Appendix 4D

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary half year report

For the 26 weeks ended 26 December 2010
Compared to the 26 weeks ended 27 December 2009

				$A'000
Revenues from continuing operations	up	10.2%	to	275,897
Profit from continuing operations after tax attributable to members	down	16.0%	to	15,914
Net profit for the period attributable to members	down	16.0%	to	15,914

Dividends	Amount per share	Franked amount per share
Interim dividend	23.0¢	100%

Record date for determining entitlements to the dividend	30 March 2011
Dividend payment date	18 April 2011

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

Overview of Financial Performance

Sales grew by 10.2% from $250.5m to $275.9m against the corresponding period last year with comparable store sales growth of 1.1% (first quarter up 4.3%; second quarter down 1.2%). The loss of sales momentum was noticeable immediately after the November interest rate rise and sales remained sluggish through the peak November/December period. Overall sales growth was also driven by 17 new store openings in the half as well as growth from stores opened in the prior year.

Gross margin (inclusive of logistics and warehousing costs) decreased from 45.2% to 43.6% of sales compared to the corresponding period last year. Underlying gross margin reduced by 0.8%, which was the result of:

- Continued price deflation during the period, necessary to maintain our competitive stance and provide improved value to our customers;
- Sales of seasonal merchandise below expectations which led to increased markdowns; and
- The absorption of overseas consolidation costs into cost of product.

Logistics and warehousing costs (as a component of cost of sales) increased by 0.8% as a percent of sales primarily as a result of the additional fixed costs assumed on opening the Ipswich Distribution Centre. Whilst efficiency improvements were evident within the facility during the half, additional costs in stock handling were incurred in all distribution centres due to the increased volume of product processed.

The Company expects the additional fixed costs associated opening the new Ipswich Distribution Centre will be leveraged as the Company grows.

Overall operating costs were well managed despite continued growth in new stores; increased inventory volumes associated with price deflation and continued investment in resources across the business necessary to support the Company's long term growth plans.

Whilst EBITDA at $29.7m was only marginally below the prior year ($30.9m), NPAT fell by 16.0% from $18.9m to $15.9m.

This NPAT reduction was the result of:

- Depreciation and amortisation (up $1.44m to $5.67m), reflecting the increased store openings over the past two years, and the opening of the Ipswich Distribution Centre;
- Interest expense (up $0.9m to $1.6m) increased on the higher levels of borrowings required to fund the investment in the Ipswich Distribution Centre. This increase was also against a moderated interest expense last year when interest attributable to the development of the Ipswich Distribution Centre was capitalised; and
- The Company's tax expense ratio increased from 27.2% to 29.0% as the prior corresponding period benefitted from one off adjustments including a 30% capital allowance and the introduction of an employee share trust.

The Company has increased its debt primarily as a result of continued investment in new stores and the Ipswich Distribution Centre, however still remains in a sound financial position. Despite any short term implications of the recent Queensland floods, the Company will continue with a strong dividend program and continued investment in new stores.

Operational Performance

During the period the Company progressively increased the operating capacity of the new Ipswich Distribution Centre with productivity and efficiency improving continuously throughout the period.

The implementation of the Ipswich Distribution Centre and the need to service two distinct locations required significant changes to the overall supply chain of the business. Increasing the use of overseas consolidation centres increased the cost of overseas sourced product and added complexity to the sourcing process. Overall the change led to an adverse financial impact on the business during the period (against the prior year) which was anticipated. As the business adjusts to this new model, efficiencies in sourcing and reductions in costs will be achieved.

Seventeen new stores were opened during the half with two closures, finishing the half with 211 stores. Nine stores were opened in New South Wales, three stores in Queensland, two in Victoria, two stores in Tasmania and one store was opened in Western Australia. The new store performance was strong with the majority of new stores performing above expectations.

Impact of Queensland Floods

Since the end of the half, the operational performance of the business has been significantly impacted by the sustained flooding in Queensland. During January, numerous stores were closed for extended periods, as flood waters rose and customers and staff could not access the stores. Whilst limited damage was incurred to the stores, the floods impacted sales performance during the period as well as the ability to service the stores with required inventory levels.

On 12 January 2011, the newly opened Ipswich Distribution Centre, which was the leverage for expansion in the north of the Eastern Seaboard, was significantly damaged by flooding and remains inoperable at this date. The clean up of the facility is ongoing and the final assessment of inventory loss and equipment is imminent. Due to timelines associated with sourcing purpose built equipment, as well as the restoration of base services such as electricity and telecommunications, the facility will not be fully operational until early next financial year. Interim operational steps at the facility will be possible, but need to be evaluated against the interruption to restoring the facility to its full capacity. The bulk of stock processing for all stores will be undertaken in Melbourne over the coming months.

The closure required instigation of the Company's Business Continuity Plan, and despite all actions taken to date, the closure significantly impacts the business in the short and medium term:

- Whilst the Company has re-engineered its existing Melbourne facilities to service all stores, the capacity to receipt and process stock has been and will continue to be constrained. This has meant the distribution centres have been unable to send some needed stock to stores; and is processing other stock less efficiently;
- Stock lost in the flooding, whilst recoverable from insurance, has resulted in lost sales;
- Existing stock has been more thinly spread across the store network, also resulting in lost sales;
- Some existing stock was at or in-transit to the Port of Brisbane, requiring time and cost to relocate to Melbourne or to process sub-optimally via third party facilities in Brisbane;
- Catalogue distribution and marketing has been impacted in both January and February; and
- Additional distribution facilities may need to be sourced into FY2012 which were not part of our long term plans.

Outlook for the remainder of FY2011

The Company provided revised full year guidance of NPAT between $21.0m to $22.0m in December 2010, based on anticipated sales to the end of the half and the Company's second half plan. The last few weeks of Christmas trade were in line with the expectations, supporting the guidance. However sales during January and February have been below expectations, impacted significantly by the flooding in Queensland and the loss of the Ipswich Distribution Centre. Store closures due to adverse weather in Victoria have also impacted sales.

Whilst the Company's insurance policies are robust, the recoupment of all losses associated with the flooding is uncertain and any estimate is premature at this stage, particularly with respect to the ongoing impact on sales, gross margin and increased costs of working throughout the half.

As a result the Company is unable to provide updated profit guidance as the overall impact of the Queensland floods can not be fully evaluated at this stage.

Despite current challenges the Company remains confident in its business model and is continuing with its long term growth plans. Seven new store openings and two store relocations are planned in the second half. Consistent with prior years, the initial profit contribution from these stores is not expected to cover their opening costs during this period.

Whilst ultimately recoverable, the need to fund both the replacement of inventory and equipment over the next few months has meant working capital is at a premium. The Company has accessed additional debt facilities, however the Board believes a conservative approach to capital management is required in the short term. The Board has therefore declared a moderated interim fully franked dividend of 23.0 cents per share.

DIRECTORS' REPORT

Your directors present their report on the Company and its controlled entities for the half year ended 26 December 2010.

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

WJ Stevens
Non-executive director. Mr. Stevens was appointed Chairman of the Board and Chairman of the Remuneration Committee on 14 July 2010 and continues in these offices at the date of this report. Mr. Stevens resigned as Chairman of the Audit Committee on 11 August 2010, however continues as a member of the Audit Committee at the date of this report.

CJ Bryce
Managing Director

KJ Elkington
Non-executive director and Member of the Remuneration Committee. Mr. Elkington was appointed Chairman of the Audit Committee on 11 August 2010 and continues in this office at the date of this report.

DR Westhorpe
Mr. Westhorpe appointed as a non-executive director, member of the Audit Committee and a member of the Remuneration Committee on 19 August 2010 and continues in these offices at the date of this report.

BJ Beattie
Mr. Beattie was Chairman of the Board and Chairman of the Remuneration Committee and member of the Audit Committee until his retirement on 12 July 2010.

Review of operations
The profit of the consolidated entity for the half year after providing for income tax amounted to $15,914,212.

The half year ended 26 December 2010, incorporates 26 weeks trading.

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

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

The balance sheet as at 26 December 2010 reflects a reduced level of borrowings as compared to other times during the year due to the seasonal nature of the consolidated entity's activities.

Dividends
On 11 October 2010, a fully franked final dividend of 28.0 cents per share totalling $7,289,399 was paid. On 15 February 2011, the directors declared a fully franked interim dividend of 23.0 cents per share to be paid on 18 April 2011.

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

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Rounding of amounts to nearest thousand dollars

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

Signed in accordance with a resolution of the directors:

WJ Stevens	CJ Bryce
Chairman	Managing Director
16 February 2011	

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Auditor's Independence Declaration

As lead auditor for the review of The Reject Shop Limited for the half year ended 26 December 2010, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Dale McKee
Partner
PricewaterhouseCoopers

Melbourne
16 February 2011

Consolidated Statement of Comprehensive Income
For the Half Year Ended 26 December 2010

	Note	Half Year 2010 $'000	2009 $'000
Revenues from continuing operations			
Sales revenue	2	**275,897**	250,460
Other income	2	**8**	37
		275,905	250,497
Cost of sales	1	**155,703**	137,366
Store expenses		**80,617**	72,096
Administrative expenses		**15,566**	14,310
		251,886	223,772
Finance costs	3	**1,601**	701
Profit before income tax		**22,418**	26,024
Income tax expense	4	**6,504**	7,082
Profit for the half year		**15,914**	18,942
Other comprehensive income			
Changes in the fair value of cash flow hedges		**(3,524)**	3,205
Income tax relating to components of other comprehensive income		**1,057**	(962)
Other comprehensive income for the half-year, net of tax		**(2,467)**	2,243
Total Comprehensive Income for the Half Year Attributable To Members Of The Reject Shop Limited		**13,447**	21,185

Earnings per Share		**Cents**	**Cents**
Basic Earnings Per Share	25	**61.1**	73.1
Diluted Earnings Per Share	25	**60.5**	72.3

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

Consolidated Statement of Financial Position
As at 26 December 2010

	Note	26 December 2010 $'000	27 June 2010 $'000
Current Assets			
Cash	5	**3,033**	4,339
Receivables	6	**74**	3
Inventories	7	**64,655**	50,878
Derivative financial instruments	15	**-**	869
Other	8	**1,411**	715
Total Current Assets		**69,173**	56,804
Non-Current Assets			
Property, plant and equipment	9	**73,985**	70,722
Deferred tax assets	10	**7,478**	6,400
Total Non-Current Assets		**81,463**	77,122
Total Assets		**150,636**	133,926
Current Liabilities			
Payables	11	**32,974**	23,432
Borrowings	12	**16,899**	14,149
Tax liabilities	13	**2,229**	700
Provisions	14	**7,297**	7,963
Derivative financial instruments	15	**2,655**	-
Other	16	**9,678**	9,413
Total Current Liabilities		**71,732**	55,657
Non-Current Liabilities			
Borrowings	17	**10,597**	17,178
Provisions	18	**8,828**	8,248
Other	19	**1,200**	1,300
Total Non-Current Liabilities		**20,625**	26,726
Total Liabilities		**92,357**	82,383
Net Assets		**58,279**	51,543
Equity			
Contributed equity	20	**3,366**	3,366
Reserves	21	**2,600**	4,489
Retained profits	22	**52,313**	43,688
Total Equity		**58,279**	51,543

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

Consolidated Statement of Changes in Equity
For the Half Year Ended 26 December 2010

2010	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balances as at 28 June 2010	**3,366**	**739**	**3,142**	**608**	**43,688**	**51,543**
Total comprehensive income	-	-	-	(2,467)	15,914	13,447
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(7,289)	(7,289)
Share based remuneration	-	-	401	-	-	401
Deferred tax credited directly to equity	-	-	177	-	-	177
Balances as at 26 December 2010	**3,366**	**739**	**3,720**	**(1,859)**	**52,313**	**58,279**

2009	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balances as at 29 June 2009	**3,366**	**739**	**2,146**	**(2,263)**	**36,440**	**40,428**
Total comprehensive income	-	-	-	2,243	18,942	21,185
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(5,974)	(5,974)
Share based remuneration	-	-	260	-	-	260
Reversal of previously non-tax effected items	-	-	464	-	-	464
Balances as at 27 December 2009	**3,366**	**739**	**2,870**	**(20)**	**49,408**	**56,363**

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

Consolidated Cash Flow Statement
For the Half Year Ended 26 December 2010

	Note	Half Year 2010 $'000	2009 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		**303,102**	**275,128**
Payments to suppliers and employees (inclusive of goods and services tax)		**(278,040)**	**(231,289)**
Interest received		**8**	**35**
Borrowing costs paid		**(1,542)**	**(737)**
Income tax paid		**(4,819)**	**(4,590)**
Net cash inflows from operating activities	24	**18,709**	**38,547**
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		**105**	**138**
Payments for property, plant and equipment		**(8,997)**	**(20,031)**
Net cash outflows used in investing activities		**(8,892)**	**(19,893)**
Cash Flows from Financing Activities			
Repayment net of finance leases / hire purchases		**(1,454)**	**(2,116)**
Proceeds from borrowings		**138,400**	**61,500**
Repayment of borrowings		**(140,900)**	**(62,000)**
Dividends paid	27	**(7,289)**	**(5,974)**
Net cash outflows used in financing activities		**(11,243)**	**(8,590)**
Net increase/(decrease) in cash held		**(1,426)**	**10,064**
Cash at the beginning of the half year		**4,339**	**(35)**
Cash at the end of the half year	24	**2,913**	**10,029**

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

Note 1: Basis of preparation of half-year report

This general purpose interim financial report for the half year reporting period ended 26 December 2010 has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 27 June 2010 and any public announcements made by The Reject Shop Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. Certain comparatives have been restated to be relevant to current presentation requirements.

Cost of Sales

The Company has for the first time in these half year accounts, included the full amount of its warehousing and logistics costs as part of its “Cost of Sales” line in the Consolidated Statement of Comprehensive Income.

The Company considers that all costs associated with getting stock to stores ready for sale is a cost attributable to the sale of such inventory, particularly so in light of the significant changes to the Company’s distribution strategy.

	Half Year	
	2010 $'000	2009 $'000
Note 2: Revenue From Continuing Operations		
Sales Revenue		
Sales of goods	**275,897**	**250,460**
Revenue from non-operating activities		
Interest and other income	**8**	**37**
	275,905	**250,497**
Note 3: Expenses		
Profit before income tax expense includes the following expenses:		
Interest and finance charges paid/payable	**1,601**	701
Depreciation and amortisation	**5,665**	4,222
Foreign exchange (gain)	**(206)**	(144)
Net (gain) / loss on disposal of property, plant and equipment	**(33)**	132
Rental expenses relating to operating leases:		
Minimum lease payments	**33,172**	27,483
Provision for rent escalations	**579**	641
Rent paid on percentage of sales basis	**225**	210
Employee benefits expenses	**53,305**	48,083
Note 4: Income Tax		
(a) Income tax expense		
Current tax	**6,940**	8,155
Deferred tax	**(445)**	(1,073)
(Over)/Under provided in prior years	**9**	-
	6,504	7,082
Deferred income tax expense included in income tax expense comprises:		
Increase in net deferred tax assets	**(445)**	(1,073)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**22,418**	26,024
Tax at the Australian tax rate of 30% (2010 – 30%)	**6,725**	7,807
Tax effect of amounts which are deductible in calculating taxable income:		
Share based payments	**-**	(335)
Capital tax allowance	**-**	(303)
Research and development	**(230)**	-
	6,495	7,169
Under / (Over) provided in prior years	**9**	(87)
Income tax expense	**6,504**	7,082

	Half Year 2010 $'000	Half Year 2009 $'000
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited in equity		
Current tax – credited / (debited) directly to equity	**1,234**	(498)

	Note	26 December 2010 $'000	27 June 2010 $'000
Note 5: Current Assets – Cash Assets			
Cash on hand	24	**860**	663
Cash at bank	24	**2,173**	3,676
		3,033	4,339
Note 6: Current Assets – Receivables			
Other debtors		**74**	3
Note 7: Current Assets – Inventories			
Inventory at cost		**64,106**	50,738
Inventory at net realisable value		**549**	140
		64,655	50,878
Note 8: Current Assets – Other			
Prepayments		**1,258**	607
Other current assets		**153**	108
		1,411	715

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

	26 December 2010 $'000	27 June 2010 $'000
Leasehold improvements		
At cost	**28,142**	22,921
Less accumulated depreciation	**(10,501)**	(8,776)
	17,641	14,145
Under finance lease and hire purchase	**3,277**	5,863
Less accumulated amortisation	**(1,537)**	(2,027)
	1,740	3,836
Plant and equipment		
At cost	**87,262**	75,257
Less accumulated depreciation	**(34,665)**	(28,832)
	52,597	46,425
Under finance lease and hire purchase	**9,413**	15,835
Less accumulated amortisation	**(7,406)**	(9,519)
	2,007	6,316
Total property, plant and equipment	**73,985**	70,722

	26 December 2010 $'000	27 June 2010 $'000
Note 10: Non Current Assets – Deferred Tax Assets		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Employee benefits	2,668	2,291
Non deductible accruals	2,653	2,337
Inventories	406	1,056
Lease incentives	740	818
Employee share trust	338	325
Sundry items	357	492
	7,162	7,319
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:		
Property, Plant & Equipment	(419)	(593)
Finance leases	-	(4)
Sundry items	(62)	(53)
Hedging reserve	797	(269)
Net deferred tax assets	7,478	6,400
Note 11: Current Liabilities – Payables		
Unsecured liabilities		
Trade creditors	26,824	21,390
Sundry creditors and accruals	6,150	2,042
	32,974	23,432
Note 12: Current Liabilities – Borrowings		
Secured Liabilities		
Bank overdraft	120	-
Commercial bills	15,500	12,000
Hire purchase liability	1,279	2,149
	16,899	14,149
Note 13: Current Liabilities – Tax Liabilities		
Income tax	2,229	700
Note 14: Current Liabilities – Provisions		
Employee entitlements	7,297	7,963
Note 15: Current Liabilities – Derivative Financial Instruments		
Forward foreign exchange contracts-cash flow hedges	2,655	(869)

	26 December 2010 $'000	27 June 2010 $'000

Note 16: Current Liabilities – Other

Accrued expenses	**8,413**	7,984
Deferred income	**1,265**	1,429
	9,678	9,413

Note 17: Non-Current Liabilities – Borrowings

Secured liabilities		
Commercial bills	**10,400**	16,400
Hire purchase liability	**197**	778
	10,597	17,178

Note 18: Non-Current Liabilities – Provisions

Employee entitlements	**1,746**	1,745
Provision for rent escalation	**7,082**	6,503
	8,828	8,248

Note 19: Non-Current Liabilities – Other

Deferred income	**1,200**	1,300

Note 20: Equity – Contributed Equity

Movements in ordinary share capital

Date	Details	No. of shares	Issue Price per share $	Contributed Equity $'000
28 June 2009	Opening Balance	25,817,670		3,366
1 July 2009	Exercise of performance rights	141,000	-	-
15 September 2009	Exercise of performance rights	14,400	-	-
27 June 2010	Closing balance	25,973,070		3,366
6 July 2010	Exercise of performance rights	60,500	-	-
26 December 2010	Closing balance	26,033,570		3,366

	26 December 2010 $'000	27 June 2010 $'000

Note 21: Equity – Reserves

Capital profits reserve	**739**	739
Share based payments reserve	**3,720**	3,142
Hedging reserve – cash flow hedges	**(1,859)**	608
	2,600	4,489

	26 December 2010 $'000	27 June 2010 $'000
Note 22: Equity – Retained Profits		
Retained profits at the beginning of the financial period	**43,688**	36,440
Net profit attributable to members of the consolidated entity	**15,914**	23,351
Dividends provided for or paid	**(7,289)**	(16,103)
Retained profits at reporting date	**52,313**	43,688

	26 December 2010 $'000	27 December 2009 $'000
Note 23: Contingent Liabilities		
Estimates of the maximum amounts of contingent liabilities that may become payable:		
Letters of credit established for acquisition of goods for resale	**76**	**195**
ANZ Bank indemnity guarantee to landlords	**1,298**	**1,277**
	1,374	**1,472**

Note 24: Cash Flow Information

Reconciliation of Cash

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

Cash on hand	**860**	**783**
Cash at bank	**2,173**	**9,443**
Bank overdrafts	**(120)**	**(197)**
	2,913	**10,029**

	Half Year 2010 $'000	2009 $'000
Reconciliation of cash flow from operations with profit from ordinary activities		
Profit from ordinary activities after income tax	**15,914**	**18,942**
Non-cash flows in profit from ordinary activities		
Depreciation	**5,665**	**4,222**
(Profit)/Loss on sale of property, plant and equipment	**(33)**	**132**
Non-cash share based expense	**400**	**260**
Current tax credited directly to equity	**177**	**464**
Changes in operating assets and liabilities, net of effects of purchase and disposal of subsidiaries		
Increase in receivables and other assets	**(766)**	**(812)**
Increase in inventories	**(13,777)**	**(6,931)**
Increase in trade and other creditors and other provisions	**10,678**	**20,241**
Increase in income tax payable	**1,529**	**3,348**
Increase in deferred taxes	**(1,078)**	**(1,319)**
Net cash provided by operations	**18,709**	**38,547**

Note 25: Earnings per share	**Half Year 2010 Cents**	Half Year 2009 Cents
Basic earnings per share	**61.1**	73.1
Diluted earnings per share	**60.5**	72.3
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**26,032,240**	25,927,308
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**26,282,780**	26,195,507

Note 26: Net Tangible Assets Per Share	**26 December 2010 Cents**	27 June 2010 Cents
Net tangible asset backing per ordinary share	**223.9**	198.4
Total shares outstanding as at end of period	**26,033,570**	25,973,070

	26 December 2010 $'000	27 December 2009 $'000
Note 27: Dividends		
Fully franked final dividend paid on 11 October 2010 (2009: 12 October 2009)	**7,289**	**5,974**
Balance of franking account at half year adjusted for franking credits arising from payment of 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	**27,972**	**28,551**

Note 28: Segment Information

The Reject Shop operates within the one reportable segment (retailing of discount variety merchandise). Total revenues of $275,897,319 all relate to the sale of discount variety merchandise in the Company's country of domicile (Australia), in this single reportable segment. The Company is not reliant on any single customer.

Note 29: Dividend Reinvestment Plan

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

Note 30: Matters Subsequent to the End of the Half Year

Subsequent to the end of the half year the Company's operations have been adversely impacted as a result of the floods in Queensland and in particular the operation of its Ipswich based Distribution Centre which services 90 of the current portfolio of 211 stores.

The Distribution Centre is likely to be closed for an indefinite period due to significant water damage to equipment. In addition, the Company experienced a significant amount of inventory loss. The Company has insurance in respect of inventory, assets, increased costs of working and loss of gross profits. The Company is confident the cost of replacement assets and inventory will be fully recovered.

The ultimate impact on the trading performance for the full year, net of insurance recoveries, is difficult to estimate at present. The Company acknowledges the insurance recovery for the increased costs of working and in particular the loss of gross profits will be difficult to precisely quantify given the judgmental nature of such assessments.

The Company is working closely with its brokers, insurance agents and loss adjustors to ensure the Company's recoverable loss claims are maximized in accordance with the terms of its policies. Since the QLD floods in January 2011, an amount of $5 million has been received from the insurance company with respect to inventory lost at the Ipswich Distribution Centre.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 7 to 18 are in accordance with the *Corporations Act 2001,* including:
   - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   - (ii) giving a true and fair view of the consolidated entity's financial position as at 26 December 2010 and of it's performance, as represented by the results of it's operations and it's cash flows, for the half year ended on that date; and

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

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

WJ Stevens
Chairman

CJ Bryce
Managing Director

Melbourne
16 February 2011

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of The Reject Shop Limited, which comprises the consolidated statement of financial position as at 26 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for The Reject Shop Limited (the consolidated entity). The consolidated entity comprises both The Reject Shop Limited and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 26 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of The Reject Shop Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

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

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 26 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

PricewaterhouseCoopers

PricewaterhouseCoopers

Dale McKee
Partner

Melbourne
16 February 2011