Appendix 4E

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary final report

For the financial year ended 29 June 2008
Compared to the financial year ended 24 June 2007

Results for announcement to the market

				$A'000
Sales revenue from continuing operations	up	25.8%	to	353,012
Profit from continuing operations after tax attributable to members	up	35.6%	to	16,671
Net profit for the period attributable to members	up	35.6%	to	16,671

Dividends	Amount per share	Franked amount per share
Interim dividend (paid 18 April 2008)	29.0 cents	100%
Final dividend	19.0 cents	100%

Record date for determining entitlements to final dividend	29 September 2008
Dividend payment date	13 October 2008

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 2008

Building Our Future

CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

3.30pm Wednesday 15 October 2008
Crowne Plaza
Bridge Room No. 2
1-5 Spencer Street
Melbourne, Vic 3000

The Reject Shop - Plenty Valley, Victoria

- Sales up 25.8% to $353.0 million
- Comparable Store Sales Growth of 8.7% - a Company record
- Net Profit Growth over 35% for third consecutive year
- Continued store expansion with 21 new stores

CHAIRMAN'S REPORT

25.8% sales growth

35.6% NPAT growth

64.9c cents per share

Dear shareholder,

On behalf of my fellow Directors, management and staff I am pleased to report another strong trading result this year, with sales of $353 million, and a 35.6% increase in annual profit to $16.7 million. As a result Earnings per Share grew by 34.9% and shareholders returns by way of dividends grew 54.8%.

The year was one of seamless transition and positive change with Gerry Masters completing his first full year as our Managing Director. The Board is delighted with Gerry's performance and how he is leading the business and its people. The high quality management team is focused on the business agenda and the Board is very confident that the future of The Reject Shop is in good hands.

It was also a year when John Shuster retired as a Director after 27 years with the company. On behalf of the Management and the Board, we thank John for all his efforts and contribution over the years and wish John and his family all the very best for the future. With John retiring, we were fortunate to appoint Kevin Elkington to the Board in April this year and we look forward to his contribution in the years to come.

As in previous years we undertook an annual strategic review of the business with the management team to identify the areas of focus to support our future growth. This year the agenda was heavily on the improvements we can make to our supply chain and the infrastructure to support these initiatives.

Subsequently, the Board has approved the development of a second flow through distribution centre planned to be operational by June 2010 to supplement our current national distribution centre at Melbourne Airport and our seasonal facility. This represents an exciting opportunity for the business to provide much needed capacity to support our growth, particularly as we continue to expand our store portfolio nationally.

Our major investments in both a new distribution centre in Queensland and our new Enterprise Resource Planning system implementation over the next two years demonstrates our confidence in the future growth of the business. Investments in merchandise planning and forecasting, recruitment and training and bolstering our succession planning are cornerstones of our strategic planning in the next few years.

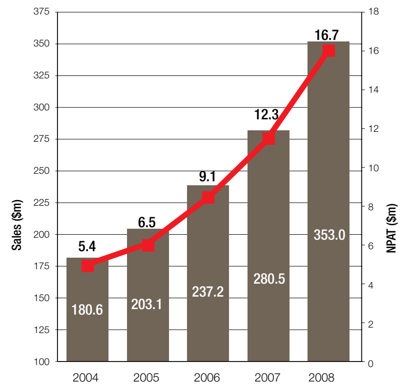
Looking ahead the Board views the next few years of the Company as confirming the agenda for long term sustainable growth. Our planned store expansion and identified opportunities to grow sales and improve operating efficiency will be driven from our continued investment in strategic areas.

With our growth plans identified and our long term strategy set, the execution is the domain of our people. This year they demonstrated what can be achieved with committed and energetic staff. Once again I take the opportunity to thank all our staff for their outstanding efforts this year. It is their contribution, individually and collectively, that is the basis for our performance this year and in the years to come.

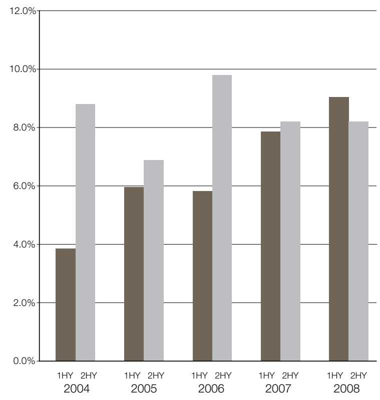
Brian J Beattie
Chairman

FINANCIAL HIGHLIGHTS

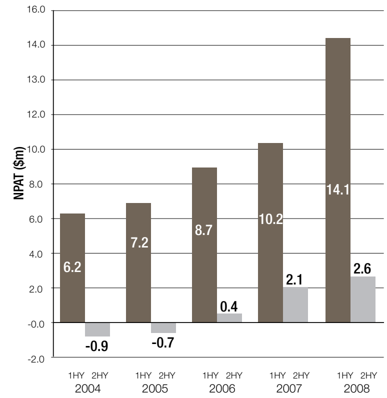
Sales and NPAT Growth Continues



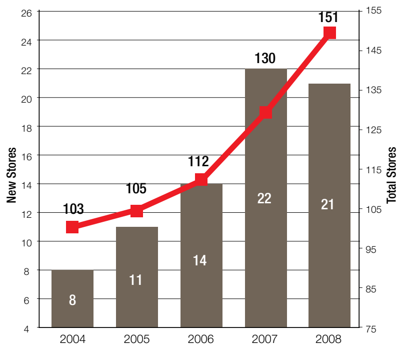
Comparable Store Sales Growth Remaining Strong



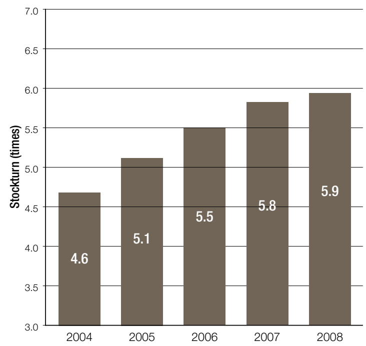
Building Everyday Trade



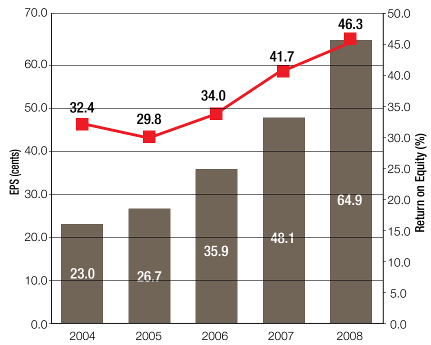
Store Expansion Nationwide



Stockturns Improving



Shareholder Returns Growing



L-R: Gerry Masters, Brian Beattie, Craig McMorron, Kevin Elkington

MANAGING DIRECTOR'S REPORT

8.7% comparable stores growth

21 new stores

5.9 stockturns

down 0.5% of sales expense ratio

I am pleased to be able to report on another year of strong performance by The Reject Shop; a challenging year in which we surpassed the significant milestone of 150 stores in our network and in which we achieved more than $350 million in sales for the first time. It was the product of a great team effort that continually strives to improve our value offering to the customer.

Overview of financial performance

Sales grew by 25.8% to $353.0 million for the full year, reflecting record comparable store growth for the year of 8.7% coupled with 21 new store openings. As a result net profit after tax (NPAT) grew by 35.6% to $16.7 million for the year.

The full year result incorporates a 53 week trading period compared to 52 weeks for the corresponding period last year, impacting the comparison between the periods on both sales and net profit after tax. Excluding the impact of the additional week's trading the NPAT increase would have been approximately 27% (calculated by reducing NPAT by the estimated gross profit derived from the additional weeks sales less variable costs).

Our sales growth reflects our continual focus on providing customers with quality merchandise at competitive prices. Our offer is particularly appealing in the current challenging retail environment where consumer confidence has been negatively impacted by rising fuel prices and interest rates. Our new store sales performance was also strong with a number of stores performing above initial expectations.

Our gross margin as a percentage of sales remained stable compared to the prior year reflecting our continuing efforts to ensure our offer is attractive to customers. Some favourable impacts from a strong exchange rate were invested in providing our customers better value despite some increased costs arising from higher fuel prices.

Operating costs excluding depreciation and amortisation declined as a percentage of sales. We leveraged our strong sales against our operating costs despite our significant investment in people and some early investment in the new Enterprise Resource Planning (ERP) system and our Logistics strategy. Depreciation as a percentage of sales increased due to our continued investments in new stores and keeping our existing stores fresh.

As a result of our continued investment in new stores and increased overseas sourcing we have utilised our balance sheet to support our growth. With significant investment to come in both information technology and the new distribution centre, we believe we can still utilise our balance sheet and our operating cash flows to support a strong dividend stream and our continued growth in stores.

Overview of industry trends

The Reject Shop operates in the Discount Variety segment of the retail industry which we believe is a segment which offers continued growth opportunities.

Our focus is to continuously improve the value we provide our customers whilst at the same time improve our business in a very competitive market.

As always we keep very close to all the retail markets and are aware of shifts and changes occurring in all segments and take advantage of any opportunities that can be realised for our business. We watch the market closely but we are very focussed on delivering our agenda.

Overview of operational performance

The Reject Shop currently operates 156 stores across Australia, with continued growth in all states in which we operate. Particularly pleasing is the performance of our stores in our relatively newer states of Western Australia and Queensland.

Our performance in these states provides us confidence that our business model has universal appeal and this is particularly significant as we enter the Tasmanian market later this year.

70%

positions filled by internal promotion

"Our customers are our priority"

We again exceeded our plan of 20 new stores per annum this year with 21 store openings during the year. Whilst we have the capacity to open more stores our diligent approach to assessing each new site opportunity ensures we only open quality stores where we believe the investment in capital and resources is justified. We also continued to ensure our existing store portfolio remains fresh with 23 stores "right sized" or refurbished.

During the year we enhanced our merchandise team with several new appointments which will provide more focus on key categories and support to our buyers and planning staff. In addition, we have also invested in our marketing to ensure our customer offer and communication remains relevant, as well as getting a better understanding of our customers' trends.

We have continued to plan for our long term needs in logistics with several strategic initiatives well underway. We have evaluated the potential for consolidating overseas purchases at source, continued to expand our replenishment capability, enhanced our seasonal distribution facilities and commenced the development for a more automated northern distribution centre.

Our implementation of a new ERP system is well advanced; whilst the system is not planned to 'go live' until late FY2009, the work to date is on track and we are comfortable with the progress.

Outlook

We have identified and secured opening dates for another 20 new stores for FY2009 and are excited about our first Tasmanian store scheduled to open in the first half. With the planned opening of our second distribution centre we have also committed to new stores in northern Queensland which opens up this area for future growth.

To support the introduction of the northern distribution centre we will trial overseas freight consolidation during the year. Continued use of store replenishment will drive further improvements to our store servicing capability within the existing Melbourne Airport facility during the year. This would be the first step towards having two distribution centres operating on a compatible basis long term.

Whilst our focus will be on the successful implementation of the new ERP system, we will also assess additional planning and forecasting tools to be integrated with the ERP system post implementation.

Strong emphasis will be placed on improving market communications and brand awareness during the year, to better understand how to further improve value to the customer.

We are forecasting our net profit after tax for the year to be in the range of $18.6 million to $18.8 million.

Our team – Building for our future

The next few years are bound to present a number of challenges and opportunities with a consistent focus on enhancing the framework on which our business will prosper. It is an exciting time.

While we have our well considered long term strategies in place we continue to focus on the day to day to ensure we build our business profitably in the years ahead.

I continue to be impressed with the people who work in our business and I certainly enjoy the interaction with our people and our customers.

As a team I believe we have delivered strongly against our agenda during the course of FY2008. Looking ahead, there is still a lot more we want to achieve. Our exciting journey continues.

Gerry Masters
Managing Director

BUILDING OUR FUTURE

GM - Retail Operations Ron Jones and Phil Nutbean GM - Property review opportunities for further store expansion around Australia

GM - Logistics Phil Beckett and GM - Merchandising Charlie McShanag observe merchandise being unloaded onto conveyors at the Melbourne Airport Distribution Centre at Tullamarine

CFO, Chris Bryce and GM - IT, Darren O'Connor lead discussions at an ERP Systems Implementation planning session

Retail Stores

Where are we now?

- We operate 156 stores nationwide
- Our aim is to open 20 stores per annum
- We have a robust refurbishment program to ensure our stores remain fresh
- We invest capital and resources to improve productivity and in-store standards

Where will we be in 5 years?

- We will operate stores in all states
- We will still be opening stores in new markets and supplementing existing areas
- We believe we will have in excess of 250 stores
- We will still have store growth ahead of us

Logistics/Supply Chain

Where are we now?

- We service our stores from our national Distribution Centre (DC) at Melbourne Airport
- Our catalogue and seasonal merchandise is distributed nationwide from our Altona facility
- We source product locally and overseas to ensure our customers get value for money

Where will we be in 5 years?

- A second DC will be fully operational in Qld servicing the Northern stores
- Automated sortation and conveying systems will provide improved service capability to our stores
- We will consolidate overseas purchases to optimise stock flow
- Our Melbourne Airport DC will be fully upgraded to match the Qld DC capability

IT Systems Capability

Where are we now?

- Our core systems have been evaluated with upgrades / enhancements planned
- Our new Enterprise Resource Planning (ERP) system is being implemented and scheduled for Go-Live in 2009
- IT systems to optimise stock flow are being evaluated

Where will we be in 5 years?

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

CEO Gerry Masters and recently appointed GM - Marketing Richard McGough review new product offerings due for launch late in 2008

GM - Human Resources Jeff Bell and CEO Gerry Masters present a certificate of merit to employee of the month, Ms Alice Tse, Import Costing Manager

Customer Offering

Where are we now?

- We offer an excellent variety of product at very competitive prices
- We pride ourselves on the presentation of our stores
- We have a targeted and cost effective marketing program

Where will we be in 5 years?

- More availability and stronger promotion of branded products
- Continued focus on improving the customer shopping experience
- Increased brand awareness in market

Our People

Where are we now?

- We currently have over 2,700 full-time, part-time or casuals employees nationally
- We train over 500 new staff each year
- We provide our store and DC staff with accredited training
- We actively seek to provide career paths for our people

Where will we be in 5 years?

- We will have employed over 1,000 new team members
- We will have a workforce in excess of 3,500
- We will have promoted over 500 of our staff to new roles
- We will have trained over 2,000 staff

Our long-term growth plans are supported by identified strategic initiatives

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 was chairman of the Austin Group until 2006.

Brian joined the Board of The Reject Shop Limited 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 Limited in March 2007.

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

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

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

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 Limited in April 2004.

L-R: Kevin Elkington, Brian Beattie, Craig McMorron, Gerry Masters

THE MANAGEMENT TEAM

Ron Jones
General Manager - Retail Operations

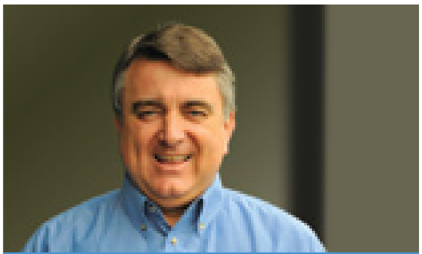
Ron began his retail career in the United Kingdom and during his over 35 year career has held senior retail operational positions in New Zealand, the United States and Australia. In 1988, Ron relocated to Australia with Bi-Lo Supermarkets, and after holding senior positions with various companies joined The Reject Shop in February 2000.

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.

Chris Bryce *BCom, CA*
Chief Financial Officer

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 Company Secretary from April 2006 to August 2008.



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.

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.

Richard McGough
General Manager - Marketing

Richard has held senior management positions in various industry sectors. He has extensive experience in marketing & merchandising and led the marketing functions at Coles, Bi-Lo & Black & Decker. Richard joined The Reject Shop in May 2008

Darren Briggs *BCom, CA, ACIS*
Company Secretary

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

CONTINUED STORE GROWTH NATIONWIDE

We opened our first store in South Yarra, Victoria in 1981 and recently celebrated our 150th store opening in Rockingham, Western Australia. On listing in June 2004 we had eighty-eight 'The Reject Shop' branded stores operating in New South Wales, Victoria and South Australia. At that time we had identified up to 200 trade areas for future growth and were opening approximately ten new stores per annum.

Since listing we have continually sought new markets in which to open stores commencing with the opening of the first Queensland store in late FY2004. We now have sixteen stores servicing Queensland which now has the third largest store representation nationwide. With our new Queensland distribution centre planned for FY2010 the Company is also seeking growth further north which offers an attractive market for the Company's offer.

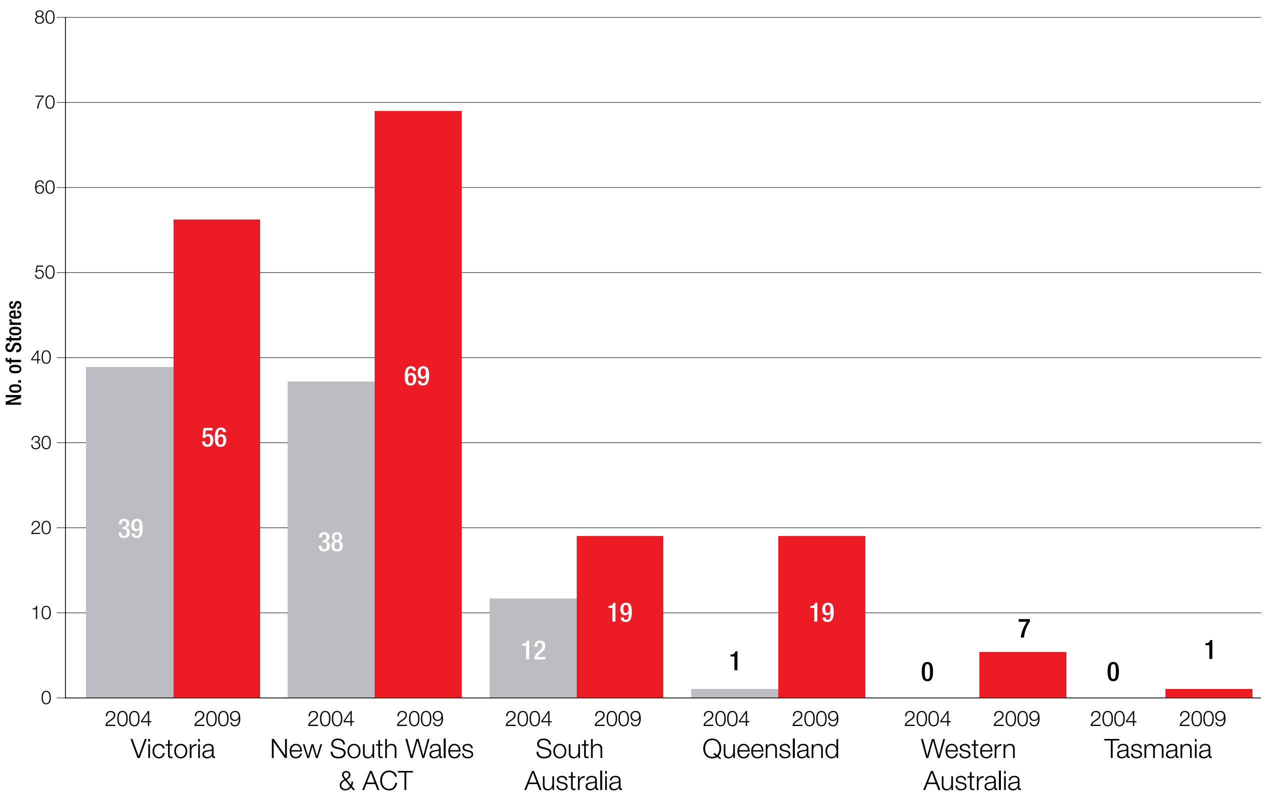
In FY2006 we opened our first Western Australian store in Booragoon and have since added four more stores. The acceptance by customers in this new market is very encouraging.

We intend opening our first Tasmanian store in FY2009 and given our success in Queensland and Western Australia, the potential of this market is exciting.

Whilst opening stores in new markets offers growth we still believe significant opportunity exists to strengthen our presence in our more longer standing states. We have had strong recent growth in Victoria, New South Wales and South Australia, all of which offer great scope for future growth.

As we enter new markets, the scope for growth increases. Our recent review indicates we could operate in over 400 different trade areas nationwide and grow our existing business. With a target opening program of twenty new stores per annum we still have significant growth ahead.

Store Growth Since Listing



Corporate Governance Statement and Financial Report

for the year ending 29 June 2008

CORPORATE GOVERNANCE STATEMENT

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

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 2007 with the current review scheduled for September 2008. 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)

BJ Beattie (appointed July 2007)

KJ Elkington (appointed February 2008)

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.

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

CORPORATE GOVERNANCE STATEMENT

- 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 between 24 hours and 30 days after announcement of the Company's half yearly results, and between 24 hours after the announcement of the Company's year-end result and 30 days after the close of the Company's annual general meeting.

Remuneration Committee

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

Composition of the Remuneration Committee

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

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

The Remuneration Committee currently comprises the following members:

BJ Beattie (Chairman)

AC McMorron

KJ Elkington (appointed February 2008)

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 48 to 51 of this annual report.

DIRECTORS' REPORT

Your directors present their report on the Company and its subsidiary for the financial year ended 29 June 2008.

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

GJ Masters

Managing Director

AC McMorron

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

KJ Elkington was appointed as a Non-executive Director, Member of the Audit Committee and Member of the Remuneration Committee on 20 February 2008 and continues in office at the date of this report.

J Shuster was a director from the beginning of the financial year until his retirement on 20 February 2008.

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

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, AC McMorron will retire as a director at the annual general meeting and will not offer himself for re-election.

Meetings of Directors

The number of meetings of the Board of directors and Committees held during the year ended 29 June 2008 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	2	2	2	2
BAE Saunders	0	0	XX	XX	XX	XX
GJ Masters	11	11	XX	XX	XX	XX
AC McMorron	11	11	2	2	2	2
J Shuster	7	7	2	2	2	2
KJ Elkington	4	4	0	0	0	0

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

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.

DIRECTORS' REPORT

Dividends

Dividends paid to members during the financial year were a final ordinary dividend for the financial year ended 24 June 2007 of 14.0 cents per share totalling $3,599,161 paid on 12 October 2007. An interim ordinary dividend for the financial year ended 29 June 2008 of 29.0 cents per share totalling $7,455,406 was paid on the 18 April 2008.

Since the end of the financial year the directors have declared the payment of a final ordinary dividend of 19.0 cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on 13 October 2008.

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 $16,670,645 (2007: $12,296,402). 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 (including superannuation) to a non-executive director currently of $80,200 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 (including superannuation)	
Chairman	$146,800
Other non-executive directors	$80,200
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.

DIRECTORS' REPORT

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

Base pay and benefits

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

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure competitiveness with the market but there are no guaranteed base pay increases in any senior executive's contracts, except as specifically stated in this 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 (EPS) as the appropriate financial performance target. This criterion was determined based on comparative research against the market and advice from external consultants. The audited financial report is the basis for measuring achievement against the financial performance target.

Performance rights which are an entitlement to a share, vest one year after the performance target has been achieved and only if the employee remains employed at that date. 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
DJ O'Connor – Chief Information Officer
PG Beckett – General Manager, Logistics
P Nutbean – General Manager, Property
J Bell – General Manager, Human Resources
RJ McGough – General Manager, Marketing (from 5 May 2008)
DR Briggs – Company Secretary and Financial Controller (from 19 May 2008)

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire year ended 29 June 2008 and the year ended 24 June 2007 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:

2008	Short-term benefits			Post-employment benefits		Share-based payments			Proportion of Remuneration as performance related
Name	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement Benefits	Performance Rights	Proportion of Remuneration as equity related	Total	
	$	$	$	$	$	$	%	$	%
Non-executive Directors									
BJ Beattie	133,639	-	-	12,028	-	-	-	145,667	-
AC McMorron	77,783	-	-	7,000	-	-	-	84,783	-
J Shuster	48,486	-	-	4,364	-	-	-	52,850	-
KJ Elkington	26,790	-	-	2,628	-	-	-	29,418	-
Total Non-executive Directors	**286,698**	**-**	**-**	**26,020**	**-**	**-**	**-**	**312,718**	**-**
Executive Directors									
GJ Masters	635,000	337,500	4,602	54,000	-	37,259	3.5%	1,068,361	35.1%
BAE Saunders*	205,495	-	387	554	120,000	-	-	326,436	-
Total Executive Directors	**840,495**	**337,500**	**4,989**	**54,554**	**120,000**	**37,259**	**-**	**1,394,797**	**-**
Other Key Management Personnel									
CT McShanag	306,805	133,923	64,795	27,713	-	66,209	11.0%	599,445	33.4%
DR Jones	313,019	124,690	-	26,732	-	48,584	9.5%	513,025	33.8%
CJ Bryce	259,587	118,052	4,049	22,013	-	41,505	9.3%	445,206	35.8%
DJ O'Connor	220,225	53,078	-	13,129	-	30,992	9.8%	317,424	26.5%
PG Beckett	199,204	41,423	4,653	13,129	-	28,172	9.8%	286,581	24.3%
P Nutbean	147,991	39,566	23,337	13,319	-	20,977	8.6%	245,190	24.7%
J Bell	136,125	38,542	3,982	11,351	-	20,977	9.9%	210,977	28.2%
RJ McGough	26,464	-	-	2,382	-	-	-	28,846	-
DR Briggs	23,759	-	-	2,138	-	-	-	25,897	-
Total Other Key Management Personnel	**1,633,179**	**549,274**	**100,816**	**131,906**	**-**	**257,416**	**-**	**2,672,591**	**-**
Total	**2,760,372**	**886,774**	**105,805**	**212,480**	**120,000**	**294,675**	**-**	**4,380,106**	**-**

* Above amounts do not include $100,000 per annum payable to BAE Saunders from 1 July 2007 for a 2 year non-compete and consulting services arrangement. Cash salary and fees include payment of leave entitlements on retirement.

DIRECTORS' REPORT

2007	Short-term benefits			Post-employment benefits		Share-based payments			Proportion of Remuneration as performance related
Name	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement Benefits	Performance Rights	Proportion of Remuneration as equity related	Total	
	$	$	$	$	$	$	%	$	%
Non-executive Directors									
BJ Beattie	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**	**-**

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:

GJ Masters, Managing Director

- 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:

- 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:

2008	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	-	-	-	-	-	-
GJ Masters	15 Aug 2007	14,400	1 Jul 2011	15 Aug 2012	159,264	-
Other Key Management Personnel						
CT McShanag	15 Aug 2007	5,300	1 Jul 2011	15 Aug 2012	58,618	15,625
DR Jones	15 Aug 2007	5,100	1 Jul 2011	15 Aug 2012	56,406	20,000
CJ Bryce	15 Aug 2007	4,100	1 Jul 2011	15 Aug 2012	45,346	15,625
DJ O'Connor	15 Aug 2007	3,600	1 Jul 2011	15 Aug 2012	39,816	12,500
PG Beckett	15 Aug 2007	3,100	1 Jul 2011	15 Aug 2012	34,286	10,000
P Nutbean	15 Aug 2007	2,400	1 Jul 2011	15 Aug 2012	26,544	6,250
J Bell	15 Aug 2007	2,400	1 Jul 2011	15 Aug 2012	26,544	6,250
RJ McGough	-	-	-	-	-	-
DR Briggs	-	-	-	-	-	-
Total		**40,400**			**446,824**	**86,250**

The fair value of each performance right granted on 15 August 2007 at grant date was $11.06.

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**

DIRECTORS' REPORT

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.

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 vesting date the performance rights will lapse. The total payable on the exercise of one or more performance rights on a particular day is $1.00 regardless of the number exercised on that day. The minimum possible value to be received by executive directors or other key management personnel under each grant of performance rights is $Nil.

No options were granted or vested in FY2007 or FY2008.

Subsequent to year end, a grant of 63,600 performance rights was made to key management personnel on 19 August 2008. In addition 90,625 performance rights granted to key management personnel vested subsequent to year end, of which 90,625 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:

2008	Type	Date Granted	Date Exercised	Number of Shares Issued	Exercise Price	Fair value at exercise date
					$	$
Executive Directors						
BAE Saunders	-	-	-	-	-	-
GJ Masters	-	-	-	-	-	-
Other Key Management Personnel						
CT McShanag	Rights	1 Jun 2004	10 Jul 2007	15,625	-	200,938
DR Jones	Rights	1 Jun 2004	10 Jul 2007	20,000	-	257,200
CJ Bryce	Rights	1 Jun 2004	10 Jul 2007	15,625	-	200,938
DJ O'Connor	Rights	1 Jun 2004	10 Jul 2007	12,500	-	160,750
PG Beckett	Rights	1 Jun 2004	10 Jul 2007	10,000	-	128,600
P Nutbean	Rights	1 Jun 2004	10 Jul 2007	6,250	-	80,375
J Bell	Rights	1 Jun 2004	10 Jul 2007	6,250	-	80,375
RJ McGough	-	-	-	-	-	-
DR Briggs	-	-	-	-	-	-
Total				**86,250**	**-**	**1,109,176**

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**

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.

E – Additional information - unaudited

Cash Bonuses and Performance Rights

For each cash bonus and grant of performance rights included in the table on page 24 of this report, 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.

DIRECTORS' REPORT

	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	100	0	FY2008	0	0	FY2012	159,264
Other Key Management Personnel							
CT McShanag	100	0	FY2008	0	0	FY2012	58,618
			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	75	0	FY2009	23,483
DR Jones	100	0	FY2008	0	0	FY2012	56,406
			FY2007	0	0	FY2011	58,212
			FY2006	0	0	FY2010	51,660
			FY2004	75	0	FY2009	30,058
CJ Bryce	100	0	FY2008	0	0	FY2012	45,346
			FY2007	0	0	FY2011	46,926
			FY2006	0	0	FY2010	51,660
			FY2004	75	0	FY2009	23,483
DJ O'Connor	100	0	FY2008	0	0	FY2012	39,816
			FY2007	0	0	FY2011	37,422
			FY2006	0	0	FY2010	29,520
			FY2004	75	0	FY2009	18,786
PG Beckett	100	0	FY2008	0	0	FY2012	34,286
			FY2007	0	0	FY2011	35,046
			FY2006	0	0	FY2010	29,520
			FY2004	75	0	FY2009	15,029
P Nutbean	100	0	FY2008	0	0	FY2012	26,544
			FY2007	0	0	FY2011	26,730
			FY2006	0	0	FY2010	22,140
			FY2004	75	0	FY2009	9,393
J Bell	100	0	FY2008	0	0	FY2012	26,544
			FY2007	0	0	FY2011	26,730
			FY2006	0	0	FY2010	22,140
			FY2004	75	0	FY2009	9,393
RJ McGough	-	-	-	0	0	-	-
DR Briggs	-	-	-	0	0	-	-

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 per share	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
FY 2008	$16.7m	35.6%	64.9	34.9%	$12.80	$9.37	(26.8)%	$0.48

* 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%, 35.8% and 35.6% and return on equity has grown by 42.9%. In addition, dividends have been paid or declared of $0.17, $0.305 (including special dividend), $0.31 and $0.48 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 19.9% in FY2008.

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
			$	$	
17 Aug 2005	16 Aug 2010	1 Jul 2009	2.46	-	132,000
12 Jul 2006	18 Aug 2010	1 Jul 2009	5.33	-	9,000
16 Aug 2006	19 Aug 2011	1 Jul 2010	5.94	-	70,700
15 Aug 2007	15 Aug 2012	1 Jul 2011	11.06	-	54,700
					266,400

Subsequent to year end, the Board has granted a further 93,600 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 29 June 2008 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
	$	
1 June 2004	-	214,375
Total	**-**	**214,375**

No amounts are unpaid on any of these shares.

DIRECTORS' REPORT

Remuneration of Auditors

	Consolidated Entity		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
During the year the following fees for services were paid to PricewaterhouseCoopers as the auditor of the parent entity and its subsidiaries:				
Audit and Accounting Related Services				
Audit and review work	181,000	174,000	181,000	174,000
Accounting Advice	4,000	8,000	4,000	8,000
	185,000	182,000	185,000	182,000
Tax Compliance and Consulting Services				
Tax compliance	24,500	25,300	24,500	25,300
Tax consulting advice	-	2,695	-	2,695
	24,500	27,995	24,500	27,995
Other Services				
Other assurance services	15,000	21,000	15,000	21,000
Total Remuneration	224,500	230,995	224,500	230,995

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

20 August 2008

AUDITOR'S INDEPENDENCE DECLARATION

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

Auditor's Independence Declaration

As lead auditor for the audit of The Reject Shop Limited for the year ended 29 June 2008, 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
20 August 2008

Liability limited by a scheme approved under Professional Standards Legislation

INCOME STATEMENTS
For the Year Ended 29 June 2008

		Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
Revenues from continuing operations					
Sales revenue	2	353,012	280,527	353,012	280,527
Other income	2	254	322	254	322
		353,266	280,849	353,266	280,849
Expenses					
Cost of sales		184,857	146,930	184,857	146,930
Store expenses		108,942	86,349	108,942	86,349
Administrative expenses		23,723	19,984	23,723	19,984
Warehousing expenses		10,865	9,177	10,865	9,177
		328,387	262,440	328,387	262,440
Finance costs	3	1,029	698	1,029	698
Profit before income tax		23,850	17,711	23,850	17,711
Income tax expense	4	7,179	5,415	7,179	5,415
Profit attributable to members of The Reject Shop Limited		16,671	12,296	16,671	12,296

Earnings per Share		Cents	Cents	Cents	Cents
Basic earnings per share	30	64.9	48.1	64.9	48.1
Diluted earnings per share	30	63.9	47.3	63.9	47.3

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

BALANCE SHEETS
As at 29 June 2008

		Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash	5	5,363	5,102	5,363	5,102
Receivables	6	155	673	155	673
Inventories	7	35,317	26,877	35,317	26,877
Other	8	911	385	911	385
TOTAL CURRENT ASSETS		41,746	33,037	41,746	33,037
NON CURRENT ASSETS					
Other financial assets	9	-	-	1	1
Property, plant and equipment	10	40,082	31,899	40,082	31,899
Deferred tax assets	11	4,558	3,540	4,558	3,540
TOTAL NON CURRENT ASSETS		44,640	35,439	44,641	35,440
TOTAL ASSETS		86,386	68,476	86,387	68,477
CURRENT LIABILITIES					
Payables	12	15,342	15,485	16,345	16,488
Borrowings	13	9,786	4,343	9,786	4,343
Tax liabilities	14	2,837	2,210	2,837	2,210
Provisions	15	6,876	5,897	6,876	5,897
Derivative financial instruments	25	356	857	356	857
Other	16	5,990	4,442	5,990	4,442
TOTAL CURRENT LIABILITIES		41,187	33,234	42,190	34,237
NON CURRENT LIABILITIES					
Borrowings	17	4,189	2,455	4,189	2,455
Provisions	18	4,977	3,302	4,977	3,302
TOTAL NON CURRENT LIABILITIES		9,166	5,757	9,166	5,757
TOTAL LIABILITIES		50,353	38,991	51,356	39,994
NET ASSETS		36,033	29,485	35,031	28,483
EQUITY					
Contributed equity	19	4,241	3,985	4,241	3,985
Reserves	20	1,181	505	1,181	505
Retained profits	21	30,611	24,995	29,609	23,993
TOTAL EQUITY		36,033	29,485	35,031	28,483

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

STATEMENTS OF CHANGES IN EQUITY

For the Year Ended 29 June 2008

		Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
Total equity at the beginning of the period		29,485	26,635	28,483	25,633
Net revaluation of cash flow hedges	20	501	(1,075)	501	(1,075)
Deferred tax credited directly to equity	19	55	55	55	55
Net income recognised directly in equity		556	(1,020)	556	(1,020)
Profit for the year	21	16,671	12,296	16,671	12,296
Total recognised income and expense for the period		46,712	37,911	45,710	36,909
Transactions with equity holders in their capacity as equity holders:					
Proceeds from exercise of options	19	-	61	-	61
Dividends provided for or paid	21	(11,055)	(8,826)	(11,055)	(8,826)
Share based remuneration	20	376	339	376	339
Total equity at the end of the period		36,033	29,485	35,031	28,483

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

CASH FLOW STATEMENTS

For the Year Ended 29 June 2008

	Note	Consolidated Entity 2008 $'000	Consolidated Entity 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		387,630	308,078	387,630	308,078
Payments to suppliers and employees (inclusive of goods and services tax)		(360,230)	(287,102)	(360,230)	(287,102)
Interest received		167	153	167	153
Borrowing costs paid		(1,029)	(698)	(1,029)	(698)
Income tax paid		(7,514)	(5,287)	(7,514)	(5,287)
Net cash inflow from operating activities	24	19,024	15,144	19,024	15,144
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		278	113	278	113
Payments for property, plant and equipment		(15,163)	(12,470)	(15,163)	(12,470)
Net cash outflow from investing activities		(14,885)	(12,357)	(14,885)	(12,357)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	19	-	61	-	61
Sale and leaseback		4,819	3,454	4,819	3,454
Proceeds from borrowings		6,500	3,000	6,500	3,000
Repayment of borrowings		(3,000)	-	(3,000)	-
Repayment of finance leases		(1,142)	(1,014)	(1,142)	(1,014)
Dividends paid	21	(11,055)	(8,826)	(11,055)	(8,826)
Net cash outflow from financing activities		(3,878)	(3,325)	(3,878)	(3,325)
Net increase/(decrease) in cash held		261	(538)	261	(538)
Cash at the beginning of the financial year		5,102	5,640	5,102	5,640
Cash at the end of the year	24	5,363	5,102	5,363	5,102

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 29 June 2008 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 the performance rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of performance rights that are expected to become

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies (continued)

(g) Employee Benefits (continued)

(v) Equity-based compensation benefits (continued)

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.

(y) New Accounting Standards and UIG Interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for the 29 June 2008 reporting period. The Company's assessment of the impact of these new standards and interpretations is set out below:

(i) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-08 *Amendments to Australian Accounting Standards arising from AASB 101*. A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. The Company has not adopted the standards early.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000

Note 2: Revenue from Continuing Operations

Sales Revenue				
Sales of goods	353,012	280,527	353,012	280,527
Other Income				
Interest	167	153	167	153
Training subsidies	87	169	87	169
	254	322	254	322
	353,266	280,849	353,266	280,849

Note 3: Expenses

Profit before income tax expense includes the following expenses:

Interest and finance charges paid/payable	1,029	698	1,029	698
Depreciation and amortisation	6,726	5,093	6,726	5,093
Net (gain) / loss on disposal of property, plant and equipment	(24)	80	(24)	80
Rental expenses relating to operating leases				
Minimum lease payments	41,208	32,244	41,208	32,244
Provision for rent escalation	1,362	862	1,362	862
Rent paid on percentage of sales basis	265	355	265	355
Employee benefits expense	72,052	57,798	72,052	57,798

	Note	Consolidated Entity 2008 $'000	Consolidated Entity 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000

Note 4: Income Tax Expense

(a) Income tax expense

	Note	2008	2007	2008	2007
Current tax		8,285	6,072	8,285	6,072
Deferred tax		(1,017)	(657)	(1,017)	(657)
Over provided in prior years		(89)	-	(89)	-
		7,179	5,415	7,179	5,415
Deferred income tax expense included in income tax expense comprises:					
Increase in net deferred tax assets		(1,017)	(657)	(1,017)	(657)

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

	Note	2008	2007	2008	2007
Profit before income tax expense		23,850	17,711	23,850	17,711
Tax at the Australian tax rate of 30% (2007 – 30%)		7,155	5,313	7,155	5,313
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:					
Share based payments		113	102	113	102
		7,268	5,415	7,268	5,415
Under provided in prior years		(89)	-	(89)	-
Income tax expense		7,179	5,415	7,179	5,415

(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

	Note	2008	2007	2008	2007
Current tax – credited directly to equity	19	55	55	55	55

Note 5: Current Assets - Cash Assets

	Note	2008	2007	2008	2007
Cash on hand	24	478	442	478	442
Cash at bank	24	4,885	4,660	4,885	4,660
		5,363	5,102	5,363	5,102

Note 6: Current Assets - Receivables

	Note	2008	2007	2008	2007
Other debtors		155	673	155	673

Note 7: Current Assets - Inventories

	Note	2008	2007	2008	2007
Inventory at cost		35,067	26,723	35,067	26,723
Inventory at net realisable value		250	154	250	154
		35,317	26,877	35,317	26,877

Inventories recognised as an expense during the year ended 29 June 2008 amounted to $184,857,321 (FY2007 - $146,929,749).

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000

Note 8: Current Assets - Other

	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Prepayments	541	209	541	209
Other current assets	370	176	370	176
	911	385	911	385

Note 9: Non-Current Assets - Other Financial Assets

	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Shares in controlled entities - at cost	-	-	1	1

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

	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Leasehold improvements				
At cost	15,008	11,163	15,008	11,163
Less accumulated depreciation	(6,301)	(5,293)	(6,301)	(5,293)
	8,707	5,870	8,707	5,870
Under finance lease and hire purchase	4,541	2,422	4,541	2,422
Less accumulated amortisation	(917)	(617)	(917)	(617)
	3,624	1,805	3,624	1,805
Plant and equipment*				
At cost	40,260	34,582	40,260	34,582
Less accumulated depreciation	(19,709)	(15,659)	(19,709)	(15,659)
	20,551	18,923	20,551	18,923
Under finance lease and hire purchase	14,509	11,956	14,509	11,956
Less accumulated amortisation	(7,309)	(6,655)	(7,309)	(6,655)
	7,200	5,301	7,200	5,301
Total Property, Plant and Equipment	40,082	31,899	40,082	31,899

** Plant and equipment includes fixtures, fittings and motor vehicles as well as $664,415 (FY2007: $Nil) of work in progress costs associated with the implementation of the new ERP system.*

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	5,870	1,805	18,923	5,301	31,899
Additions	3,920	2,258	5,704	3,281	15,163
Disposals	(150)	-	(43)	(61)	(254)
Depreciation/amortisation expense	(933)	(439)	(4,033)	(1,321)	(6,726)
Balance at end of the year	8,707	3,624	20,551	7,200	40,082

Note 11: Non-Current Assets – Deferred Tax Assets

The balance comprises temporary differences attributable to:

		Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
Amounts recognised in profit or loss					
Employee benefits		1,725	1,441	1,725	1,441
Non deductible accruals		1,512	1,038	1,512	1,038
Inventories		698	615	698	615
Lease incentives		488	74	488	74
Sundry items		164	322	164	322
		4,587	3,490	4,587	3,490
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:					
Finance leases		(26)	(19)	(26)	(19)
Depreciation		-	66	-	66
Sundry items		(3)	3	(3)	3
		4,558	3,540	4,558	3,540

Note 12: Current Liabilities – Payables

Unsecured liabilities					
Trade creditors		12,892	13,088	12,892	13,088
Sundry creditors and accruals		2,450	2,397	3,453	3,400
		15,342	15,485	16,345	16,488

Note 13: Current Liabilities - Borrowings

Secured liabilities					
Commercial bills*		6,500	3,000	6,500	3,000
Finance lease liability	22	18	73	18	73
Hire purchase liability	22	3,268	1,270	3,268	1,270
		9,786	4,343	9,786	4,343

* Commercial bills will be settled within two months. A fixed interest rate of 7.8% is applied to the commercial bills.

NOTES TO THE FINANCIAL STATEMENTS

Note 13: Current Liabilities - Borrowings (continued)

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.

		Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
Note 14: Current Liabilities - Tax Liabilities					
Income tax		2,837	2,210	2,837	2,350
Note 15: Current Liabilities – Provisions					
Employment entitlements		6,876	5,897	6,876	5,897
Note 16: Current Liabilities - Other					
Accrued expenses		4,123	3,672	4,123	3,672
Deferred income		1,867	770	1,867	770
		5,990	4,442	5,990	4,442
Note 17: Non-Current Liabilities – Borrowings					
Secured liabilities					
Finance lease liability	22	55	72	55	72
Hire purchase liability	22	4,134	2,383	4,134	2,383
		4,189	2,455	4,189	2,455
Note 18: Non-Current Liabilities – Provisions					
Employment entitlements		1,200	887	1,200	887
Provision for rent escalation		3,777	2,415	3,777	2,415
		4,977	3,302	4,977	3,302

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

	$'000
Balance at beginning of period	2,415
Transfer to profit and loss	(352)
Additional provision recognised	1,714
Balance at end of period	3,777

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
25 June 2006	Opening 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**
10 July 2007	Exercise of performance rights including transfer from share based payments reserve on exercise of Performance Rights	105,000	-	201
	Deferred tax credit		-	55
29 June 2008	**Balance**	**25,708,295**	**-**	**4,241**

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

Note 20: Equity – Reserves

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Capital profits reserve	739	739	739	739
Share based payments reserve	798	623	798	623
Hedging reserve – cash flow hedges	(356)	(857)	(356)	(857)
	1,181	505	1,181	505
Movements:				
Share based payments reserve				
Balance at beginning of period	623	711	623	711
Performance Rights expense	376	339	376	339
Transfer to contributed equity	(201)	(427)	(201)	(427)
Balance at end of period	798	623	798	623
Hedging reserve – cash flow hedges				
Balance at beginning of period	(857)	218	(857)	218
Transfer to inventory	857	(218)	857	(218)
Revaluation of cash flow hedges	(356)	(857)	(356)	(857)
Balance at end of period	(356)	(857)	(356)	(857)

NOTES TO THE FINANCIAL STATEMENTS

Note 20: Equity – Reserves (continued)

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		Parent Entity	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
Retained profits at the beginning of the financial period		24,995	21,525	23,993	20,523
Net profit attributable to members of the consolidated entity		16,671	12,296	16,671	12,296
Dividends provided for or paid		(11,055)	(8,826)	(11,055)	(8,826)
Retained profits at reporting date		30,611	24,995	29,609	23,993

Since the end of the financial year the directors have declared the payment of a final ordinary dividend of 19.0 cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on 13 October 2008.

Note 22: Commitments

	Note	Consolidated Entity 2008 $'000	Consolidated Entity 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
Finance Leasing Commitments					
Payable:					
Not later than one year		26	85	26	85
Later than one year and not later than five years		58	84	58	84
Minimum lease payments		84	169	84	169
Less future finance charges		(11)	(24)	(11)	(24)
Total lease liability		73	145	73	145
Represented by:					
Current liability	13	18	73	18	73
Non current liability	17	55	72	55	72
		73	145	73	145

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

		Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
Hire Purchase Commitments					
Payable:					
Not later than one year		3,596	1,541	3,596	1,541
Later than one year and not later than five years		4,294	2,562	4,294	2,562
Minimum hire purchase payments		7,890	4,103	7,890	4,103
Less future finance charges		(488)	(450)	(488)	(450)
Total hire purchase liability		7,402	3,653	7,402	3,653
Represented by:					
Current liability	13	3,268	1,270	3,268	1,270
Non current liability	17	4,134	2,383	4,134	2,383
		7,402	3,653	7,402	3,653

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

Operating Lease Commitments

Non cancellable operating leases contracted for but not capitalised in the financial statements payable:

Not later than one year	36,364	26,481	36,364	26,481
Later than one year and not later than five years	86,167	65,961	86,167	65,961
Later than five years	17,745	7,188	17,745	7,188
	140,276	99,630	140,276	99,630

This does not include any rental payments payable as a percentage of sales contingent on achieving sales thresholds contained within existing operating leases ('percentage rent') as these amounts cannot be reliably measured for future periods. The amount expensed during the current year for percentage rent was $265,000 (FY07 $355,000).

Capital Commitments

The consolidated entity has capital commitments totalling $3,635,586 (FY2007 - $nil), 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:

Within one year	100	100	100	100
Later than one year and not later than five years	-	100	-	100
Later than five years	-	-	-	-
	100	200	100	200

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000

Note 23: Contingent Liabilities

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

Letters of credit established for acquisition of goods for resale	231	261	231	261

Note 24: Cash Flow Information

Reconciliation of Cash Flow from operations with profit from ordinary activities				
Profit from ordinary activities after income tax	16,671	12,296	16,671	12,296
Non cash flows in profit from ordinary activities				
Amortisation of leased assets	135	173	135	173
Depreciation	6,591	4,920	6,591	4,920
(Gain) / loss on sale of property, plant and equipment	(24)	80	(24)	80
Non cash share based expense	376	339	376	339
Fair Value adjustment to derivatives	501	(1,075)	501	(1,075)
Current tax credited directly to equity	55	55	55	55
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries				
(Increase) in receivables and other assets	(8)	(404)	(8)	(404)
(Increase) in inventories	(8,440)	(3,178)	(8,440)	(3,178)
Increase in trade, other creditors and other provisions	3,558	1,864	3,558	1,864
Increase in income tax payable	627	714	627	714
(Increase) in deferred tax assets	(1,018)	(640)	(1,018)	(640)
Net cash provided by operations	19,024	15,144	19,024	15,144
Non-cash financing and investing activities				
Acquisition of plant and equipment by means of finance lease	5,539	3,890	5,539	3,890
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	478	442	478	442
Cash at bank	4,885	4,660	4,885	4,660
	5,363	5,102	5,363	5,102

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:

	2008		2007	
	Limit	Utilised	Limit	Utilised
	$'000	$'000	$'000	$'000
Interchangeable Working Capital Facility	11,375	6,731	11,000	3,261
Interchangeable Asset Finance Facility	8,500	7,402	5,000	3,990
Foreign Currency Settlement	2,000	1,075	2,000	1,817
Other Facilities	22,855	1,489	11,412	1,701
Total Facilities	44,730	16,697	29,412	10,769

A seasonal facility of $17,000,000 was utilised from 1 July 2007 and repaid in full by 30 December 2007. Other facilities include an ANZ Bank indemnity guarantee to landlords of $2,110,000 of which $1,489,373 was utilised at 29 June 2008.

Note 25: Financial Instruments

Derivative Financial Instruments

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Current assets and (liabilities)				
Forward foreign exchange contracts – cash flow hedges	(356)	(857)	(356)	(857)

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:

				Average Exchange Rate	
		2008	2007	2008	2007
Sell	Buy	$'000	$'000	$	$
Australian Dollars	United States Dollars	17,096	21,525	0.94	0.81
Australian Dollars	Euro	663	976	0.60	0.61
Australian Dollars	Pounds Sterling	-	120	-	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 $355,773 classified in other liabilities (FY2007 – liabilities of $857,236). In the year ended 29 June 2008 there was a gain from the increase in fair value of the liability of $501,463 during the year.

During the year $857,236 (FY2007 – $218,160) was removed from equity and included in the acquisition cost of goods and a gain of $Nil (FY2007 – $Nil) was transferred to profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

Note 25: Financial Instruments (continued)

Forward exchange contracts – balance date sensitivity analysis

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

	Consolidated		Parent	
	2008	2007	2008	2007
Sensitivity Analysis – foreign exchange AUD/USD	$'000	$'000	$'000	$'000
For every 1c increase in AUD:USD rate, total exposure increases by:				
Income Statement	(9)	(15)	(9)	(15)
Equity	-	-	-	-
For every 1c decrease in AUD:USD rate, total exposure decreases by:				
Income Statement	10	15	10	15
Equity	-	-	-	-

Interest Rate Risk

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

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing within 1 Year	
	2008	2007	2008	2007	2008	2007
	%	%	$'000	$'000	$'000	$'000
Financial Assets						
Cash	4.73	3.89	5,363	5,102	-	-
Financial Liabilities						
Bank loans and overdrafts	7.09	6.06	-	-	6,500	3,000
Hire purchase liabilities	8.21	7.47	-	-	3,268	1,270
Lease liabilities	7.82	7.26	-	-	18	73
Total Financial Liabilities			-	-	9,786	4,343

	Fixed Interest Rate Maturing			
	1 to 5 years		Over 5 Years	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Financial Assets	-	-	-	-
Financial Liabilities				
Hire purchase liabilities	4,134	2,383	-	-
Lease liabilities	55	72	-	-
Total Financial Liabilities	4,189	2,455	-	-

	Non-interest Bearing		Total	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Financial Assets				
Cash	-	-	5,363	5,102
Receivables and other debtors	155	673	155	673
Total Financial Assets	155	673	5,518	5,775
Financial Liabilities				
Bank loans and overdrafts	-	-	6,500	3,000
Trade, sundry, and other creditors	21,688	20,784	21,688	20,784
Hire purchase liabilities	-	-	7,402	3,653
Lease liabilities	-	-	73	145
Total Financial Liabilities	21,688	20,784	35,663	27,582

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

	Consolidated		Parent	
	2008	2007	2008	2007
Sensitivity Analysis – Interest Rates	$	$	$	$
For every 100 basis points increase in interest rates				
Income Statement	(96)	(85)	(96)	(85)
Equity	-	-	-	-
For every 100 basis points decrease in interest rates				
Income Statement	96	85	96	85
Equity	-	-	-	-

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.

Liquidity Risk

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

NOTES TO THE FINANCIAL STATEMENTS

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 (Retired 20 February 2008)
KJ Elkington – Non-executive director (From 20 February 2008)

Executive Directors

BAE Saunders – Managing Director (Retired 4 July 2007)
GJ Masters – Managing Director

All of the above persons were directors of The Reject Shop Limited for the entire year ended 29 June 2008, 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 (Company Secretary from 1 April 2006 to 15 August 2008)
DJ O'Connor – Chief Information Officer
PG Beckett – General Manager, Logistics
P Nutbean – General Manager, Property
J Bell – General Manager, Human Resources
RJ McGough – General Manager, Marketing (From 5 May 2008)
DR Briggs – Company Secretary and Financial Controller (From 19 May 2008)

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire year ended 29 June 2008, unless otherwise stated.

Remuneration of Key Management Personnel

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Short-term employee benefits	3,752,951	3,290,964	3,752,951	3,290,964
Post-employment benefits	332,480	266,860	332,480	266,860
Share-based payments	294,675	229,050	294,675	229,050
	4,380,106	3,786,874	4,380,106	3,786,874

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.

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:

2008	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	-	-	-	-	-	-
KJ Elkington						
Executive Director						
BAE Saunders	-	-	-	-	-	-
GJ Masters	-	14,400	-	-	-	14,400
Other Key Management Personnel						
CT McShanag	66,825	5,300	-	(15,625)	-	56,500
DR Jones	70,800	5,100	-	(20,000)	-	55,900
CJ Bryce	60,150	4,100	-	(15,625)	-	48,625
DJ O'Connor	43,300	3,600	-	(12,500)	-	34,400
PG Beckett	37,900	3,100	-	(10,000)	-	31,000
P Nutbean	26,000	2,400	-	(6,250)	-	22,150
J Bell	26,000	2,400	-	(6,250)	-	22,150
RJ McGough	-	-	-	-	-	-
DR Briggs	-	-	-	-	-	-
Total	330,975	40,400	-	(86,250)	-	285,125

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 Director						
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

NOTES TO THE FINANCIAL STATEMENTS

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

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 63,600 performance rights have been granted to key management personnel. In addition 90,625 performance rights granted to key management personnel vested, of which 90,625 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:

2008	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	137,500	-	(39,400)	98,100
J Shuster*	575,000	-	(575,000)	-
KJ Elkington**	-	-	3,000	3,000
Key Management Personnel				
Executive Directors				
BAE Saunders*	1,061,279	-	(1,061,279)	-
GJ Masters	-	-	26,996	26,996
Other Key Management Personnel				
CT McShanag	331,937	15,625	800	348,362
DR Jones	303,156	20,000	(118,493)	204,663
CJ Bryce	92,769	15,625	-	108,394
DJ O'Connor	15,871	12,500	(15,871)	12,500
PG Beckett	25,000	10,000	(5,000)	30,000
P Nutbean	6,500	6,250	(6,000)	6,750
J Bell	6,500	6,250	(5,000)	7,750
RJ McGough	-	-	-	-
DR Briggs	-	-	-	-
Total	2,655,512	86,250	(1,795,247)	946,515

* *Barry Saunders' and John Shuster's share holdings have been shown as nil at the end of the year as they are no longer directors of the Company.*

** *Kevin Elkington became a director on 20 February 2008 at which time he held 3,000 shares.*

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 Director				
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

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 29 June 2008 (FY2007 - $Nil).

No other transactions were undertaken with directors or other key management personnel, including related parties during the year (FY2007 - $Nil).

NOTES TO THE FINANCIAL STATEMENTS

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:

2008

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	2 July 2007	1.61	105,000	-	(105,000)	-	-	-
1 June 2004	31 May 2009	30 June 2008	1.50	105,000	-	-	-	105,000	105,000
17 Aug 2005	16 Aug 2010	1 July 2009	2.46	132,000	-	-	-	132,000	-
12 Jul 2006	31 May 2009	30 June 2008	5.33	4,375	-	-	-	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	-
15 Aug 2007	15 Aug 2012	1 July 2011	11.06	-	56,400	-	(1,700)	54,700	-
Total				426,075	56,400	(105,000)	(1,700)	375,775	109,375

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

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	-

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 15 August 2007 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 on 30 June 2011 provided the relevant EPS hurdle rate is met

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

(c) expiry date: 15 August 2012

(d) share price at grant date: $12.20

(e) expected volatility of the Company's shares: 37.56%

(f) expected dividend yield: 2.54%

(g) risk-free interest rate: 6.54%

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 93,600 performance rights under the PRP.

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)	-	-	-

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.

Expenses arising from share-based payment transactions

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Performance rights granted	376,461	339,475	376,461	339,475

NOTES TO THE FINANCIAL STATEMENTS

Note 28: Remuneration of Auditors

During the year the following fees for services were paid to PricewaterhouseCoopers as the auditor of the parent entity and its subsidiaries:

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Audit and Accounting Related Services				
Audit and review work	181,000	174,000	181,000	174,000
Accounting advice	4,000	8,000	4,000	8,000
	185,000	182,000	185,000	182,000
Tax Compliance and Consulting Services				
Tax compliance	24,500	25,300	24,500	25,300
Tax consulting advice	-	2,695	-	2,695
	24,500	27,995	24,500	27,995
Other Services				
Other assurance services	15,000	21,000	15,000	21,000
Total remuneration	224,500	230,995	224,500	230,995

Note 29: Dividends

Since year end the directors have declared the payment of a fully franked final dividend of 19.0 cents per share. The amount of the proposed dividends is to be paid on 13 October 2008 out of retained profits, but not recognised as a liability at year end.	4,905	3,599	4,905	3,599
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%	19,554	16,066	19,554	16,066

Dividends paid to members during the financial year were a final ordinary dividend for the financial year ended 24 June 2007 of 14.0 cents per share totalling $3,599,161 paid on 12 October 2007. An interim ordinary dividend for the financial year ended 29 June 2008 of 29.0 cents per share (2007: 17.0 cents per share) totalling $7,455,406 (2007: $4,352,560) was paid on the 18 April 2008 (2007: 16 March 2007).

Note 30: Earnings per share

	Consolidated	
	2008	2007
	Cents	Cents
Basic earnings per share	64.9	48.1
Diluted earnings per share	63.9	47.3
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	25,704,061	25,564,555
Adjustments for dilutive portion of options and performance rights	372,645	451,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	26,076,706	26,015,555

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	
	2008	2007	2008	2007
	Cents	Cents	Cents	Cents
Net tangible asset backing per ordinary share	140.2	115.2	136.3	111.2

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 (FY2007 - $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 55 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 29 June 2008 and of their performance 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 20th day of August 2008

PRICEWATERHOUSECOOPERS

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

Report on the financial report and the AASB 124 remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of The Reject Shop Limited (the company), which comprises the balance sheet as at 29 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both The Reject Shop Limited and The Reject Shop Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report under the heading "remuneration report" in pages 17 to 23 of the directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

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

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

PRICEWATERHOUSECOOPERS

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

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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

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

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

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

Independence

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

Auditor's opinion on the financial report

In our opinion:

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

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 29 June 2008 and of their performance for the year ended on that date; and

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

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

Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures that are contained in pages 17 to 23 of the directors' report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

PricewaterhouseCoopers

Dale McKee

Dale McKee
Partner

Melbourne
20 August 2008

SHAREHOLDERS INFORMATION
As at 31st July 2008

The shareholder information set out below was applicable as at 31 July 2008.

(a) The distribution of shareholding was as follows:

Size of Shareholding	Shareholders
1 - 1,000	1,655
1,001 - 5,000	1,233
5,001 - 10,000	184
10,001 - 100,000	132
100,001 and over	23

(b) 46 shareholders hold less than a marketable parcel of shares, being a market value of less than $500

(c) Substantial shareholders were:

Shareholder	Number	% Held
Grahger Capital Investment P/L	2,408,000	9.3%
Hyperion Asset Management Limited	2,228,230	8.6%
Acorn Capital Limited	1,830,135	7.1%
Commonwealth Bank of Australia	1,570,235	6.1%
Kinetic Investments Partners Limited	1,545,829	6.0%

(d) The fully paid issued capital of the Company consisted of 25,817,670 shares held by 3,227 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	266,400	18

(f) Twenty largest shareholders

Shareholder	Number	% Held
National Nominees Limited	3,108,596	12.04%
J P Morgan Nominees Australia Limited	2,653,118	10.28%
Cogent Nominees Pty Limited	1,228,996	4.76%
Grahger Capital Investment Pty Ltd	1,175,000	4.55%
HSBC Custody Nominees (Australia) Limited	952,451	3.69%
Grahger Capital Securities Pty Ltd	880,498	3.41%
ANZ Nominees Limited	848,495	3.29%
Citicorp Nominees Pty Limited	736,425	2.85%
RBC Dexia Investor Services Australia Nominees Pty Limited	658,749	2.55%
Citicorp Nominees Pty Ltd & Citicorp Nominees Pty Limited	600,027	2.32%
Grahger Capital Investment Pty Limited	500,000	1.94%
ANZ Nominees Limited	461,342	1.79%
Cogent Nominees Pty Limited	459,221	1.78%
Kembla No 20 Pty Ltd	415,902	1.61%
HSBC Custody Nominees (Australia) Limited - A/C 2	392,883	1.52%
Charlie McShanag	362,562	1.40%
Highmont Heights Pty Ltd	357,390	1.38%
Perpetual Trustees Consolidated Limited	314,195	1.22%
Equity Trustees Limited	280,000	1.08%
Bond Street Custodians Limited	164,663	0.64%

The twenty members holding the largest number of shares together held a total of 64.11% of the issued capital.

(g) Restricted Shares

There are no restricted shares on issue.

DIRECTORY

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