Appendix 4D

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary half year report

For the half year ended 24 December 2006
Compared to the half year ended 25 December 2005

				$A'000
Revenues from continuing operations	up	17.1%	to	149,501
Profit from continuing operations after tax attributable to members	up	18.1%	to	10,215
Net profit for the period attributable to members	up	18.1%	to	10,215

Dividends	Amount per share	Franked amount per share
Interim dividend	17.0¢	100%

Record date for determining entitlements to the dividend	2 March 2007
Dividend payment date	16 March 2007

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

Overview of Financial Performance

Sales grew from $127.7m to $149.5m and net profit after tax grew from $8.7m to $10.2m, representing growth of 17.1% and 18.1% respectively, from the corresponding period last year.

Sales growth was driven by comparable store sales growth of 7.8% (a company record for the first half), 11 new store openings and continued growth from stores opened during the prior year. Comparable stores growth is attributed to the continued development of everyday ranges, competitive pricing and a more effective marketing program. In addition, sales during the peak November and December trading period, were stronger than anticipated.

Gross margin, decreased from 50.1% to 49.1% of sales compared to the corresponding period last year reflecting strong trading in lower margin everyday merchandise and a strong focus on competitive pricing to drive sales and increase gross profit dollars.

Operating costs, excluding depreciation and amortisation, as a percentage of sales decreased from 38.8% to 37.5%, compared to the corresponding period last year. This was inclusive of significant one-off costs associated with the opening of the new distribution centre and some delayed store openings of $925k pre tax and $650k post tax.

Depreciation and amortisation as a percentage of sales increased from 1.5% to 1.6% as a result of significant investment in the new distribution centre, a stronger new store opening program and further investment in information technology.

The financial position supports our current dividend ratio, further investment in IT and logistics and an accelerated store opening program.

Operational Performance

The strong trading result for the half is a reflection of the strengthened buying team's efforts in ranging, allocations and pricing, ably supported by significant efforts of our people in distribution centres, stores and central support services.

Eleven new stores were opened during the period and at the end of the period there were a total of 123 stores. Six stores were opened in New South Wales, two in Queensland, two in Victoria and a further store opening in Western Australia. Queensland is now a standalone region with 7 stores and 3 more planned in the second half, and the Western Australia stores are progressing well.

A strong opening program is scheduled for the second half with 11 stores planned and a number of significant relocations and upsizes scheduled. Going forward the Company expects to maintain an opening program of at least 20 stores per annum.

The new distribution centre at Melbourne Airport opened in August and is now operating to anticipated productivity levels. A delay to the opening of the facility coinciding with delayed store openings led to increased operating costs during the half particularly dealing with the peak seasonal build up of stock.

Given the strong sales growth and accelerated store opening program further opportunities in logistics are currently being reviewed to support longer term growth plans including increased use of technology or a second distribution centre.

During the period the Company appointed Mr Gerry Masters, formerly of Coles and Bi Lo Supermarkets, to succeed Mr Barry Saunders as Managing Director. Mr Masters will commence on 1 March 2007 and will work closely with Mr Saunders to ensure a smooth transition and be fully effective by 1 July 2007.

Outlook for the remainder of FY2007

The first half trading performance reflects continued strength in the underlying business, and sales post Christmas are in line with expectations. The Company is confident of achieving an increased full year NPAT forecast of between $11.0m to $11.2m, up from $10.7m to $10.9m at the start of the year.

This forecast reflects the seasonal nature of our business, as well as accommodating an accelerated store opening program in the second half where profit contribution for these stores is expected to cover opening costs. The accelerated opening program establishes a strong platform for FY2008.

Given our strong balance sheet the Board has maintained the annual dividend payout ratio. Based on our revised forecast the Board has declared a fully franked interim dividend of 17 cents per share.

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entity for the half year ended 24 December 2006.

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

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

Review of operations
The profit of the consolidated entity for the half year after providing for income tax amounted to $10,214,983.

A review of the operations of the consolidated entity during the half year and the results of these operations are set out in the attached results announcement.

Seasonality
The half year reflects trading results that can not 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 24 December 2006 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 15 September 2006, a final fully franked dividend of 10 cents per share totalling $2,556,330 and a fully franked special dividend of 7.5 cents per share totalling $1,917,248 were paid.

On 14 February 2007, the directors declared a fully franked interim dividend of 17 cents per share to be paid on 16 March 2007.

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

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

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

Signed in accordance with a resolution of the directors:

....
BJ Beattie
Chairman

....
BAE Saunders
Managing Director
14 February 2007

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Auditor's Independence Declaration

As lead auditor for the review of The Reject Shop Limited for the half year ended 24 December 2006, 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 entity it controlled during the period.

Dale McKee
Partner
PricewaterhouseCoopers

Melbourne
14 February 2007

Consolidated Income Statement
For the Half Year Ended 24 December 2006

	Note	**24 December 2006 $'000**	25 December 2005 $'000
Revenues from continuing operations			
Sales revenue	2	149,501	127,700
Other income	2	171	299
		149,672	127,999
Cost of sales		76,033	63,744
Store expenses		42,749	37,841
Administrative expenses		9,670	9,111
Warehousing expenses		6,028	4,568
		134,480	115,264
Finance costs	3	453	377
Profit before income tax		14,739	12,358
Income tax expense	4	4,524	3,707
Profit Attributable To Members Of The Reject Shop Limited		10,215	8,651
Earnings per Share		**Cents**	Cents
Basic Earnings Per Share	22	40.0	34.3
Diluted Earnings Per Share	22	39.3	33.4

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

Consolidated Balance Sheet
As at 24 December 2006

	Note	24 December 2006 $'000	25 June 2006 $'000
Current Assets			
Cash assets	5	8,411	5,640
Receivables	6	744	224
Inventories	7	26,616	23,699
Other	8	337	430
Total Current Assets		36,108	29,993
Non-Current Assets			
Property, plant and equipment	9	29,031	24,715
Deferred tax assets	10	3,680	2,900
Total Non-Current Assets		32,711	27,615
Total Assets		68,819	57,608
Current Liabilities			
Payables	11	17,353	15,726
Borrowings	12	1,077	937
Tax liabilities	13	4,296	1,496
Provisions	14	5,065	5,584
Other	15	5,348	4,419
Total Current Liabilities		33,139	28,162
Non-Current Liabilities			
Borrowings	16	385	421
Provisions	17	3,070	2,390
Total Non-Current Liabilities		3,455	2,811
Total Liabilities		36,594	30,973
Net Assets		32,225	26,635
Equity			
Contributed equity	18	3,497	3,442
Reserves	19	1,462	1,668
Retained profits	20	27,266	21,525
Total Equity		32,225	26,635

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

Consolidated Statement of Changes in Equity
For the Half Year Ended 24 December 2006

	Note	24 December 2006 $'000	25 December 2005 $'000
Total equity at the beginning of the period		26,635	21,893
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to Hedging Reserve		-	105
Net revaluation of cash flow hedges	19	(371)	260
Deferred tax credited directly to equity	18	55	50
Net income recognised directly in equity		(316)	415
Profit for the period	20	10,215	8,651
Total recognised income and expense for the period		36,534	30,959
Share based remuneration	19	165	181
Dividends provided for or paid	20	(4,474)	(1,764)
Total equity at the end of the period		32,225	29,376

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

Consolidated Cash Flow Statement
For the Half Year Ended 24 December 2006

	Note	**24 December 2006 $'000**	25 December 2005 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		164,181	140,277
Payments to suppliers and employees (inclusive of goods and services tax)		(147,446)	(119,383)
Interest received		81	78
Borrowing costs paid		(453)	(377)
Income tax paid		(2,449)	(2,162)
Net cash inflows from operating activities	21	13,914	18,433
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		22	2
Payments for property, plant and equipment		(6,795)	(5,812)
Net cash used in investing activities		(6,773)	(5,810)
Cash Flows from Financing Activities			
Payments under finance lease		(463)	(888)
Dividends paid		(4,474)	(1,764)
Net cash used in financing activities		(4,937)	(2,652)
Net increase/(decrease) in cash held		2,204	9,971
Cash at the beginning of the period		5,640	4,433
Cash at the end of the period	21	7,844	14,404

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

Note 1: Basis of preparation of half-year report

This general purpose financial report for the interim half year reporting period ended 24 December 2006 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 25 June 2006 and any public announcements made by The Reject Shop Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

The following change to accounting policy has been implemented in the period.

(i) AASB 2005-9 "Amendments to Australian Accounting Standards [AASB4, AASB1023, AASB139, AASB132 Financial Guarantee Contacts.

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

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

	24 December 2006 $'000	25 December 2005 $'000
Note 2: Revenue From Continuing Operations		
Sales Revenue		
Sales of goods	149,501	127,700
Revenue from non-operating activities		
Interest	81	78
Training subsidies	90	221
	171	299
	149,672	127,999

Note 3: Expenses

Profit before income tax expense includes the following expenses:

	24 December 2006 $'000	25 December 2005 $'000
Interest and finance charges paid/payable	453	377
Depreciation and amortisation	2,442	1,934
Net loss on disposal of property, plant and equipment	15	251
Rental expenses relating to operating leases:		
Minimum lease payments	15,821	13,546
Provision for rent escalations	160	144
Rent paid on percentage of sales basis	180	168
Foreign exchange gains / (losses)	(120)	48

Note 4: Income Tax

	24 December 2006 $'000	25 December 2005 $'000
(a) Income tax expense		
Current tax	5,269	4,131
Deferred tax	(780)	(410)
Under / (Over) provided in prior years	35	(14)
	4,524	3,707
Deferred income tax expense included in income tax expense comprises:		
Increase in net deferred tax assets	(780)	(410)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	14,739	12,358
Tax at the Australian tax rate of 30% (2005 – 30%)	4,422	3,707
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	49	54
Sundry	18	(40)
	4,489	3,721
Under / (Over) provided in prior years	35	(14)
Income tax expense	4,524	3,707

	24 December 2006 $'000	25 June 2006 $'000
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited in equity		
Current tax – credited directly to equity	(55)	(50)

Note 5: Current Assets – Cash Assets

Cash on hand	445	368
Cash at bank	7,966	5,272
	8,411	5,640

Note 6: Current Assets – Receivables

Other debtors	744	224

Note 7: Current Assets – Inventories

Inventory at cost	26,483	23,517
Inventory at net realisable value	133	182
	26,616	23,699

Note 8: Current Assets – Other

Prepayments	266	69
Other current assets	71	143
Derivative financial instruments	-	218
	337	430

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

Leasehold improvements		
At cost	10,469	9,188
Less accumulated depreciation	(5,021)	(4,710)
	5,448	4,478
Under finance lease and hire purchase	1,540	1,540
Less accumulated amortisation	(530)	(463)
	1,010	1,077
Plant and equipment*		
At cost	33,654	28,271
Less accumulated depreciation	(14,072)	(12,404)
	19,582	15,867
Under finance lease and hire purchase	9,183	9,112
Less accumulated amortisation	(6,192)	(5,819)
	2,991	3,293
Total property, plant and equipment	29,031	24,715

*Plant and equipment includes fixtures, fittings and motor vehicles

	24 December 2006 $'000	25 June 2006 $'000
Note 10: Non Current Assets – Deferred Tax Assets		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Employee benefits	1,501	1,272
Non deductible accruals	1,315	818
Inventories	628	565
Lease incentives	75	108
Sundry items	152	137
	3,671	2,900
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:		
Finance leases	(34)	(43)
Depreciation	50	32
Sundry items	(7)	11
Net deferred tax assets	3,680	2,900
Note 11: Current Liabilities – Payables		
Unsecured liabilities		
Trade creditors	12,290	13,742
Sundry creditors and accruals	5,063	1,984
	17,353	15,726
Note 12: Current Liabilities –Borrowings		
Secured Liabilities		
Bank overdrafts	567	-
Finance lease liability	84	123
Hire purchase liability	426	814
	1,077	937
Note 13: Current Liabilities – Tax Liabilities		
Income tax	4,296	1,496
Note 14: Current Liabilities – Provisions		
Employee entitlements	5,065	5,584
Note 15: Current Liabilities – Other		
Accrued expenses	4,267	3,883
Deferred income	928	536
Derivative financial instruments	153	-
	5,348	4,419

	24 December 2006 $'000	25 June 2006 $'000
Note 16: Non-Current Liabilities –Borrowings		
Secured liabilities		
Finance lease liability	-	57
Hire purchase liability	385	364
	385	421
Note 17: Non-Current Liabilities – Provisions		
Employee entitlements	937	837
Provision for rent escalation	2,133	1,553
	3,070	2,390

Note 18: Equity – Contributed Equity

Movements on ordinary share capital

Date	Details	No. of shares	Issue Price per share $	Contributed Equity $'000
27 June 2005	Opening balance	25,078,295		3,046
19 July 2005	Exercise of performance rights including transfer from share based payments reserve	125,000	-	251
24 Feb 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	-		(72)
	Deferred tax credits	-		50
25 June 2006	Closing balance	25,313,295		3,442

Movements on ordinary share capital

Date	Details	No. of shares	Issue Price per share $	Contributed Equity $'000
26 June 2006	Opening balance	25,313,295		3,442
3 July 2006	Exercise of performance rights	125,000	-	-
21 July 2006	Exercise of performance rights	105,000	-	-
17 August 2006	Exercise of performance rights	20,000	-	-
	Deferred tax credits	-		55
24 Dec 2006	Closing balance	25,563,295		3,497

	24 December 2006 $'000	25 June 2006 $'000
Note 19: Equity - Reserves		
Capital profits reserve	739	739
Share based payments reserve	876	711
Hedging reserve – cash flow hedges	(153)	218
	1,462	1,668

Note 20: Equity – Retained Profits		
Retained profits at the beginning of the financial period	21,525	
Net profit attributable to members of the consolidated entity	10,215	
Dividends provided for or paid	(4,474)	
Retained profits at reporting date	27,266	

	24 December 2006 $'000	25 December 2005 $'000

Note 21: Cash Flow Information

Reconciliation of Cash

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

Cash on hand	445	442
Cash at bank	7,966	14,118
Bank overdrafts	(567)	(156)
	7,844	14,404

Reconciliation of Cash Flow from operations with profit from ordinary activities

Profit from ordinary activities after Income Tax	10,215	8,651
Non-cash flows in profit from ordinary activities		
Amortisation of leased assets	109	189
Depreciation	2,333	1,745
Loss on sale of property, plant and equipment	15	251
Non-cash share based expense	165	181
Fair value adjustment to derivatives	(371)	
Current tax credited directly to equity	55	
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries		
Increase in receivables and other assets	(427)	(309)
Increase in inventories	(2,917)	(1,661)
Increase in trade and other creditors and other provisions	2,717	7,842
Increase in income tax payable	2,800	1,954
Increase in deferred taxes	(780)	(410)
Net cash provided by operations	13,914	18,433

Note 22: Earnings per share	**24 December 2006 Cents**	25 December 2005 Cents
Basic earnings per share	40.0	34.3
Diluted earnings per share	39.3	33.4
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	25,538,486	25,188,185
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	26,004,305	25,906,828

Note 23: Net Tangible Assets Per Share	**24 December 2006 $**	25 June 2006 $
Net tangible asset backing per ordinary share	1.26	1.05
Total shares outstanding as at end of period	25,563,295	25,313,295

	24 December 2006 $'000	25 December 2005 $'000
Note 24: Dividends		
Final fully franked dividend paid on 15 September 2006	2,557	1,764
Special fully franked dividend paid on 15 September 2006	1,917	-
Balance of franking account at half year adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years	17,128	14,748

Note 25: Contingent Liabilities

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

Letters of credit established for acquisition of goods for resale	50	105
ANZ Bank indemnity guarantee to landlords	2,355	1,696
	2,405	1,801

Note 26: Segment

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

Note 27: Dividend Reinvestment Plan

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

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

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

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 6 to 16 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 24 December 2006 and of it's performance, as represented by the results of it's operations and it's cash flows, for the half year ended on that date; and

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

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

....
BJ Beattie
Chairman

....
BAE Saunders
Managing Director

Melbourne
14 February 2007

PRICEWATERHOUSECOOPERS

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Independent review report to the members of The Reject Shop Limited

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of The Reject Shop Limited:

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of The Reject Shop Limited Group as at 24 December 2006 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for The Reject Shop Limited Group (the consolidated entity), for the half-year ended 24 December 2006. The consolidated entity comprises both The Reject Shop Limited (the company) and the entities it controlled during that half-year.

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.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website http://www.pwc.com/au/financialstatementaudit.

PRICEWATERHOUSECOOPERS

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations, changes in equity and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

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

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and 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.

Independence

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Dale McKee
Partner

Melbourne
14 February 2007