShanag	31,700	3,600	-	(12,500)	-	22,800
Total	316,825	48,900	-	(103,125)	-	262,600

Non-executive directors do not participate in long term incentives and have not been granted performance rights or options in any period.

Subsequent to period end there have been no performance rights granted to key management personnel. In addition 43,600 performance rights granted to key management personnel vested, of which 43,600 have been exercised.

There have been no grants of options since FY2004 and in prior years there have been no shares issued on exercise of options since FY2007. There are currently no options outstanding as at the end of the financial period and there have been no grants subsequent to period end.

Share Holdings

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

2010	Balance at the start of the period	Received during the period on the exercise of performance rights or options	Other changes during the period	Balance at end of the period
Non-executive Directors				
BJ Beattie	90,000	-	(7,000)	83,000
KJ Elkington	3,000	-	-	3,000
WJ Stevens	-	-	1,000	1,000
Key Management Personnel				
Executive Directors				
CJ Bryce	85,887	21,000	-	106,887
GJ Masters*	35,227	14,400	(49,627)	-
Other Key Management Personnel				
DR Jones	113,356	21,000	(32,000)	102,356
AM McShanag	69,059	12,000	(12,000)	69,059
DJ O'Connor	15,000	12,000	(15,000)	12,000
PG Beckett	30,000	12,000	(12,000)	30,000
DR Briggs	-	-	-	-
P Nutbean	6,750	9,000	(4,840)	10,910
RJ McGough	-	-	-	-
J Bell	10,500	9,000	(9,000)	10,500
CT McShanag**	320,725	21,000	(341,725)	-
Total	779,504	131,400	(482,192)	428,712

* *GJ Masters' share holdings have been shown as nil at the end of the period as he is no longer a director of the Company.*

** *CT McShanag's share holdings have been shown as nil at the end of the period as he is no longer key management personnel of the Company.*

NOTES TO THE FINANCIAL STATEMENTS

2009	Balance at the start of the period	Received during the period on the exercise of performance rights or options	Other changes during the period	Balance at end of the period
Non-executive Directors				
BJ Beattie	100,000	-	(10,000)	90,000
AC McMorron*	98,100	-	(98,100)	-
KJ Elkington	3,000	-	-	3,000
WJ Stevens**	-	-	-	-
Key Management Personnel				
Executive Directors				
GJ Masters	26,996	-	8,231	35,227
Other Key Management Personnel				
CT McShanag	348,362	20,000	(47,637)	320,725
DR Jones	204,663	20,000	(111,307)	113,356
CJ Bryce	108,394	15,625	(38,132)	85,887
DJ O'Connor	12,500	12,500	(10,000)	15,000
PG Beckett	30,000	10,000	(10,000)	30,000
P Nutbean	6,750	6,250	(6,250)	6,750
J Bell	7,750	6,250	(3,500)	10,500
RJ McGough	-	-	-	-
DR Briggs	-	-	-	-
AM McShanag	76,559	12,500	(20,000)	69,059
Total	1,023,074	103,125	(346,695)	779,504

* *AC McMorron's share holdings have been shown as nil at the end of the period as he is no longer a director of the Company*

** *WJ Stevens became a director on 22 August 2008 at which time he held Nil shares.*

Loans to or other transactions with Key Management Personnel

No loans were made to or from directors of The Reject Shop Limited or to or from other key management personnel of the consolidated entity, including related parties or are outstanding as of 27 June 2010 (FY2009 - $Nil).

No other transactions were undertaken with directors or other key management personnel, including related parties during the period (FY2009 - $Nil).

Note 28: Share-based payments

Performance Rights Plan (PRP)

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

The details of all grants outstanding at the start of each financial period are detailed in the tables below:

2010 Date of grant	Expiry Date	Date Exercisable	Fair Value at Grant Date $	Balance at start of period	Granted during the period	Exercised during the period	Lapsed during the period	Balance at end of the period	Vested and exercisable at the end of the period
17 Aug 2005	16 Aug 2010	1 July 2009	2.46	132,000	-	(132,000)	-	-	-
12 Jul 2006	18 Aug 2010	1 July 2009	5.33	9,000	-	(9,000)	-	-	-
16 Aug 2006	18 Aug 2011	1 July 2010	5.94	70,700	-	-	(10,200)	60,500	60,500
15 Aug 2007	15 Aug 2012	1 July 2011	11.06	54,700	-	(14,400)	(5,300)	35,000	-
19 Aug 2008	19 Aug 2012	1 July 2011	8.56	4,300	-	-	(1,700)	2,600	-
19 Aug 2008	19 Aug 2013	2 July 2012	8.15	89,300	-	-	(29,200)	60,100	-
18 Aug 2009	17 Aug 2014	1 July 2013	11.65	-	73,800	-	(19,400)	54,400	-
13 Oct 2009	12 Oct 2016	16 Aug 2015	9.67	-	50,000	-	-	50,000	-
Total				360,000	123,800	(155,400)	(65,800)	262,600	60,500

2009 Date of grant	Expiry Date	Date Exercisable	Fair Value at Grant Date $	Balance at start of period	Granted during the period	Exercised during the period	Lapsed during the period	Balance at end of the period	Vested and exercisable at the end of the period
1 June 2004	31 May 2009	30 June 2008	1.50	105,000	-	(105,000)	-	-	-
12 Jul 2006	31 May 2009	30 June 2008	5.33	4,375	-	(4,375)	-	-	-
17 Aug 2005	16 Aug 2010	1 July 2009	2.46	132,000	-	-	-	132,000	132,000
12 Jul 2006	18 Aug 2010	1 July 2009	5.33	9,000	-	-	-	9,000	9,000
16 Aug 2006	18 Aug 2011	1 July 2010	5.94	70,700	-	-	-	70,700	-
15 Aug 2007	15 Aug 2012	1 July 2011	11.06	56,400	-	-	(1,700)	54,700	-
19 Aug 2008	19 Aug 2012	1 July 2011	8.56	-	4,300	-	-	4,300	-
19 Aug 2008	19 Aug 2013	2 July 2012	8.15	-	89,300	-	-	89,300	-
Total				377,475	93,600	(109,375)	(1,700)	360,000	141,000

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

For all grants the performance right is only exercisable if the EPS hurdle is met each year and the participant remains employed until one day after the end of the following financial period. For all grants made on 1 June 2004, in instances where an EPS hurdle is not met, the performance rights granted for that year convert to and are added to the following year's grant except for the final tranche. The total exercise price payable on the exercise of one or more performance rights on a particular day is $1.00, regardless of the number of performance rights exercised on that day.

The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from

NOTES TO THE FINANCIAL STATEMENTS

grant date to vesting date, and the amount is included in remuneration.

For the grants made on 18 August 2009 the fair value was determined using Black-Scholes option pricing model taking into account the following inputs:

(a) Performance rights are granted for no consideration, all grants are exercisable provided the relevant EPS hurdle rate is met and the executive remains employed on the exercise date
(b) exercise price: $1.00 in total for all performance rights exercised.
(c) share price at grant date: $13.62
(d) expected volatility of the Company's shares: 37.56%
(e) expected dividend yield: 4.04%
(f) risk-free interest rate: 3.00%

For the grants made on 13 October 2009 the fair value was determined using Black-Scholes option pricing model taking into account the following inputs:

(g) Performance rights are granted for no consideration, all grants are exercisable provided the performance hurdle rate is met and the executive remains employed on the exercise date
(h) exercise price: $1.00 in total for all performance rights exercised.
(i) share price at grant date: $12.50
(j) expected volatility of the Company's shares: 37.56%
(k) expected dividend yield: 4.40%
(l) risk-free interest rate: 3.25%

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

Performance rights do not carry voting or dividend entitlements.

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

Expenses arising from share-based payment transactions

	Consolidated		Parent	
	2010 $	2009 $	2010 $	2009 $
Performance rights granted	531,785	467,887	531,785	467,887

Note 29: Remuneration of Auditors

During the period the following fees for services were paid to PricewaterhouseCoopers as the auditor of the parent entity and its related practices:

Audit and Accounting Related Services				
Audit and review work	205,000	245,000	205,000	245,000
	205,000	245,000	205,000	245,000
Tax Compliance and Consulting Services				
Tax compliance	29,500	26,900	29,500	26,900
Tax consulting advice	24,132	89,301	24,132	89,301
	53,632	116,201	53,632	116,201
Other Services				
Other assurance services	35,000	15,000	35,000	15,000
Total remuneration	293,632	376,201	293,632	376,201

Note 30: Dividends

	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Since period end the directors have declared the payment of a fully franked final dividend of 28.0 cents per share. The amount of the proposed dividends is to be paid on 11 October 2010 out of retained profits, but not recognised as a liability at period end.	7,289	5,970	7,289	5,970
Balance of franking account at period-end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent periods based on a tax rate of 30%	24,748	22,860	24,748	22,860

Dividends paid to members during the financial period were a final ordinary dividend for the financial period ended 28 June 2009 of 23.0 cents per share totalling $5,973,806 paid on 12 October 2009. An interim ordinary dividend for the financial period ended 27 June 2010 of 39.0 cents per share (2009: 32.0 cents per share) totalling $10,129,497 (2009: $8,261,654) was paid on the 19 April 2010 (2009:17 April 2009).

Note 31: Earnings per share

	Consolidated	
	2010 Cents	2009 Cents
Basic earnings per share	90.0	73.6
Diluted earnings per share	89.1	72.6
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	25,950,189	25,816,771
Adjustments for dilutive portion of options and performance rights	270,588	347,521
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	26,220,777	26,164,292

Options granted to employees under The Reject Shop Executive Option Plan and performance rights granted under the Performance Rights Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to the options and performance rights are set out in note 27.

Note 32: Net Tangible Assets

	Consolidated		Parent	
	2010 Cents	2009 Cents	2010 Cents	2009 Cents
Net tangible asset backing per ordinary share	198.4	152.8	194.5	148.9

NOTES TO THE FINANCIAL STATEMENTS

Note 33: Segment information

The Reject Shop operates within one reportable segment (retailing of discount variety merchandise). Total revenues of $470,826,475 all relate to the sale of discount variety merchandise in the Company's country of domicile (Australia), in this single reportable segment. The Company is not reliant on any single customer.

Note 34: Subsidiaries

The Reject Shop Limited has a 100% owned non-operating subsidiary, TRS Trading Group Pty Ltd incorporated in Australia. There were no transactions between the parent entity and its subsidiary during the period (FY2009 - $Nil).

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

Note 35: Matters Subsequent to the End of the Financial Period

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

Note 36: Critical Accounting Estimates and Judgements

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

DIRECTORS' DECLARATION

In the directors' opinion:

(a) The financial statements and notes set out on pages 28 to 60 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 company's and consolidated entity's financial position as at 27 June 2010 and of their performance for the financial period ended on that date; and

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

(c) the audited remuneration disclosures set out in pages 17 to 23 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the *Corporations Regulations 2001.*

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

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

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

WJ Stevens
Chairman

CJ Bryce
Managing Director

Dated this 18th day of August 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE REJECT SHOP LIMITED

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the members of The Reject Shop Limited

Report on the financial report

We have audited the accompanying financial report of The Reject Shop Limited (the company), which comprises the statement of financial position as at 27 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both The Reject Shop Limited and The Reject Shop Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the 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 controls relevant to the preparation and fair presentation of the 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of The Reject Shop Limited (continued)

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

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of The Reject Shop Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 27 June 2010 and of their performance for the period ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the consolidated financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the period ended 27 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of The Reject Shop Limited for the period ended 27 June 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers
PricewaterhouseCoopers

Dale McKee
Dale McKee
Partner

Melbourne
18 August 2010

SHAREHOLDERS INFORMATION

As at 31st July 2010

The shareholder information set out below was applicable as at 31 July 2010.

(a) The distribution of shareholding was as follows:

Size of Shareholding	Shareholders
1 - 1,000	2,966
1,001 - 5,000	1,626
5,001 - 10,000	178
10,001 - 100,000	138
100,001 and over	21

(b) 42 shareholders hold less than a marketable parcel of shares, being a market value of less than $1,000

(c) Substantial shareholders were:

Shareholder	Number	% Held
Acorn Capital Limited	2,452,490	9.4%
Hyperion Asset Management Limited	2,158,154	8.3%
Westpac Banking Corporation	1,360,720	5.2%
Grahger Capital Investment P/L	1,360,000	5.2%

(d) The fully paid issued capital of the Company consisted of 26,033,570 shares held by 4,929 shareholders.

Each share entitles the holder to one vote.

(e) Unquoted Equity Securities

	Number on Issue	Number of holders
Performance Rights issued under The Reject Shop Performance Rights Plan	202,100	21

(f) Twenty largest shareholders

Shareholder	Number	% Held
J P MORGAN CONSULTING AUSTRALIA LIMITED	4,079,615	15.67%
NATIONAL NOMINEES LIMITED	3,534,407	13.58%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,796,431	10.74%
COGENT NOMINEES PTY LIMITED	1,200,823	4.61%
CITICORP NOMINEES PTY LIMITED	505,479	1.94%
CITICORP NOMINEES PTY LIMITED	421,648	1.62%
GRAHGER CAPITAL SECURITIES PTY LTD	420,000	1.61%
ANZ NOMINEES LIMITED	357,966	1.38%
CHARLIE MCSHANAG	325,925	1.25%
GRAHGER CAPITAL SECURITIES PTY LTD	300,000	1.15%
COGENT NOMINEES PTY LIMITED	289,474	1.11%
UBS NOMINEES PTY LTD	284,881	1.09%
HIGHMONT HEIGHTS PTY LTD	257,390	0.99%
GRAHGER CAPITAL INVESTMENT PTYLIMITED	250,000	0.96%
GRAHGER CAPITAL INVESTMENT PTY LTD	230,000	0.88%
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	214,998	0.83%
EQUITY TRUSTEES LIMITED	177,977	0.68%
ALMARGEM PTY LTD	145,000	0.56%
PERPETUAL TRUSTEES CONSOLIDATED LIMITED	131,477	0.51%
GRAHGER CAPITAL SECURITIES PTY LTD	120,000	0.46%

The twenty members holding the largest number of shares together held a total of 61.63% of the issued capital.

(g) Restricted Shares

There are no restricted shares on issue.

DIRECTORY

Directors	**WJ Stevens** Chairman **CJ Bryce** Managing Director **KJ Elkington** Non-executive Director
Company Secretary	**DR Briggs**
Principal Registered Office	245 Racecourse Road Kensington Vic 3031 Phone: (03) 9371 5555
Share Registry	**Link Market Services Ltd** Level 9, 333 Collins St Melbourne Vic 3000
Auditors	**PricewaterhouseCoopers** Freshwater Place 2 Southbank Boulevard Southbank Vic 3006
Lawyers	**Baker McKenzie** Level 39 525 Collins Street Melbourne Vic 3000
Stock Exchange Listing	The Reject Shop Limited shares are listed on the Australian Stock Exchange.
Website	www.rejectshop.com.au