Appendix 4E

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary final report

For the financial year ended 24 June 2007
Compared to the financial year ended 25 June 2006

Results for announcement to the market

				$A'000
Sales revenue from continuing operations	up	18.3%	to	280,527
Profit from continuing operations after tax attributable to members	up	35.8%	to	12,296
Net profit for the period attributable to members	up	35.8%	to	12,296

Dividends	Amount per share	Franked amount per share
Interim dividend (paid 16 March 2007)	17.0 cents	100%
Final dividend	14.0 cents	100%

Record date for determining entitlements to final dividend	28 September 2007
Dividend payment date	12 October 2007

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 2007

Taking The Next Steps

CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of The Reject Shop Limited will be held at Bridge Room No 2, Crown Plaza, 1-5 Spencer Street, Melbourne Victoria at 3.30pm on Wednesday 10 October 2007.

The Reject Shop - Watergardens, Victoria

SALES UP 18.3% TO $280.5 MILLION

ANNUAL COMPARABLE STORE SALES GROWTH OVER 8% FOR FIRST TIME

NET PROFIT GROWTH OVER 35% FOR SECOND CONSECUTIVE YEAR

STORE EXPANSION ACCELERATING WITH 22 NEW STORES

NEW DISTRIBUTION CENTRE OPERATING TO PLAN

18.3%
sales growth

35.8%
NPAT growth

48.1¢
earnings
per share

CHAIRMAN'S REPORT

Dear shareholder,

Your Company performed strongly again this year, with sales of $280.5 million, and a 35.8% increase in annual profit to $12.3 million while earnings per share increased by 34% to 48.1 cents per share.

The Board believes our current trading strategy is effective, and the continuous improvement initiatives identified and actioned each year, provide the basis for current and future growth. The commitment by the Board and management to the annual strategic planning process enables a robust review of the effectiveness and progress of current strategies as well as providing the basis for evaluating future opportunities.

During the year, considerable progress was made on a number of fundamental initiatives key to our long term growth. The new distribution centre at Melbourne Airport which opened in September is now meeting our expectations, providing better service to our buying team and stores. This is the first step in a long term logistics plan with the management team already investigating future opportunities to support our growth, including increased use of technology and additional logistics facilities.

The acceleration of our store opening program presented us with new challenges during the year and I am pleased with the trading results of new stores opened this year. We expect to continue the accelerated program over the next few years and have already identified a significant opening program for the next financial year.

As a result of our planned growth, we have reviewed our future resource requirements to ensure we have the necessary infrastructure in place to support this growth. Strategic investments in people and information systems have already commenced and will be a major feature of the next few years. We believe all this can be achieved while maintaining a strong progression in profits.

During the year we seamlessly transitioned the role of Managing Director from Barry Saunders to Gerry Masters and are confident Gerry will continue to drive the existing momentum of the business as well as bringing new insights into the business.

The Board takes this opportunity to thank Barry for his leadership of the business over the past seven years. Barry was instrumental in establishing the platform for the Company's recent successful trading performance and leaves the business well positioned for future profitable growth.

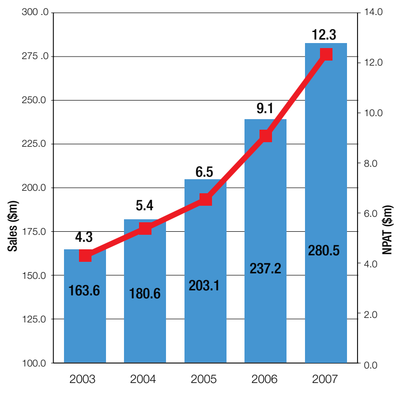
Looking ahead we believe the Company has a great opportunity to profitably build on its current trading platform, however we understand to achieve this we must not become complacent. The strategic planning process and constant review of operating strategies will continue to provide the basis for our long term goals. Our agenda of continuous improvement in all areas remains in place and is consistent with our five year strategic plan.

While the Board and management set the strategy our people make it happen. Their dedication in understanding and delivering a superior product offering and in-store service to our customers provided the basis for the strong trading result this year. I thank all our staff for their energy, enthusiasm and commitment and remain confident our customers are in good hands.

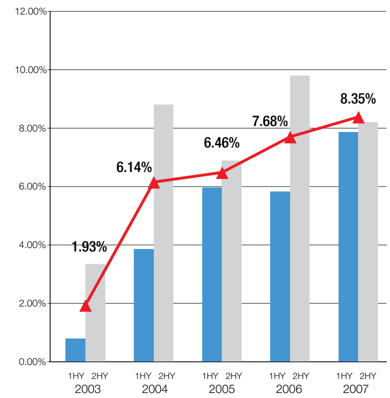
Brian J Beattie
Chairman

FINANCIAL HIGHLIGHTS

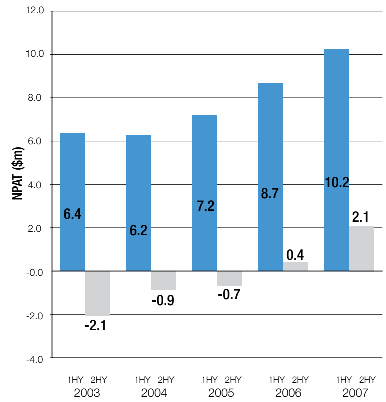
Growth in Sales and NPAT



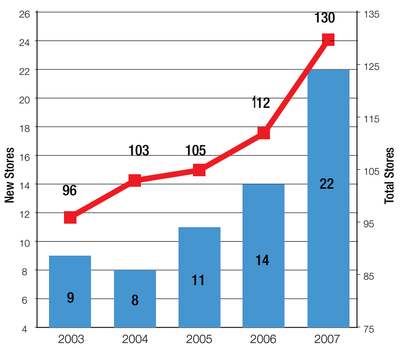
Strong Comparable Store Sales Growth



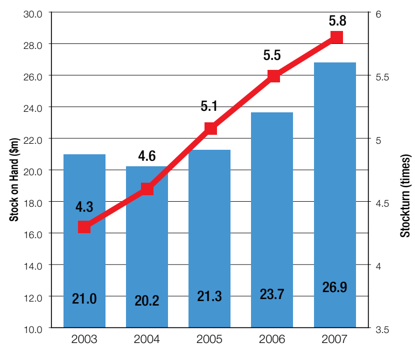
Building Everyday Trading



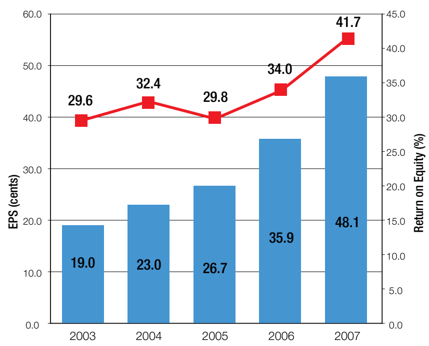
Store Expansion Accelerating



Stockturns Improving



Shareholder Returns Increasing



L-R: Gerry Masters, Brian Beattie, John Shuster, Craig McMorron

5.8
stockturns

down
1.5% of sales
expense ratio

8.4%
comparable stores growth

22
new stores

70%
positions filled by internal promotion

MANAGING DIRECTOR'S REPORT

I am delighted to present my first report to you as Managing Director since joining The Reject Shop in March this year. The company delivered another pleasing result for the year, progressing well with a number of goals set for continuous improvement.

The company continues to improve its customer offer and capitalise on its very strong brand which has a growing reputation for good value for money.

I would also like to recognise the role of former Managing Director, Barry Saunders in the company's success to date. I am grateful to have worked alongside Barry for a period of time, which has ensured a seamless transition in the Managing Director's role.

We have a strong base to build on as we take the business forward.

Overview of financial performance

Sales grew by 18.3% to $280.5 million for the full year, reflecting record comparable store growth for the year of 8.4% and 22 new store openings, also a company record. As a result net profit after tax grew by 35.8% to $12.3 million for the year.

The sales momentum reflects our close attention to competitive pricing, coupled with continued good performance in our everyday items. Further improvement in peak seasonal periods such as Christmas and Easter, our increased store opening program and attention to detail at store level also assisted sales growth.

Gross margin percent reduced slightly compared to the prior year. Our planned reduction in margin as a result of our continued focus on our competitive profile and lower margin everyday ranges was moderated by improvements in markdowns and shrinkage, and some favourable movements in the Australian dollar.

Operating costs excluding depreciation and amortisation declined as a percentage of sales. We were able to continue to leverage strong sales against our expense base after absorbing the additional costs incurred in opening the new Distribution Centre in the first half, the opening costs of new stores in the second half and the adverse impact of fixed escalation clauses in occupancy leases.

Depreciation and amortisation increased as a percentage to sales as a result of the significant investment in the new Distribution Centre and our accelerated store opening program.

Our balance sheet and free cash flows can support the Board's current dividend policy, the accelerated store opening program and future investment in information technology and logistics capabilities.

Overview of industry trends

The Reject Shop has grown to become a very good discount retailer in recent years against a healthy level of competition. The company is focused on continuously improving on this position.

The discount variety segment in which we operate has proven to be less vulnerable to material shifts in the retail trade cycle. Despite increasing petrol prices and talks of rising interest rates, our business has continued to perform well.

Whilst we keep abreast of changes in the retail industry and take advantage of opportunities, we are very focused on sticking to and delivering on our agenda.

Overview of operational performance

The Reject Shop now operates 136 stores across Australia, having established a strategic beach-head in both Queensland and Western Australia. Customers have responded well in these newer markets which gives us a lot of confidence for future opportunities.

The acceleration of our store rollout strategy delivered 22 new store openings during the year compared to 14 in the prior year. We also upsized and refurbished several stores. During the year we closed 4 stores, with 2 planned to re-open during the current year.

It is pleasing to report that we continue to make improvements to our new store openings. This has required our management team to place an increased focus on our store set-up, merchandising, training and development of new and existing staff, as well as effectively managing of our property portfolio.

Our merchandise team has a constant focus on achieving the right balance of products to meet the needs of an increasingly diverse group of customers. There are regular reviews that take place to ensure the products we sell are relevant to the market we serve.

The new Distribution Centre in Melbourne Airport opened during the year, delivering a better service to our stores. Whilst we are pleased with the progress to date, further investments in logistics will be key to our long term growth.

During the year we evaluated the long term potential in IT at the same time bolstering our internal IT capability. We believe we are now better positioned to take advantage of the opportunities identified, which will be aimed at streamlining key areas of our business.

The Reject Shop represents a very strong team of people with a great work ethic. It is pleasing to report that a high level of internal appointments throughout the year were made filling new and existing senior positions which are crucial to the company's ongoing growth.

Outlook

The company has forecast another 20 new stores to be opened in FY2008, and we are well advanced to deliver against this goal. We also have plans to 'right' size 4 stores in the next 12 months.

An essential element of the company's continued growth will be the retention and recruitment of its people. With our growing store base we have strengthened our regional management and new store team, which is already making a significant contribution to the company's operational performance.

We will also step up our investment in training and developing our people, to support the further 400 full time and up to 1,000 seasonal employees to be recruited this year.

With the new distribution centre operating well we are now focused on future opportunities in logistics including the feasibility of a second DC, as well as the evaluation of overseas freight consolidation centres.

The ability to serve customers better and respond to their needs will get strong focus. The company will continue to invest in its brand, and improve communications and interaction with our customers and suppliers.

We are forecasting our net profit after tax for the year to be in the range of $14.8 to $15.0 million.

Our team – taking the next steps

Looking forward, we are excited by the challenges that lie ahead, particularly as we experience greater diversification amongst our growing customer base.

I have been very impressed with the people I work with, and the 'can do" attitude with which they operate.

Whilst a lot has been done, there is still so much more to do. It is an exciting time for the business.

Gerry Masters
Managing Director

TAKING THE NEXT STEPS

MD, Gerry Masters and the Board discuss growth opportunities at the June 2007 Board meeting.

Effective Planning

Whilst our recent success provides confidence our business model is robust, we are committed to an agenda of continuous improvement. The annual strategic planning process ensures we identify and prioritise the next growth opportunities and make available the necessary resources to achieve our goals.

Improving & Expanding Our Stores

We continually invest in our stores to ensure they provide the best possible shopping experience for our customers. We constantly seek new stores in all markets and upgrade our existing stores to ensure they remain exciting places to shop.

GM – Property, Phil Nutbean and CFO, Chris Bryce discuss the newly upsized Highpoint store.

GM – Logistics Phil Beckett and GM - Merchandise, Charlie McShanag inspect merchandise at the Melbourne Airport distribution centre.

Refining Our Supply Chain

Our new distribution centre is the first phase of a number of initiatives in developing our logistics capabilities. Future opportunities currently under evaluation include enhanced planning and allocation tools, as well as overseas freight consolidation, while the potential still exists for additional logistics facilities in the coming years.

GM – Store Operations, Ron Jones, Charlie McShanag and Gerry Masters review new product ideas.

Understanding The Customer

Our customers represent a broad cross-section of the community who either want or need to save money. Our continued attention on ranging, competitive pricing, store layouts and shelf edge pricing ensures our customers can find what they want, when they want it, at a competitive price.

Developing Our People

Developing our people and recognising their efforts is critical to our long term success. We provide our people with appropriate development programs to assist them with their current roles and to develop skills necessary to pursue longer term career goals. We offer realistic career paths and are encouraged that more than 70% of management positions were filled by internal candidates this year.

GM – HR, Jeff Bell recognises 10 years of service by former store manager, now IT Helpdesk Officer, Alisha Fowler.

GM – IT, Darren O'Connor discusses voice technology with storeman Bill Papageorgiou.

Strengthening Our IT Capability

Technology provides our people with the necessary tools to assist them with their day to day performance and decision making. We have already commenced strengthening our internal IT capability ahead of enhancing our current systems to support our future growth.

THE BOARD OF DIRECTORS

Brian Beattie
Non-Executive Chairman

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 joined the Board of The Reject Shop in February 2004.

Gerry Masters
Managing Director

Gerry has an extensive and successful retail track record spanning more than 33 years with the Coles Myer Group, culminating in a 10 year period as Managing Director for Bi-Lo, Coles and then Coles Myer Supermarkets.

Gerry joined The Reject Shop in March 2007.

John Shuster *LLB*
Non-Executive Director

John is a lawyer and joint founder of The Reject Shop. He has a detailed knowledge of the discount variety retail sector in Australia and has contributed particular expertise on legal and property matters.

John is a former Chairman of The Reject Shop and has been a director since 1983.

A.C. (Craig) McMorron *FAICD*
Non-Executive Director

Craig has held several senior management positions in the financial services industry, including a wide range of general management and directorship responsibilities with the Commonwealth Bank Group, CBFC Limited and the Commonwealth Development Bank. Craig has been a consultant to public and private companies, with non-conflicting clients in other sectors of the retail industry.

Craig joined the board of The Reject Shop in April 2004.

THE MANAGEMENT TEAM

Ron Jones
General Manager - Retail Operations

Ron began his retail career in the United Kingdom and during his over 35 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.

Chris Bryce *BCom, ACA*
Chief Financial Officer
& Company Secretary

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 in February 2003. Chris was appointed Company Secretary in April 2006.

Charlie McShanag
General Manager - Merchandise

Charlie has over 25 years experience in retailing, mostly in discount variety. Charlie entered retail through Coles' supermarket division. He joined The Reject Shop in 1986 when it consisted of 5 stores, serving initially in Stores Operations and then Buying where he played a key role in the company's development of international and local sourcing and marketing. He was appointed General Manager Merchandise in December 2005.

Darren O'Connor *BAppSc*
Chief Information Officer

Darren has had over 20 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.

Philip Beckett
General Manager - Logistics

Philip has 35 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.

EXPANDING OUR MARKET PRESENCE

We continue to expand our store portfolio, with 22 new stores opened in FY2007 and 20 new stores planned for FY2008. We actively seek new opportunities in all our existing markets while new markets are constantly being evaluated for opportunities in the future. Our stores perform well in all retail trade areas including major regional shopping centres, neighborhood centres, high street locations or country towns.

Corporate Governance Statement and Financial Report

for the year ending 24 June 2007

CORPORATE GOVERNANCE STATEMENT

The Company and the Board have set and maintained high standards of corporate governance. The Company has complied, except as noted, with the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in March 2003 and as updated in August 2007.

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

There are currently four directors including three 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;
- 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 2006 with the current review scheduled for September 2007. 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 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:

AC McMorron (Chairman)

J Shuster

BJ Beattie (since July 2007)

For the period since listing to 24 June 2007, the composition of the Audit Committee did not comply with the total minimum number of members recommended by the Corporate Governance Council and the Audit Committee Charter. The Board believed the Committee provided the appropriate level of expertise and focus to maintain integrity of the Company's financial reporting, in the context of a smaller sized public company.

In March 2007 the Company was added to the S&P ASX Top 300 listed companies and therefore must comply with the recommendations of the Corporate Governance Council. Effective for financial year ending 29 June 2008, BJ Beattie was appointed a member of the 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;
- Prevention and detection of fraud,
- Property portfolio management, including new site or relocation evaluations;
- Occupational, health and safety;
- 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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:

- 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 booklet 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 year, namely 30 working days after the release of the Company's half yearly results, annual results and 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:

BJ Beattie (Chairman)

J Shuster

AC McMorron

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 49 to 52 of this annual report.

DIRECTORS' REPORT

Your directors present their report on the Company and its subsidiary for the financial year ended 24 June 2007.

Directors

The following persons were directors of The Reject Shop Limited during the whole of the financial year and up to the date of this report.

BJ Beattie

Chairman, Non-executive director, Chairman of the Remuneration Committee and Member of the Audit Committee

AC McMorron

Non-executive director, Chairman of the Audit Committee and Member of the Remuneration Committee

J Shuster

Non-executive director and Member of the Audit and Remuneration Committees

BAE Saunders was a director for the whole of the financial year and up until his retirement on 4 July 2007.

GJ Masters was appointed as a director on 1 March 2007 and continues in office at the date of this report.

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, BJ Beattie will retire as a director at the annual general meeting and, being eligible, will offer himself for re-election.

Meetings of Directors

The number of meetings of the Board of directors and Committees held during the year ended 24 June 2007 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*	11	11	XX	XX	2	2
BAE Saunders	10	11	XX	XX	XX	XX
GJ Masters	4	4	XX	XX	XX	XX
AC McMorron	11	11	3	3	2	2
J Shuster	11	11	3	3	2	2

A – Number of meetings attended

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

XX - Not a member of relevant Committee

** - Appointed to Audit Committee in July 2007*

DIRECTORS' REPORT (CONTINUED)

Principal Activities

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

Dividends

Dividends paid to members during the financial year were a final ordinary dividend for the financial year ended 25 June 2006 of 10.0 cents per share totalling $2,556,330 and a special dividend of 7.5 cents per share totalling $1,917,248, both paid on 15 September 2006. An interim ordinary dividend for the financial year ended 24 June 2007 of 17.0 cents per share totalling $4,352,560 was paid on the 16 March 2007.

Since the end of the financial year the directors have declared the payment of a final ordinary dividend of 14.0 cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on 12 October 2007.

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

Review of Operations

The profit of the consolidated entity for the financial year after providing for income tax amounted to $12,296,402 (2006: $9,051,621). 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 Year

No matters or circumstances have arisen since the end of the financial year 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 years.

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 years 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 year.

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 sections A-D of this remuneration report includes remuneration disclosures that are required under Accounting Standard AASB 124 – Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited. The disclosures in section E are additional disclosures required by Corporations Act 2001 and the Corporations Regulations 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 is $350,000 per annum with a base fee payable to a non-executive director currently of $76,500 per annum. 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.

The following fees have applied

Base Fees	
Chairman	$140,000
Other non-executive directors	$76,500
Additional Fees	
Audit committee – chairman	$5,000
Audit committee – member	$nil
Remuneration committee – chairman	$nil
Remuneration committee – member	$nil

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.

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, 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.

DIRECTORS' REPORT (CONTINUED)

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 note. 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 year. 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 year.

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 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. The value of each right granted at grant date is measured using a Black-Scholes option pricing model.

Performance rights granted since listing are exercisable based on the Company achieving compound growth in EPS over a 3 year period commencing from the prior audited financial period. Each grant consists of three hurdle rates whereby:

- Approximately 50% of the total performance rights granted are exercisable if the EPS growth is between 7.5% and 9.99%;
- Approximately 75% of the total performance rights granted are exercisable if the EPS growth is between 10% and 12.5%;
- 100% of the total performance rights granted are exercisable if the EPS growth exceeds 12.5%.

Executive Option Plan

The Executive Option Plan was the long-term incentive plan for the Company prior to the introduction of the Company's Performance Rights Plan. The Board does not currently intend to issue further options under this plan.

Options have not been granted since FY2004 and have not impacted the remuneration of any director or other key management personnel in the current or prior year.

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 year. The key management personnel also include the five highest paid officers:

CT McShanag	–	General Manager, Merchandise
DR Jones	–	General Manager, Store Operations
CJ Bryce	–	Chief Financial Officer & Company Secretary
DJ O'Connor	–	Chief Information Officer
PG Beckett	–	General Manager, Logistics
P Nutbean	–	General Manager, Property
J Bell	–	General Manager, Human Resources

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire year ended 24 June 2007 and the year ended 25 June 2006 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 years are set out in the following tables:

2007	Short-term benefits			Post-employment benefits		Share-based payments			
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement Benefits	Performance Rights	Proportion of Remuneration as equity related	Total	Proportion of Remuneration as performance related
Name	$	$	$	$	$	$	%	$	%
Non-executive Directors									
BJ Beattie	124,771	-	-	11,229	-	-	-	136,000	-
AC McMorron	73,624	-	-	6,626	-	-	-	80,250	-
J Shuster	69,037	-	-	6,213	-	-	-	75,250	-
Total Non-executive Directors	**267,432**	**-**	**-**	**24,068**	**-**	**-**	**-**	**291,500**	**-**
Executive Directors									
BAE Saunders	529,422	312,193	21,328	47,648	60,000	-	-	970,591	32.2%
GJ Masters	211,667	-	-	18,000	-	-	-	229,667	-
Total Executive Directors	**741,089**	**312,193**	**21,328**	**65,648**	**60,000**	**-**	**-**	**1,200,258**	**-**
Other Key Management Personnel									
CT McShanag	286,698	123,211	41,203	25,702	-	59,380	11.1%	536,194	34.1%
DR Jones	292,414	118,922	-	24,877	-	44,610	9.3%	480,823	34.0%
CJ Bryce	237,936	53,601	-	20,064	-	38,071	10.9%	349,672	26.2%
DJ O'Connor	191,335	46,438	-	12,686	-	27,419	9.9%	277,878	26.6%
PG Beckett	188,731	44,874	-	12,686	-	24,636	9.1%	270,927	25.7%
P Nutbean	141,046	30,810	6,662	11,915	-	17,467	8.4%	207,900	23.2%
J Bell	108,207	26,223	10,611	9,214	-	17,467	10.2%	171,722	25.4%
Total Other Key Management Personnel	**1,446,367**	**444,079**	**58,476**	**117,144**	**-**	**229,050**	**-**	**2,295,116**	**-**
Total	**2,454,888**	**756,272**	**79,804**	**206,860**	**60,000**	**229,050**	**-**	**3,786,874**	**-**

2006	Short-term benefits			Post-employment benefits		Share-based payments			
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement Benefits $	Performance Rights $	Proportion of Remuneration as equity related %	Total $	Proportion of Remuneration as performance related %
Non-executive Directors									
BJ Beattie	100,459	-	-	9,042	-	-	-	109,501	-
AC McMorron	65,825	-	-	5,924	-	-	-	71,749	-
J Shuster	62,386	-	-	5,615	-	-	-	68,001	-
Total Non-executive Directors	**228,670**	**-**	**-**	**20,581**	**-**	**-**	**-**	**249,251**	**-**
Executive Director									
BAE Saunders	535,813	251,089	24,495	12,139	60,000	100,939	10.3%	984,475	35.8%
Other Key Management Personnel									
CT McShanag	254,321	98,853	35,870	22,889	-	33,785	7.6%	445,718	29.8%
DR Jones	257,385	97,277	-	21,844	-	46,487	11.0%	422,993	34.0%
CJ Bryce	221,422	44,450	-	18,578	-	38,958	12.0%	323,408	25.8%
DJ O'Connor	181,492	36,213	-	12,139	-	28,408	11.0%	258,252	25.0%
PG Beckett	179,551	33,825	-	12,139	-	24,106	9.7%	249,621	23.2%
P Nutbean	127,385	24,076	-	10,115	-	15,928	9.0%	177,504	22.5%
J Bell	90,012	19,057	16,063	8,101	-	15,928	10.7%	149,161	23.5%
Total Other Key Management Personnel	**1,311,568**	**353,751**	**51,933**	**105,805**	**-**	**203,600**	**-**	**2,026,657**	**-**
Total	**2,076,051**	**604,840**	**76,428**	**138,525**	**60,000**	**304,539**	**-**	**3,260,383**	**-**

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

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:

BAE Saunders, Managing Director:

- Contract expired 30 June 2007;
- An annual incentive of 1.5% of base salary payable for each 1% EBIT is higher than 6% over the prior year, increasing to 2.25% of base salary if EBIT is 20% or more than the prior year;
- A long-term cash incentive of $100,000 payable based on the EBIT achieved for the year ended 27 June 2004 and continued service to 30 June 2006;
- $100,000 p.a. payable from 1 July 2007 for a 2 year non-compete arrangement and consulting services;
- A retirement allowance of $120,000 payable 1 July 2007; and
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to the base salary for the remaining term of the agreement or 12 months, whichever is less.

GJ Masters, Managing Director (from 1 March 2007)

- An annual incentive of 1.5% of base salary is payable for each 1% EBIT is higher than 6% over the prior year, increasing to 2.25% of base salary if EBIT is 20% or more than the prior year;
- Payment of termination benefits on early termination by the employer in the first 24 months of employment, other than for gross misconduct or unsatisfactory performance, equal to:
    - in the first 12 months of employment, 18 months base salary;
    - between 12 and 24 months, 12 months base salary;
- After the first 24 months payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to the 12 months base salary;
- A minimum $150,000 short term incentive for the financial year ended 29 June 2008;
- A guaranteed grant of performance rights to the value of $180,000 in September 2007 to be made subject to appropriate performance hurdles determined by the Board at the grant date.

CJ Bryce, Chief Financial Officer & Company Secretary:

- CJ Bryce is entitled to three months remuneration in the event of redundancy caused by a merger or takeover.

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 provided as remuneration to executive directors and other key management personnel during the current financial year is set out below:

2007	Grant Date	Rights Granted during the year	Date Exercisable	Expiry Date	Total fair value of Performance Rights at Grant Date $	Performance Rights vested during the year
Executive Directors						
BAE Saunders	-	-	-	-	-	125,000
GJ Masters	-	-	-	-	-	-
Other Key Management Personnel						
CT McShanag	12 Jul 2006	4,375	30 Jun 2008	31 May 2009	$23,319	
CT McShanag	12 Jul 2006	9,000	1 Jul 2009	18 Aug 2010	$47,970	15,625
CT McShanag	16 Aug 2006	10,200	1 Jul 2010	18 Aug 2011	$60,588	
DR Jones	16 Aug 2006	9,800	1 Jul 2010	18 Aug 2011	$58,212	20,000
CJ Bryce	16 Aug 2006	7,900	1 Jul 2010	18 Aug 2011	$46,926	15,625
DJ O'Connor	16 Aug 2006	6,300	1 Jul 2010	18 Aug 2011	$37,422	12,500
PG Beckett	16 Aug 2006	5,900	1 Jul 2010	18 Aug 2011	$35,046	10,000
P Nutbean	16 Aug 2006	4,500	1 Jul 2010	18 Aug 2011	$26,730	6,250
J Bell	16 Aug 2006	4,500	1 Jul 2010	18 Aug 2011	$26,730	6,250
Total		**62,475**			**$362,943**	**211,250**

The fair value of each performance right granted on 12 July 2006 at grant date was $5.33. The fair value of each performance right granted on 16 August 2006 at grant date was $5.94.

DIRECTORS' REPORT (CONTINUED)

2006	Grant Date	Rights Granted during the year	Date Exercisable	Expiry Date	Total fair value of Performance Rights at Grant Date $	Performance Rights vested during the year
Executive Directors						
BAE Saunders	-	-	-	-	-	-
Other Key Management Personnel						
CT McShanag	17 Aug 2005	12,000	1 Jul 2009	16 Aug 2010	$29,520	15,625
DR Jones	17 Aug 2005	21,000	1 Jul 2009	16 Aug 2010	$51,660	20,000
CJ Bryce	17 Aug 2005	21,000	1 Jul 2009	16 Aug 2010	$51,660	15,625
DJ O'Connor	17 Aug 2005	12,000	1 Jul 2009	16 Aug 2010	$29,520	12,500
PG Beckett	17 Aug 2005	12,000	1 Jul 2009	16 Aug 2010	$29,520	10,000
P Nutbean	17 Aug 2005	9,000	1 Jul 2009	16 Aug 2010	$22,140	6,250
J Bell	17 Aug 2005	9,000	1 Jul 2009	16 Aug 2010	$22,140	6,250
Total		**96,000**			**$236,160**	**86,250**

The fair value of each performance right granted on 17 August 2005 at grant date was $2.46.

All performance rights granted during the current year 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 exercise 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.

No options were granted or vested in FY2006 or FY2007.

Subsequent to year end, a grant of 40,400 performance rights was made to key management personnel on 15 August 2007. In addition 86,250 performance rights granted to key management personnel vested subsequent to year end, of which 86,250 have been exercised.

Details of grants made under the Executive Option and Performance Rights Plans are contained in note 27 of this financial report.

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

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

2007	Type	Date Granted	Date Exercised	Number of Shares Issued	Exercise Price $	Fair value at exercise date $
Executive Directors						
BAE Saunders	Rights	1 Jun 2004	3 Jul 2006	125,000	-	756,250
GJ Masters	-	-	-	-	-	-
Other Key Management Personnel						
CT McShanag	Rights	1 Jun 2004	21 Jul 2006	15,625	-	99,063
DR Jones	Rights	1 Jun 2004	21 Jul 2006	20,000	-	126,800
CJ Bryce	Rights	1 Jun 2004	21 Jul 2006	15,625	-	99,063
DJ O'Connor	Rights	1 Jun 2004	21 Jul 2006	12,500	-	79,250
PG Beckett	Rights	1 Jun 2004	21 Jul 2006	10,000	-	63,400
P Nutbean	Rights	1 Jun 2004	21 Jul 2006	6,250	-	39,625
J Bell	Rights	1 Jun 2004	21 Jul 2006	6,250	-	39,625
DR Jones	Options	17 Sep 2003	21 Feb 2007	40,000	1.52	363,200
Total				**251,250**		**1,666,276**

2006	Type	Date Granted	Date Exercised	Number of Shares Issued	Exercise Price $	Fair value at exercise date $
Executive Director						
BAE Saunders	-	-	-	-	-	-
Other Key Management Personnel						
CT McShanag	Rights	1 Jun 2004	19 Jul 2005	15,625	-	45,156
DR Jones	Rights	1 Jun 2004	19 Jul 2005	20,000	-	57,800
CJ Bryce	Rights	1 Jun 2004	19 Jul 2005	15,625	-	45,156
DJ O'Connor	Rights	1 Jun 2004	19 Jul 2005	12,500	-	36,125
PG Beckett	Rights	1 Jun 2004	19 Jul 2005	10,000	-	28,900
P Nutbean	Rights	1 Jun 2004	19 Jul 2005	6,250	-	18,062
J Bell	Rights	1 Jun 2004	19 Jul 2005	6,250	-	18,062
DR Jones	Options	17 Sep 2003	24 Feb 2006	50,000	1.52	167,500
DR Jones	Options	17 Sep 2003	22 June 2006	60,000	1.52	265,800
Total				**196,250**		**682,561**

The fair value at exercise date has been determined by multiplying the share price, less any exercise price, by the number of shares issued.

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

DIRECTORS' REPORT (CONTINUED)

E – Additional information - unaudited

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 year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the cash bonuses are payable in future years. 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 each 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.

	Cash Bonus		Performance Rights				
	Paid	Forfeited	Date Granted	Vested	Forfeited	Financial years in which rights may vest	Maximum total value of grants yet to vest
	%	%		%	%		$
Executive Directors							
BAE Saunders	100	0	-	-	-	-	-
GJ Masters	-	-	-	-	-	-	-
Other Key Management Personnel							
CT McShanag	100	0	FY2007	0	0	FY2009	23,319
			FY2007	0	0	FY2010	47,970
			FY2007	0	0	FY2011	60,588
			FY2006	0	0	FY2010	29,520
			FY2004	50	0	FY2009	48,673
DR Jones	100	0	FY2007	0	0	FY2011	58,212
			FY2006	0	0	FY2010	51,660
			FY2004	50	0	FY2009	62,301
CJ Bryce	100	0	FY2007	0	0	FY2011	46,926
			FY2006	0	0	FY2010	51,660
			FY2004	50	0	FY2009	48,673
DJ O'Connor	100	0	FY2007	0	0	FY2011	37,422
			FY2006	0	0	FY2010	29,520
			FY2004	50	0	FY2009	38,983
PG Beckett	100	0	FY2007	0	0	FY2011	35,046
			FY2006	0	0	FY2010	29,520
			FY2004	50	0	FY2009	31,151
P Nutbean	100	0	FY2007	0	0	FY2011	26,730
			FY2006	0	0	FY2010	22,140
			FY2004	50	0	FY2009	19,469
J Bell	100	0	FY2007	0	0	FY2011	26,730
			FY2006	0	0	FY2010	22,140
			FY2004	50	0	FY2009	19,469

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:

Year	NPAT	NPAT Growth	EPS (cents)	EPS Growth	Share price at start of year	Share price at end of year	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

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

Historical performance prior to the Company's listing is not considered meaningful with respect to the Company's performance and its impact on shareholder wealth.

Since listing, the Company's profit has grown by 21.4%, 38.7% and 35.8% and shareholder wealth has grown by 540%. In addition, dividends have been paid or declared of $0.17, $0.305 (including the special dividend) and $0.31 per share respectively. Performance related remuneration paid to key management personnel who were key management personnel in both current and prior years, has grown by 8.4% in FY2007.

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
			$	$	
1 Jun 2004	31 May 2009	30 Jun 2008	1.50	-	105,000
17 Aug 2005	16 Aug 2010	1 Jul 2009	2.46	-	132,000
12 Jul 2006	31 May 2009	30 Jun 2008	5.33	-	4,375
12 Jul 2006	18 Aug 2010	1 Jul 2009	5.33	-	9,000
16 Aug 2006	18 Aug 2011	1 Jul 2010	5.94	-	70,700

Subsequent to year end, the Board has granted a further 56,400 performance rights under the PRP.

Shares issued and the exercise of options and performance rights

The following shares of the Company were issued during the year ended 24 June 2007 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 September 2003	1.52	40,000
1 June 2004	-	250,000
Total		**290,000**

No amounts are unpaid on any of these shares.

Remuneration of Auditors

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
During the year the following 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	174,000	149,000	174,000	149,000
Accounting advice	8,000	-	8,000	-
	182,000	149,000	182,000	149,000
Tax Compliance and Consulting Services				
Tax compliance	25,300	23,000	25,300	23,000
Tax consulting advice	2,695	-	2,695	-
	27,995	23,000	27,995	23,000
Other Services				
Other assurance services	21,000	-	21,000	-
Total Remuneration	**230,995**	**172,000**	**230,995**	**172,000**

Independence of Auditors

PricewaterhouseCoopers were 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 reviewed by the Board impacted 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 auditors 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:

BJ Beattie
Chairman

GJ Masters
Managing Director

15 August 2007

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of The Reject Shop Limited for the year ended 24 June 2007, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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
15 August 2007

INCOME STATEMENTS
For the Year Ended 24 June 2007

		Consolidated Entity		Parent Entity	
	Note	2007	2006	2007	2006
		$'000	$'000	$'000	$'000
Revenues from continuing operations					
Sales revenue	2	280,527	237,192	280,527	237,192
Other income	2	322	229	322	229
		280,849	237,421	280,849	237,421
Expenses					
Cost of sales		146,930	123,137	146,930	123,137
Store expenses		86,349	74,744	86,349	74,744
Administrative expenses		19,984	18,848	19,984	18,848
Warehousing expenses		9,177	7,084	9,177	7,084
		262,440	223,813	262,440	223,813
Finance costs	3	698	536	698	536
Profit before income tax		17,711	13,072	17,711	13,072
Income tax expense	4	5,415	4,020	5,415	4,020
Profit attributable to members of The Reject Shop Limited		12,296	9,052	12,296	9,052
Earnings per share		Cents	Cents	Cents	Cents
Basic earnings per share	30	48.1	35.9	48.1	35.9
Diluted earnings per share	30	47.3	34.9	47.3	34.9

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

BALANCE SHEETS
As at 24 June 2007

	Note	Consolidated Entity		Parent Entity	
		2007	2006	2007	2006
		$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash	5	5,102	5,640	5,102	5,640
Receivables	6	673	224	673	224
Inventories	7	26,877	23,699	26,877	23,699
Derivative financial instruments	25	-	218	-	218
Other	8	385	212	385	212
TOTAL CURRENT ASSETS		33,037	29,993	33,037	29,993
NON CURRENT ASSETS					
Other financial assets	9	-	-	1	1
Property, plant and equipment	10	31,899	24,715	31,899	24,715
Deferred tax assets	11	3,540	2,900	3,540	2,900
TOTAL NON CURRENT ASSETS		35,439	27,615	35,440	27,616
TOTAL ASSETS		68,476	57,608	68,477	57,609
CURRENT LIABILITIES					
Payables	12	15,485	15,726	16,488	16,729
Borrowings	13	4,343	937	4,343	937
Tax liabilities	14	2,210	1,496	2,210	1,496
Provisions	15	5,897	5,584	5,897	5,584
Derivative financial instruments	25	857	-	857	-
Other	16	4,442	4,419	4,442	4,419
TOTAL CURRENT LIABILITIES		33,234	28,162	34,237	29,165
NON CURRENT LIABILITIES					
Borrowings	17	2,455	421	2,455	421
Provisions	18	3,302	2,390	3,302	2,390
TOTAL NON CURRENT LIABILITIES		5,757	2,811	5,757	2,811
TOTAL LIABILITIES		38,991	30,973	39,994	31,976
NET ASSETS		29,485	26,635	28,483	25,633
EQUITY					
Contributed equity	19	3,985	3,442	3,985	3,442
Reserves	20	505	1,668	505	1,668
Retained profits	21	24,995	21,525	23,993	20,523
TOTAL EQUITY		29,485	26,635	28,483	25,633

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

STATEMENTS OF CHANGES IN EQUITY
For the Year Ended 24 June 2007

		Consolidated Entity		Parent Entity	
	Note	2007	2006	2007	2006
		$'000	$'000	$'000	$'000
Total equity at the beginning of the period		26,635	21,893	25,633	20,891
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to Hedging Reserve	20	-	105	-	105
Net revaluation of cash flow hedges	20	(1,075)	113	(1,075)	113
Deferred tax credited directly to equity	19	55	50	55	50
Net income recognised directly in equity		(1,020)	268	(1,020)	268
Profit for the year	21	12,296	9,052	12,296	9,052
Total recognised income and expense for the period		37,911	31,213	36,909	30,211
Transaction costs arising from issuing of shares		-	(72)	-	(72)
Transactions with equity holders in their capacity as equity holders:					
Proceeds from exercise of options	19	61	167	61	167
Dividends provided for or paid	21	(8,826)	(5,047)	(8,826)	(5,047)
Share based remuneration	20	339	374	339	374
Total equity at the end of the period		29,485	26,635	28,483	25,633

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

CASH FLOW STATEMENTS
For the Year Ended 24 June 2007

	Note	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		308,078	260,491	308,078	260,491
Payments to suppliers and employees (inclusive of goods and services tax)		(287,102)	(236,549)	(287,102)	(236,549)
Interest received		153	229	153	229
Borrowing costs paid		(698)	(536)	(698)	(536)
Income tax paid		(5,287)	(4,476)	(5,287)	(4,476)
Net cash inflow from operating activities	24	15,144	19,159	15,144	19,159
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		113	60	113	60
Payments for property, plant and equipment		(12,470)	(11,446)	(12,470)	(11,446)
Net cash outflow from investing activities		(12,357)	(11,386)	(12,357)	(11,386)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	19	61	167	61	167
Sale and leaseback		3,454	-	3,454	-
Proceeds from borrowings		3,000	-	3,000	-
Payment of transaction costs arising from issue of shares	19	-	(72)	-	(72)
Repayment of finance leases		(1,014)	(1,614)	(1,014)	(1,614)
Dividends paid	21	(8,826)	(5,047)	(8,826)	(5,047)
Net cash outflow from financing activities		(3,325)	(6,566)	(3,325)	(6,566)
Net increase/(decrease) in cash held		(538)	1,207	(538)	1,207
Cash at the beginning of the financial year		5,640	4,433	5,640	2,496
Cash at the end of the year	24	5,102	5,640	5,102	5,640

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

NOTES TO THE FINANCIAL STATEMENTS

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 years presented, unless otherwise stated. The financial report includes separate financial statements for The Reject Shop Limited as an individual entity and the consolidated entity consisting of The Reject Shop Limited and its subsidiary.

(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

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of The Reject Shop Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

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.

(b) Principles of Consolidations

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 subsidiary, TRS Trading Pty Ltd.

The consolidated financial statements incorporate all the assets and liabilities of the subsidiary of The Reject Shop Limited as at 24 June 2007 and the results for the subsidiary for the year. 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.

(c) 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, and to unused tax losses.

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 Reject Shop Limited implemented the tax consolidation legislation as of 1 July 2002. A tax sharing agreement between members of the tax consolidated group has not been entered into. As a consequence, The Reject Shop Limited, as the head entity in the tax consolidated group, recognises current and deferred tax balances in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances.

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.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include an appropriate proportion of freight inwards, logistics, supplier rebate 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.

(e) 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 – 13 years
- Fixtures and Fittings	5 – 14 years
- Motor vehicles	3 – 5 years
- Computer Equipment	3 – 5 years

(f) 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 lease's inception 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 shorter of the asset's useful life and the lease term.

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.

(g) Employee Benefits

(i) Wage 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.

(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 Executive Option Plan and 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 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. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of performance rights, the balance of the share-based payments reserve relating to those performance rights is transferred to contributed equity.

(h) 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.

(i) 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.

(j) 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.

(k) Foreign Currency Translation

(i) Functional and presentation currency

Items included in the financial statements of each of the consolidated entity's 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 year end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

(l) Trade and Other Creditors

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

(m) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

(n) 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.

(o) 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.

(p) 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.

(q) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or performance rights are shown in equity as a reduction, net of tax, from the proceeds.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) Store Opening Costs

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

(w) Training Subsidies

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

(x) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(y) New Accounting Standards and UIG Interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for the 24 June 2007 reporting period. The Company's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's financial instruments.

		Consolidated Entity		Parent Entity	
	Note	2007	2006	2007	2006
		$'000	$'000	$'000	$'000

Note 2: Revenue from Continuing Operations

	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Sales Revenue					
Sales of goods		280,527	237,192	280,527	237,192
Other Income					
Interest		153	229	153	229
Training subsidies		169	–	169	–
		322	229	322	229
		280,849	237,421	280,849	237,421

Note 3: Expenses

	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Profit before income tax expense includes the following expenses:					
Interest and finance charges paid/payable		698	536	698	536
Depreciation and amortisation		5,093	4,022	5,093	4,022
Net loss on disposal of property, plant and equipment		80	308	80	308
Rental expenses relating to operating leases					
Minimum lease payments		32,244	28,224	32,244	28,224
Provision for rent escalation		862	320	862	320
Rent paid on percentage of sales basis		355	275	355	275
Employment benefits expense		57,798	50,294	57,798	50,294

	Note	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000

Note 4: Income Tax Expense

(a) Income tax expense

Current tax		6,072	4,723	6,072	4,723
Deferred tax		(640)	(689)	(640)	(689)
Over provided in prior years		(17)	(14)	(17)	(14)
		5,415	4,020	5,415	4,020
Deferred income tax expense included in income tax expense comprises:					
Increase in net deferred tax assets		(640)	(689)	(640)	(689)

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

Profit before income tax expense		17,711	13,072	17,711	13,072
Tax at the Australian tax rate of 30% (2006 – 30%)		5,313	3,922	5,313	3,922
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:					
Share based payments		102	112	102	112
		5,415	4,034	5,415	4,034
Over provided in prior years		-	(14)	-	(14)
Income tax expense		5,415	4,020	5,415	4,020

(c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited in equity					
Current tax – credited directly to equity	19	55	50	55	50

Note 5: Current Assets - Cash Assets

Cash on hand	24	442	368	442	368
Cash at bank	24	4,660	5,272	4,660	5,272
		5,102	5,640	5,102	5,640

Note 6: Current Assets - Receivables

Other debtors		673	224	673	224

	Note	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000

Note 7: Current Assets - Inventories

	Note	2007	2006	2007	2006
Inventory at cost		26,678	23,517	26,678	23,517
Inventory at net realisable value		199	182	199	182
		26,877	23,699	26,877	23,699

Inventories recognised as an expense during the year ended 24 June 2007 amounted to $146,929,749 (FY2006 – $123,137,282)

Note 8: Current Assets - Other

	Note	2007	2006	2007	2006
Prepayments		209	69	209	69
Other current assets		176	143	176	143
		385	212	385	212

Note 9: Non-Current Assets - Other Financial Assets

	Note	2007	2006	2007	2006
Shares in controlled entities - at cost		-	-	1	1

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

	Note	2007	2006	2007	2006
Leasehold improvements					
At cost		11,163	9,188	11,163	9,188
Less accumulated depreciation		(5,293)	(4,710)	(5,293)	(4,710)
		5,870	4,478	5,870	4,478
Under finance lease and hire purchase		2,422	1,540	2,422	1,540
Less accumulated amortisation		(617)	(463)	(617)	(463)
		1,805	1,077	1,805	1,077
Plant and equipment*					
At cost		34,582	28,271	34,582	28,271
Less accumulated depreciation		(15,659)	(12,404)	(15,659)	(12,404)
		18,923	15,867	18,923	15,867
Under finance lease and hire purchase		11,956	9,112	11,956	9,112
Less accumulated amortisation		(6,655)	(5,819)	(6,655)	(5,819)
		5,301	3,293	5,301	3,293
Total Property, Plant and Equipment		31,899	24,715	31,899	24,715

** Plant & equipment includes fixtures, fittings and motor vehicles.*

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 year 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 year	4,478	1,077	15,867	3,293	24,715
Additions	2,078	882	6,502	3,008	12,470
Disposals	(37)	-	(96)	(60)	(193)
Depreciation/amortisation expense	(649)	(154)	(3,350)	(940)	(5,093)
Balance at end of the year	5,870	1,805	18,923	5,301	31,899

Note 11: Non-Current Assets - Deferred Tax Assets

The balance comprises temporary differences attributable to:

	Note	Consolidated Entity		Parent Entity	
		2007	2006	2007	2006
		$'000	$'000	$'000	$'000
Amounts recognised in profit or loss					
Employee benefits		1,441	1,272	1,441	1,272
Non deductible accruals		1,038	818	1,038	818
Inventories		615	565	615	565
Lease incentives		74	108	74	108
Sundry items		322	137	322	137
		3,490	2,900	3,490	2,900
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:					
Finance leases		(19)	(43)	(19)	(43)
Depreciation		66	32	66	32
Sundry items		3	11	3	11
		3,540	2,900	3,540	2,900

Note 12: Current Liabilities - Payables

Unsecured liabilities				
Trade creditors	13,088	13,742	13,088	13,742
Sundry creditors and accruals	2,397	1,984	3,400	2,987
	15,485	15,726	16,488	16,729

		Consolidated Entity		Parent Entity	
	Note	2007	2006	2007	2006
		$'000	$'000	$'000	$'000

Note 13: Current Liabilities - Borrowings

	Note	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Secured liabilities					
Commercial bills		3,000	-	3,000	-
Finance lease liability	22	73	123	73	123
Hire purchase liability	22	1,270	814	1,270	814
		4,343	937	4,343	937

Bank overdraft and bank loans including 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 14: Current Liabilities - Tax Liabilities

	Note	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Income tax		2,210	1,496	2,210	1,496

Note 15: Current Liabilities - Provisions

	Note	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Employment entitlements		5,897	5,584	5,897	5,584

Note 16: Current Liabilities - Other

	Note	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Accrued expenses		3,672	3,883	3,672	3,883
Deferred income		770	536	770	536
		4,442	4,419	4,442	4,419

Note 17: Non-Current Liabilities - Borrowings

	Note	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Secured liabilities					
Finance lease liability	22	72	57	72	57
Hire purchase liability	22	2,383	364	2,383	364
		2,455	421	2,455	421

	Note	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000

Note 18: Non-Current Liabilities - Provisions

Employment entitlements		887	837	887	837
Provision for rent escalation		2,415	1,553	2,415	1,553
		3,302	2,390	3,302	2,390

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

	$'000
Balance at beginning of period	1,553
Transfer to profit and loss	(617)
Additional provision recognised	1,479
Balance at end of period	2,415

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

Note 19: Contributed Equity

Movements in ordinary share capital:

Date	Details	Number of issued shares	Issue price per share $	Contributed Equity $'000
26 June 2005	Opening balance	25,078,295		3,046
19 July 2005	Exercise of performance rights including transfer from share-based payments reserve on exercise of Performance Rights	125,000	-	251
24 February 2006	Proceeds from exercise of options	50,000	$1.52	76
22 June 2006	Proceeds from exercise of options	60,000	$1.52	91
21 June 2006	Transaction costs arising from issuing of shares	-	-	(72)
	Deferred tax credit	-	-	50
25 June 2006	**Balance**	**25,313,295**		**3,442**
3 July 2006	Exercise of performance rights including transfer from share-based payments reserve on exercise of Performance Rights	125,000	-	210
21 July 2006	Exercise of performance rights including transfer from share-based payments reserve on exercise of Performance Rights	105,000	-	182
17 August 2006	Exercise of performance rights including transfer from share-based payments reserve on exercise of Performance Rights	20,000	-	35
23 February 2007	Proceeds from exercise of options	40,000	$1.52	61
	Deferred tax credit	-	-	55
24 June 2007	**Balance**	**25,603,295**		**3,985**

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

	Note	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000

Note 20: Equity - Reserves

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Capital profits reserve	739	739	739	739
Share based payments reserve	623	711	623	711
Hedging reserve – cash flow hedges	(857)	218	(857)	218
	505	1,668	505	1,668
Movements:				
Share based payments reserve				
Balance at beginning of period	711	588	711	588
Rights expense	339	374	339	374
Transfer to contributed equity	(427)	(251)	(427)	(251)
Balance at end of period	623	711	623	711
Hedging reserve – cash flow hedges				
Balance at beginning of period	218	-	218	-
Adjustments on adoption of AASB 132 and AASB 139, net of tax	-	105	-	105
Transfer to inventory	(218)	(105)	(218)	(105)
Revaluation of cash flow hedges	(857)	218	(857)	218
Balance at end of period	(857)	218	(857)	218

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 25. 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 21: Equity - Retained Profits

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Retained profits at the beginning of the financial period	21,525	17,520	20,523	16,518
Net profit attributable to members of the consolidated entity	12,296	9,052	12,296	9,052
Dividends provided for or paid	(8,826)	(5,047)	(8,826)	(5,047)
Retained profits at reporting date	24,995	21,525	23,993	20,523

Since the end of the financial year the directors have declared the payment of a final ordinary dividend of 14.0 cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on 12 October 2007.

	Note	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000

Note 22: Commitments

Finance Leasing Commitments

	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Payable:					
Not later than one year		85	137	85	137
Later than one year and not later than five years		84	59	84	59
Minimum lease payments		169	196	169	196
Less future finance charges		(24)	(16)	(24)	(16)
Total lease liability		145	180	145	180
Represented by:					
Current liability	13	73	123	73	123
Non current liability	17	72	57	72	57
		145	180	145	180

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

Hire Purchase Commitments

	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Payable:					
Not later than one year		1,541	911	1,541	911
Later than one year and not later than five years		2,562	416	2,562	416
Minimum hire purchase payments		4,103	1,327	4,103	1,327
Less future finance charges		(450)	(149)	(450)	(149)
Total hire purchase liability		3,653	1,178	3,653	1,178

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

	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Represented by:					
Current liability	13	1,270	814	1,270	814
Non current liability	17	2,383	364	2,383	364
		3,653	1,178	3,653	1,178

Operating Lease Commitments

	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Non cancellable operating leases contracted for but not capitalised in the financial statements payable:					
Not later than one year		26,481	27,192	26,481	27,192
Later than one year and not later than five years		65,961	62,879	65,961	62,879
Later than five years		7,188	2,845	7,188	2,845
		99,630	92,916	99,630	92,916

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 can not be reliably measured for future periods. The amount expensed during the current year for percentage rent was $355,000 (FY06 $275,000)

	Note	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000

Capital Commitments

The consolidated entity has capital commitments totalling $nil; (FY2006 - $905,898), all payable within one year.

Remuneration Commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Within one year	100	-	100	-
Later than one year and not later than five years	100	200	100	200
Later than five years	-	-	-	-
	200	200	200	200

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel of the remuneration report on pages 20 – 21 that are not recognised as liabilities and are not included in the key management personnel compensation.

Note 23: Contingent Liabilities

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

	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Letters of credit established for acquisition of goods for resale	261	474	261	474

	Note	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000

Note 24: Cash Flow Information

Reconciliation of Cash Flow from operations with profit from ordinary activities

Profit from ordinary activities after Income Tax	12,296	9,052	12,296	9,052
Non cash flows in profit from ordinary activities				
Amortisation of leased assets	173	368	173	368
Depreciation	4,920	3,654	4,920	3,654
Loss on sale of property, plant and equipment	80	308	80	308
Non cash share based expense	339	374	339	374
Fair Value adjustment to derivatives	(1,075)	218	(1,075)	218
Current tax credited directly to equity	55	50	55	50
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries				
(Increase) / Decrease in receivables and other assets	(404)	8	(404)	8
(Increase) in inventories	(3,178)	(2,394)	(3,178)	(2,394)
Increase in trade and other creditors and other provisions	1,864	8,028	1,864	8,028
Increase in income tax payable	714	182	714	182
(Increase) in deferred tax assets	(640)	(689)	(640)	(689)
Net cash provided by operations	15,144	19,159	15,144	19,159
Non-cash financing and investing activities				
Acquisition of plant and equipment by means of finance lease	3,890	305	3,890	305

Reconciliation of Cash

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

Cash on hand	442	368	442	368
Cash at bank	4,660	5,272	4,660	5,272
	5,102	5,640	5,102	5,640

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:

	2007		2006	
	Limit	Utilised	Limit	Utilised
	$'000	$'000	$'000	$'000
Interchangeable Working Capital Facility	11,000	3,261	11,000	474
Interchangeable Asset Finance Facility	5,000	3,990	5,000	823
Foreign Currency Settlement	2,000	1,817	2,000	-
Other Facilities	11,412	1,701	4,992	1,608
Total Facility	29,412	10,769	22,992	2,905

A seasonal facility of $12,000,000 was utilised from 1 July 2006 and repaid in full by 24 December 2006.

Other facilities include an ANZ Bank indemnity guarantee to landlords of $2,300,000 of which $1,701,377 was utilised at 24 June 2007.

	Note	Consolidated Entity		Parent Entity	
		2007	2006	2007	2006
		$'000	$'000	$'000	$'000
Note 25: Financial Instruments					
Derivative Financial Instruments					
Current assets and (liabilities)					
Forward foreign exchange contracts – cash flow hedges		(857)	218	(857)	218

Transition to AASB 132 and AASB 139

The consolidated entity has taken the exemption available under AASB 1 First-time adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosures and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. For further information please refer to our annual report for the year ended 25 June 2006.

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 year. 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:

		2007	2006	Average Exchange Rate	
Sell	Buy	$'000	$'000	$	$
Australian Dollars	United States Dollars	21,525	16,141	0.81	0.74
Australian Dollars	Euro	976	254	0.61	0.59
Australian Dollars	Pounds Sterling	120	482	0.42	0.42

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 liabilities of $857,236 (FY2006 – assets of $218,160). In the year ended 24 June 2007 there was a loss from the decrease in fair value of the asset of $1,075,397 during the year.

During the year $218,160 (FY2006 – $104,545) was removed from equity and included in the acquisition cost of goods and a gain of $Nil (FY2006 – $Nil) was transferred to profit and loss.

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	
	2007	2006	2007	2006	2007	2006
	%	%	$'000	$'000	$'000	$'000
Financial Assets						
Cash	3.89	4.17	5,102	5,640	-	-
Financial Liabilities						
Bank loans and overdrafts	6.06	5.75	-	-	3,000	-
Hire purchase liabilities	7.47	6.56	-	-	1,270	814
Lease liabilities	7.26	6.46	-	-	73	123
Total Financial Liabilities			-	-	4,343	937

	Fixed Interest Rate Maturing			
	1 to 5 years		Over 5 Years	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Financial Assets	-	-	-	-
Financial Liabilities				
Hire purchase liabilities	2,383	364	-	-
Lease liabilities	72	57	-	-
Total Financial Liabilities	2,455	421	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Non-interest Bearing		Total	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Financial Assets				
Cash	-	-	5,102	5,640
Receivables and other debtors	673	224	673	224
Total Financial Assets	673	224	5,775	5,864
Financial Liabilities				
Bank loans and overdrafts	-	-	3,000	-
Trade, sundry, and other creditors	20,784	20,145	20,784	20,145
Hire purchase liabilities	-	-	3,653	1,178
Lease liabilities	-	-	145	180
Total Financial Liabilities	20,784	20,145	27,582	21,503

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to 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.

Net Fair Values

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

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 aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to the financial statements.

Note 26: Key Management Personnel Disclosures (Consolidated and Parent)

Non Executive Directors

BJ Beattie – Chairman

AC McMorron – Non-executive director

J Shuster – Non-executive director

Executive Directors

BAE Saunders – Managing Director (Retired 4 July 2007)

GJ Masters – Managing Director (from 1 March 2007)

All of the above persons were directors of The Reject Shop Limited for the entire year ended 24 June 2007, 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 year:

CT McShanag – General Manager, Merchandise

DR Jones – General Manager, Store Operations

CJ Bryce – Chief Financial Officer and Company Secretary

DJ O'Connor – Chief Information Officer

PG Beckett – General Manager, Logistics

P Nutbean – General Manager, Property

J Bell – General Manager, Human Resources

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire year ended 24 June 2007, unless otherwise stated.

Remuneration of Key Management Personnel

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Short-term employee benefits	3,290,964	2,757,319	3,290,964	2,757,319
Post-employment benefits	266,860	198,525	266,860	198,525
Share-based payments	229,050	304,539	229,050	304,539
	3,786,874	3,260,383	3,786,874	3,260,383

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

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 25.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 25 of this annual report.

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

2007	Balance at the start of the year	Performance rights granted during the year	Options exercised during the year	Performance rights vested & exercised during the year	Other changes during the year	Balance at end of the year
Directors						
BJ Beattie	-	-	-	-	-	-
AC McMorron	-	-	-	-	-	-
J Shuster	-	-	-	-	-	-
Executive Directors						
BAE Saunders	125,000	-	-	(125,000)	-	-
GJ Masters	-	-	-	-	-	-
Other Key Management Personnel						
CT McShanag	58,875	23,575	-	(15,625)	-	66,825
DR Jones	121,000	9,800	(40,000)	(20,000)	-	70,800
CJ Bryce	67,875	7,900	-	(15,625)	-	60,150
DJ O'Connor	49,500	6,300	-	(12,500)	-	43,300
PG Beckett	42,000	5,900	-	(10,000)	-	37,900
P Nutbean	27,750	4,500	-	(6,250)	-	26,000
J Bell	27,750	4,500	-	(6,250)	-	26,000
Total	**519,750**	**62,475**	**(40,000)**	**(211,250)**	**-**	**330,975**

2006	Balance at the start of the year	Performance rights granted during the year	Options exercised during the year	Performance rights vested & exercised during the year	Other changes during the year	Balance at end of the year
Directors						
BJ Beattie	-	-	-	-	-	-
AC McMorron	-	-	-	-	-	-
J Shuster	-	-	-	-	-	-
Executive Director						
BAE Saunders	125,000	-	-	-	-	125,000
Other Key Management Personnel						
CT McShanag	62,500	12,000	-	(15,625)	-	58,875
DR Jones *	230,000	21,000	(110,000)	(20,000)	-	121,000
CJ Bryce	62,500	21,000	-	(15,625)	-	67,875
DJ O'Connor	50,000	12,000	-	(12,500)	-	49,500
PG Beckett	40,000	12,000	-	(10,000)	-	42,000
P Nutbean	25,000	9,000	-	(6,250)	-	27,750
J Bell	25,000	9,000	-	(6,250)	-	27,750
Total	**620,000**	**96,000**	**(110,000)**	**(86,250)**	**-**	**519,750**

** DR Jones had 40,000 vested and exercisable options at the end of the year.*

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

Subsequent to year end 40,400 performance rights have been granted to key management personnel. In addition 86,250 performance rights granted to key management personnel vested, of which 86,250 have been exercised.

Share Holdings

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

2007	Balance at the start of the year	Received during the year on the exercise of performance rights or options	Other changes during the year	Balance at end of the year
Non-executive Directors				
BJ Beattie	100,000	-	-	100,000
AC McMorron	140,000	-	(2,500)	137,500
J Shuster	575,000	-	-	575,000
Key Management Personnel				
Executive Directors				
BAE Saunders	942,979	125,000	(6,700)	1,061,279
GJ Masters	-	-	-	-
Other Key Management Personnel				
CT McShanag	336,312	15,625	(20,000)	331,937
DR Jones	358,889	60,000	(115,733)	303,156
CJ Bryce	78,144	15,625	(1,000)	92,769
DJ O'Connor	26,000	12,500	(22,629)	15,871
PG Beckett	15,000	10,000	-	25,000
P Nutbean	6,250	6,250	(6,000)	6,500
J Bell	6,250	6,250	(6,000)	6,500
Total	**2,584,824**	**251,250**	**(180,562)**	**2,655,512**

2006	Balance at the start of the year	Received during the year on the exercise of performance rights or options	Other changes during the year	Balance at end of the year
Non-executive Directors				
BJ Beattie	-	-	100,000	100,000
AC McMorron	140,000	-	-	140,000
J Shuster	575,000	-	-	575,000
Key Management Personnel				
Executive Director				
BAE Saunders	982,979	-	(40,000)	942,979
Other Key Management Personnel				
CT McShanag	571,687	15,625	(251,000)	336,312
DR Jones	248,889	130,000	(20,000)	358,889
CJ Bryce	69,019	15,625	(6,500)	78,144
DJ O'Connor	13,500	12,500	-	26,000
PG Beckett	5,000	10,000	-	15,000
P Nutbean	-	6,250	-	6,250
J Bell	2,500	6,250	(2,500)	6,250
Total	**2,608,574**	**196,250**	**(220,000)**	**2,584,824**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 24 June 2007 (FY2006 - $Nil).

No other transactions were undertaken with directors or other key management personnel, including related parties during the year (FY2006 - $Nil).

Note 27: 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 year are detailed in the tables below:

2007

Date of grant	Expiry Date	Date Exercisable	Fair Value at Grant Date $	Balance at start of year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at end of the year	Vested and exercisable at the end of the year
1 June 2004	31 May 2009	26 June 2006	1.73	250,000	-	(250,000)	-	-	-
1 June 2004	31 May 2009	2 July 2007	1.61	125,000	-	-	(20,000)	105,000	-
1 June 2004	31 May 2009	30 June 2008	1.50	125,000	-	-	(20,000)	105,000	-
17 Aug 2005	16 Aug 2010	1 July 2009	2.46	153,000	-	-	(21,000)	132,000	-
12 Jul 2006	31 May 2009	30 June 2008	5.33	-	4,375	-	-	4,375	-
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	-	-	70,700	-
Total				**653,000**	**84,075**	**(250,000)**	**(61,000)**	**426,075**	**-**

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

2006

Date of grant	Expiry Date	Date Exercisable	Fair Value at Grant Date $	Balance at start of year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at end of the year	Vested and exercisable at the end of the year
1 June 2004	31 May 2009	27 June 2005	1.85	125,000	-	(125,000)	-	-	-
1 June 2004	31 May 2009	26 June 2006	1.73	250,000	-	-	-	250,000	-
1 June 2004	31 May 2009	2 July 2007	1.61	125,000	-	-	-	125,000	-
1 June 2004	31 May 2009	30 June 2008	1.50	125,000	-	-	-	125,000	-
17 Aug 2005	16 Aug 2010	1 July 2009	2.46	0	153,000		-	153,000	-
Total				**625,000**	**153,000**	**(125,000)**	**-**	**653,000**	**-**

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

For the grants made on 12 July 2006 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) 4,375 performance rights are exercisable on 30 June 2008 with an expiry date of 31 May 2009; 9,000 performance rights are exercisable 1 July 2009 with an expiry date of 18 August 2010

(c) exercise price: $1.00 in total for all performance rights exercised.

(d) share price at grant date: $6.09

(e) expected volatility of the Company's shares: 35%

(f) expected dividend yield: 4.5%

(g) risk-free interest rate: 5.5%

For the grants made on 16 August 2006 the fair value was determined using Black-Scholes option pricing model taking into account the following inputs:

(h) Performance rights are granted for no consideration, all grants are exercisable on 1 July 2010 provided the relevant EPS hurdle rate is met

(i) exercise price: $1.00 in total for all performance rights exercised.

(j) expiry date: 18 August 2011

(k) share price at grant date: $7.07

(l) expected volatility of the Company's shares: 35%

(m) expected dividend yield: 4.5%

(n) risk-free interest rate: 5.1%

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 year end, the Board has granted a further 56,400 performance rights under the PRP.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Executive Option Plan

The Executive Option Plan was the long-term incentive plan for the Company prior to the introduction of the Company's Performance Rights Plan. The Board does not intend to issue further options under this plan, however options were granted to executives under the plan in prior years. Set out below is a summary of options granted since inception and outstanding at the start of each financial year:

2007

Grant Date	Expiry Date	Date Exercisable	Exercise Price	Balance at start of year	Granted during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested and exercisable at the end of the year
17 Sept 2003	17 Sept 2008		$1.52	40,000	-	(40,000)	-	-	-
Total				40,000	-	(40,000)	-	-	-

2006

Grant Date	Expiry Date	Date Exercisable	Exercise Price	Balance at start of year	Granted during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested and exercisable at the end of the year
17 Sept 2003	17 Sept 2008		$1.52	150,000	-	(110,000)	-	40,000	40,000
Total				150,000	-	(110,000)	-	40,000	40,000

All grants of options were made prior to the Company's decision to list on the Australian Stock Exchange. The exercise price was generally set at, or at a premium to, the Company's value at that time, based on an illiquid market for the shares and as determined by the shareholders' best estimate. The value of options granted on 17 September 2003, based on a Black-Scholes option pricing model is one cent. Options do not carry voting or dividend rights.

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000

Expenses arising from share-based payment transactions

Performance rights granted	339,475	374,094	339,475	374,094

Note 28: Remuneration of Auditors

During the year the following 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	174,000	149,000	174,000	149,000
Accounting advice	8,000	-	8,000	-
	182,000	149,000	182,000	149,000
Tax Compliance and Consulting Services				
Tax compliance	25,300	23,000	25,300	23,000
Tax consulting advice	2,695	-	2,695	-
	27,995	23,000	27,995	23,000
Other Services				
Other assurance services	21,000	-	21,000	-
Total remuneration	230,995	172,000	230,995	172,000

Note 29: Dividends

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Since year end the directors have declared the payment of a fully franked final dividend of 14.0 cents per share. The amount of the proposed dividends is to be paid on 12 October 2007 out of retained profits, but not recognised as a liability at year end.	3,599	4,470	3,599	4,470
Balance of franking account at year 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 years based on a tax rate of 30%	16,066	13,832	16,066	15,247

Dividends paid to members during the financial year were a final ordinary dividend for the financial year ended 25 June 2006 of 10.0 cents per share totalling $2,556,330 and a special dividend of 7.5 cents per share totalling $1,917,248, both paid on 15 September 2006. An interim ordinary dividend for the financial year ended 24 June 2007 of 17.0 cents per share totalling $4,352,560 was paid on the 16 March 2007.

Note 30: Earnings per share

	Consolidated Entity	
	2007	2006
	$'000	$'000
Basic earnings per share	48.1	35.9
Diluted earnings per share	47.3	34.9
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	25,564,555	25,212,855
Adjustments for dilutive portion of options and performance rights	451,000	726,248
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	26,015,555	25,939,103

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 31: Net Tangible Assets

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	Cents	Cents	Cents	Cents
Net tangible asset backing per ordinary share	115.2	105.2	111.2	101.3

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 32: Segment information

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

Note 33: Subsidiaries

The Reject Shop Limited has a 100% owned subsidiary, TRS Trading Group Pty Ltd incorporated in Australia. There were no transactions between the parent entity and its subsidiary during the year (FY2006 - $Nil).

Note 34: Matters Subsequent to the End of the Financial Year

No matters or circumstances have arisen since the end of the financial year 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 years.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) The financial statements and notes set out on pages 28 to 56 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 24 June 2007 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year 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 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:

BJ Beattie
Chairman

GJ Masters
Managing Director

Dated this 15th day of August 2007

PricewaterhouseCoopers
ABN 52 780 433 757

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2 Southbank Boulevard
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MELBOURNE VIC 3001
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Independent audit report to the members of The Reject Shop Limited

Audit opinion

In our opinion:

1. the financial report of The Reject Shop Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of The Reject Shop Limited and The Reject Shop Limited Group (defined below) as at 24 June 2007, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*;and

2. the remuneration disclosures that are contained on pages 17 to 23 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remunerations disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both The Reject Shop Limited (the Company) and The Reject Shop Limited Group (the consolidated entity), for the year ended 24 June 2007. The consolidated entity comprises both the Company and the entities it controlled during that year.

The Company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 17 to 23 of the directors' report, as permitted by the *Corporations Regulations 2001*.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

PRICEWATERHOUSECOOPERS

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

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

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

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

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

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Dale McKee

Dale McKee
Partner

Melbourne
15 August 2007

SHAREHOLDERS INFORMATION

The shareholder information set out below was applicable as at 31 July 2007.

(a) The distribution of shareholding was as follows:

Size of Shareholding	Shareholders
1 - 1,000	1,375
1,001 - 5,000	1,318
5,001 - 10,000	227
10,001 - 100,000	148
100,001 and over	25

(b) 5 shareholders hold less than a marketable parcel of shares, being a market value of less than $500

(c) Substantial shareholders were:

Shareholder	Number	% Held
Commonwealth Bank of Australia	2,502,250	9.7%
Grahger Capital Investment P/L	2,000,000	7.8%
Acorn Capital Limited	1,830,135	7.1%

(d) The fully paid issued capital of the Company consisted of 25,708,295 shares held by 3,093 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	321,075	14

(f) Twenty largest shareholders

Shareholders' Information

As at 31st July 2007

Shareholder	Number	% Held
National Nominees Limited	2,325,122	9.04%
JP Morgan Nominees Australia Ltd	2,138,590	8.32%
Citicorp Nominees P/L (CFSIL CFS WS Small Comp Account)	2,077,165	8.08%
Grahger Capital Investment P/L	1,600,000	6.22%
ANZ Nominees Limited	1,355,371	5.27%
Highmont Heights Pty Ltd (Saunders Super Fund A.C)	935,479	3.64%
Cogent Nominees Pty Limited	691,577	2.69%
Grahger Capital Securities Pty Ltd	650,000	2.53%
HSBC Custody Nominees (Australia) Limited	595,333	2.32%
RBC Dexia Investor Services Australia Nominess Pty Ltd	462,722	1.80%
Kembla No 20 Pty Ltd	415,902	1.62%
Perpetual Trustees Consolidated Limited	400,946	1.56%
Mr Charlie McShanag	342,562	1.33%
Aust Executor Trustees NSW Ltd	331,752	1.29%
Cogent Nominees Pty Limited (SMP Account)	298,519	1.16%
Citicorp Nominees Pty Limited	265,826	1.03%
Bond Street Custodians Limited	253,156	0.98%
HSBC Custody Nominees	200,000	0.78%
Citicorp Nominees Pty Limited	167,991	0.65%
Equity Trustees Limited	160,000	0.62%
Total Top 20	**15,668,013**	**60.95%**

The twenty members holding the largest number of shares together held a total of 60.95% of the issued capital.

(g) Restricted Shares

There are no restricted shares on issue.

DIRECTORY

Company	The Reject Shop Limited
ABN	33 006 122 676
Directors	BJ Beattie Chairman GJ Masters Managing Director AC McMorron Non-executive Director J Shuster Non-executive Director
Company Secretary	CJ Bryce
Principal Registered Office	245 Racecourse Road Kensington Vic 3031 Phone: (03) 9371 5555
Share Registry	Link Market Services Ltd Level 4, 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