Appendix 4E

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary final report

For the financial year ended 25 June 2006
Compared to the financial year ended 26 June 2005

Results for announcement to the market

				$A'000
Sales revenue from continuing operations	up	16.8%	to	237,192
Profit from continuing operations after tax attributable to members	up	38.7%	to	9,052
Net profit for the period attributable to members	up	38.7%	to	9,052

Dividends	Amount per share	Franked amount per share
Interim dividend (paid 17 March 2006)	13 cents	100%
Final dividend	10 cents	100%
Special dividend	7.5 cents	100%

Record date for determining entitlements to final and special dividend	1 September 2006
Dividend payment date	15 September 2006

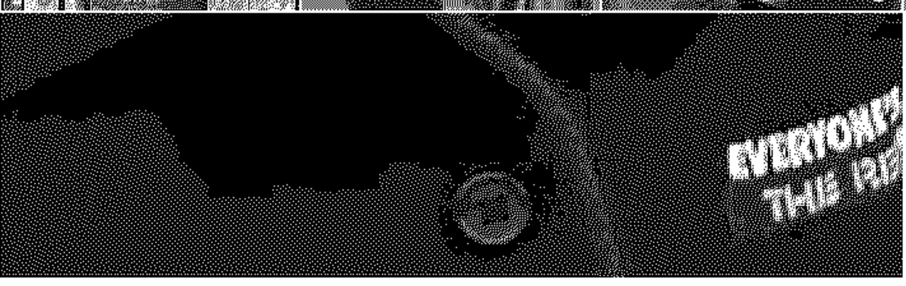
Commentary on the Company's trading results is included in the media release and on pages 2 to 5 of the annual report enclosed.

EVERYONE'S A WINNER AT

THE REJECT SHOP

Continuous improvement…

Our people make it happen



CONTENTS

Notice of Annual General Meeting

The Annual General Meeting of The Reject Shop Limited will be held at The ASX Theatrette, Ground Floor, 530 Collins Street, Melbourne Victoria at 3.30pm on Wednesday 11 October 2006.

The Reject Shop - Marion, South Australia

SALES INCREASED 16.8% TO $237.2M

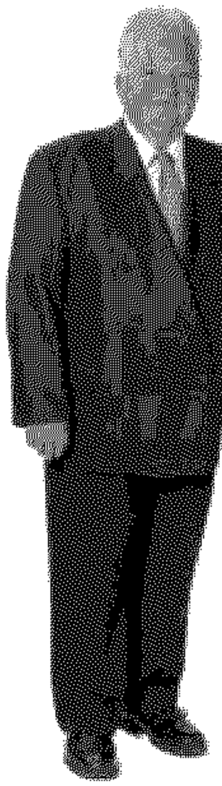
COMPARABLE STORE SALES GROWTH OF 7.7%
WITH SECOND HALF GROWTH 9.8%

NET PROFIT UP 38.7% INCLUDING
MAIDEN SECOND HALF PROFIT

STORE EXPANSION CONTINUES INCLUDING
FIRST WESTERN AUSTRALIA STORE OPENED IN JUNE 2006

DISTRIBUTION CENTRE DEVELOPMENT COMPLETE,
OPERATIONAL IN THE FIRST HALF OF FY2007

CHAIRMAN'S REPORT



16.8%
sales growth

35.9¢
earnings per share

38.7%
NPAT growth

Dear shareholder,

This was another successful year for your Company, with a strong trading performance, including our maiden second half profit, lifting annual profit by 38.7% and increasing earnings per share by 34.5% to 35.9 cents per share.

The result, with sales of $237.2 million, up 16.8%, was underpinned by strong comparable store sales growth of 7.7% and demonstrates the business model is robust. It also validates the Company's five year strategic planning process. I believe this process, supported by a commitment to continuous improvement, created the foundation for this year's results and, more importantly for progress in future years.

The Board and management remain committed to the annual strategic planning process which allows the Board the opportunity to challenge current trading strategies, evaluate new thinking and test the rate of progress on the key components of the five year plan. The Board is pleased by the progress made this year however the Board and management understand there remains significantly more improvement ahead.

This year saw significant progress on several strategic developments including the investment in a new distribution centre, the finalisation of the exit from the Everything Here $2 stores and the opening of the Company's first store in Western Australia. These are strong examples of the Company's commitment to building a foundation for the future.

The development of our new DC facility in the Melbourne Airport precinct opens a new door for us to pursue greater efficiency in logistics. We consider this a core competency of a chain retailer. At year end the building was complete and we expect to be operational in August. We will press for constant improvement in the area of logistics to serve sales growth and to underpin constant improvement in stock turns and working capital management.

During the year we entered the Western Australia market and expanded further north into Queensland, each move being received by customers with enthusiasm and the results exceeding our projections. We believe we now have the capacity to accelerate new store growth on a broad front.

The future rate of net new store growth will be helped greatly by the fact that we completed the migration from Everything Here $2 shops in all markets ahead of schedule. All stores now operate under the single 'The Reject Shop' banner.

The additional people and information resources devoted to the Merchandise function produced returns ahead of our high expectations, and a generational change in the leadership structure has proven very effective. The benefits were more pronounced in the second half, and more still is yet to be achieved.

Central to accelerating trading and operating performance has been better use of a greater store of decision support information. Substantial investment continues in IT and the Board is currently reviewing the plans for the next stage of development in this area.

Preparations for the change in leadership following the Managing Director's planned retirement in June 2007 are under way. We are operating to a robust succession plan and expect to be in a position to make a more definitive statement at the announcement of the half year results. In the interim, Barry and his team are strongly focussed on continuous improvement of results.

The Board is resolved not to permit the Company to rest on its laurels, and the healthy processes of comprehensive annual review of the five year plan and constant challenging of the status quo will continue. While we are proud of the Company's achievements, and the efforts of our management and staff, momentum is best maintained by continuous improvement on a wide front and dedication to well-directed strategic change.

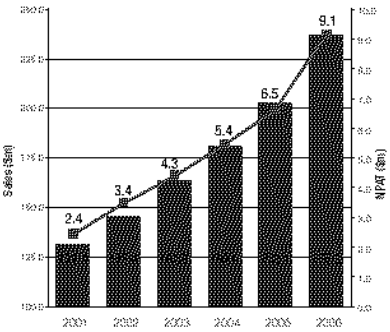
We intend that continuous improvement will also be reflected in returns to shareholders. This year we increased the dividend payout ratio to offset the introduction of AIFRS reported earnings and have declared a special dividend after reviewing our ongoing capital requirements.

The Board is proud of the quality people assembled throughout the Company. It is they who devote the constant attention and energy necessary to ensure that we continue to please more customers, more often and in more ways. I thank our people for their fine effort to make this year's result happen.

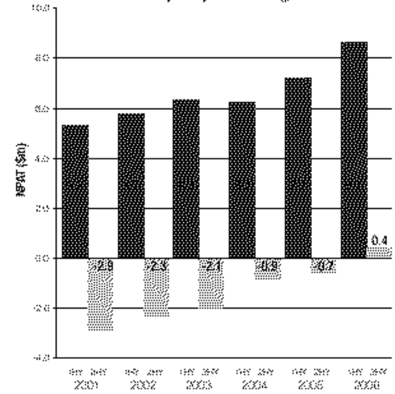
Brian J Beattie
Chairman

FINANCIAL HIGHLIGHTS

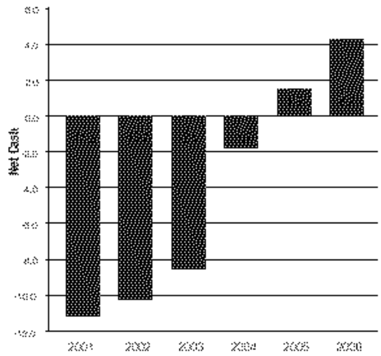
Growth in Sales and NPAT



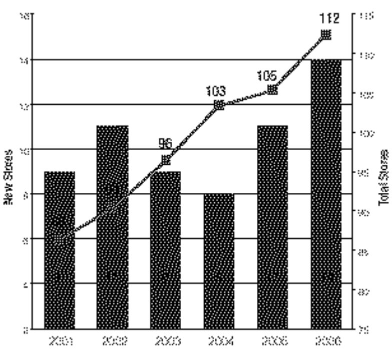
Building Everyday Trading



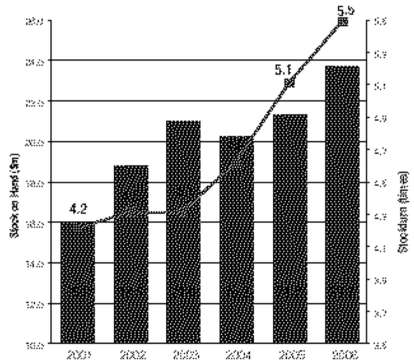
Improving Financial Postion



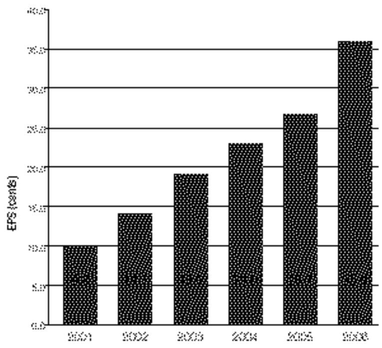
Expanding Stores

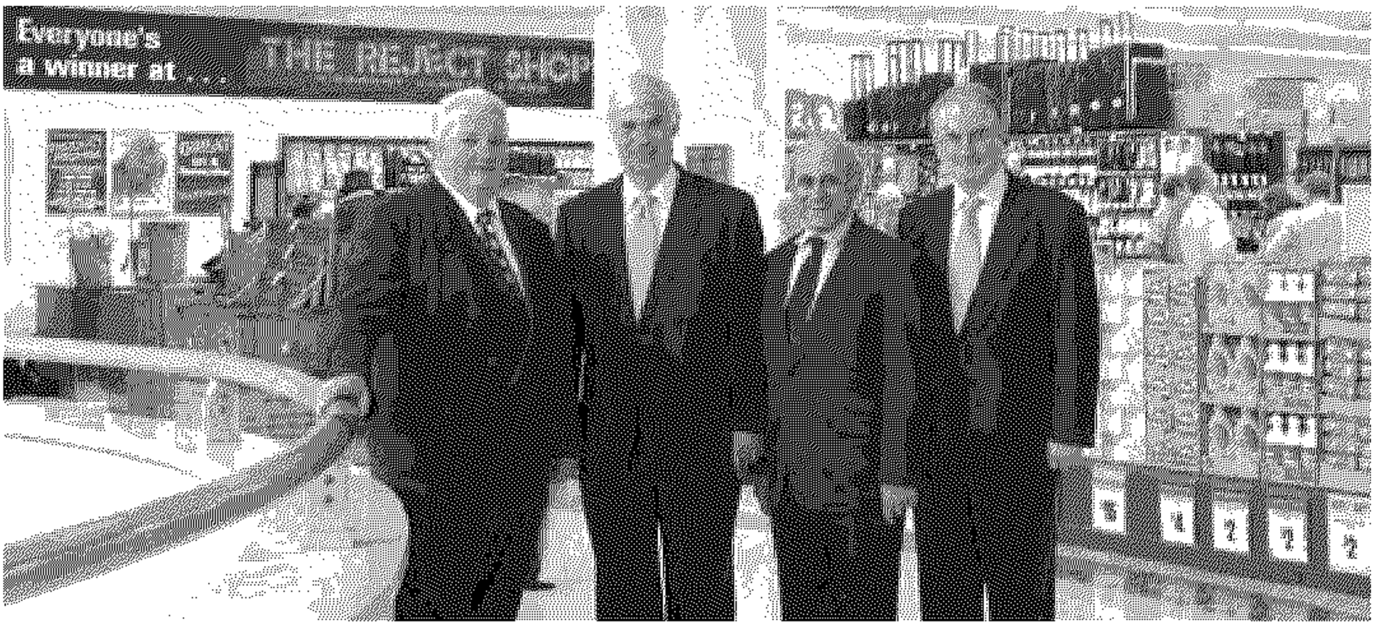


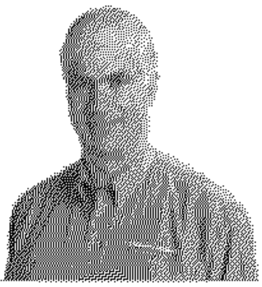
Faster Stockturns



Increasing Shareholder Returns







MANAGING DIRECTOR'S REPORT

5.5

stockturns

down

.63% of sales

expense ratio

7.7%

comparable stores growth

14

new stores

65%

positions filled by internal promotion

The Reject Shop has again delivered a strong sales and profit performance, including a maiden net profit after tax in the second half. The pleasing result reflects the benefits of the Company's focussed strategy and continuous improvement programs.

The Company continues to invest in programs that will deliver a superior customer offer while maintaining strong returns to shareholders.

We have already laid strong foundations to support the Company's development and considerable further achievements were made during the year which will create additional opportunities for ongoing profitable expansion.

Overview of financial performance

Sales grew by 16.8% to $237.2 million for the full year, following an increase of 14.3% on the prior period recorded at the half year.

Net profit after tax grew by 38.7% to $9.1 million for the year, $0.4 million in advance of the first half result of $8.7 million.

The key metric of comparable stores growth increased from 5.8% at December 2005 to 7.7% for the year, the strongest result achieved in the last decade. An encouraging aspect was the acceleration in growth that occurred through the second half.

The Company made strong advances in seasonal trading at Christmas, Easter and Mothers Day.

The result also reflected sustained everyday growth from basic items and improved stock management.

The customer communications program, in particular the regular catalogue program, generated strong returns throughout the year.

As previously foreshadowed, the initial gross margin percentage was moderated. This reflected a controlled improvement in the competitive profile relating to both price and product mix, which contributed to the accelerated sales growth.

The impact on the final percentage margin was offset by sustained improvements in the management of gross profit erosions such as markdowns, shrinkage and wastage, all of which reflected the benefit of better decision making and better in store execution.

Operating costs excluding depreciation and amortisation declined as a percentage of sales, notwithstanding the adverse impact of some developmental costs connected with store closures and refurbishments, preparations for distribution centre relocation, IT systems enhancement including new versions of our Warehouse Management Systems, and continued development of the Merchandise Function.

Depreciation and amortisation remained stable as a percentage of sales, notwithstanding further write-offs relating to closure of stores and distribution facilities and continued investment in new stores.

Our total expense ratio improved by 0.6% of sales as we managed variable expenses and leveraged overheads, at the same time as maintaining projects to benefit future trading results.

Our financial position remains sound with strong cash flows and balance sheet. Balance sheet and free cash flows are more than adequate to support the Board's dividend policy, an accelerated store opening program, continued high investment in information technology and the further development of our logistics capabilities.

Overview of industry trends

The Reject Shop operates in the Discount Variety segment of the retail industry, which we maintain is a very attractive segment. This view seems to be shared by the private equity interests that have acquired and amalgamated the two largest businesses in the segment.

In our experience the segment is somewhat moderated to changes in the retail trade cycle.

Despite customers having to contend with rising petrol prices, extended speculation about interest rates, and mixed reports about consumer confidence, our comparable stores increases continued to strengthen through the year.

For the first time we targeted our regular overseas study tour to review the US retail scene during peak seasonal trading. Useful intelligence has been assembled with potential to improve our future performance.

Despite some speculation about conditions in overseas supply markets, including China, this did not result in adverse outcomes for our product sourcing. Good progress was made on further developing our sourcing capability in both local and overseas markets.

Some volatility in the Australian dollar was successfully accommodated under our gross profit protection approach to currency acquisition.

Heavy clearance of surplus stocks by some retailers during the period did not appear to adversely impact our business. We continued to adopt a vigilant approach to maintaining clean stocks.

A number of factors contributed to this including proactive buying, information technology and a dedicated decision support team. As a result stock turns continued to rise, with the year end balance sheet calculation showing 5.5 turns.

Overview of operational performance

The five year planning horizon established with the Board ensures consistency of progress to a constant agenda for change.

As a consequence, the progressive migration out of Everything Here $2 stores to a single format business under The Reject Shop banner was completed a little ahead of plan.

We expanded our position in the Queensland market which we first entered in F2004, and opened our first store in the exciting Western Australian market in June 2006. Overall we opened 14 new stores and finished the year with a total of 112 stores. In addition we upsized or refurbished several stores with significant potential to improve sales.

Considerable progress has been made on projects to improve shelf edge pricing, facilitate store ordering from distribution centres, define, communicate and monitor store tasks, and empower our people to take greater ownership of store stock management and presentation.

While we are proud of the good progress, all of these initiatives represent potential avenues for further improvement. Work continues on several other significant areas with opportunities for future store productivity improvement.

Acceleration of comparable stores sales growth, achieved at the same time as a reduction in comparable stores stock holdings, has required our logistics and store teams to overcome considerable challenges. A higher level of store openings, planned store closures, extensions and refurbishments, the introduction of new technology and new organization structures have also presented challenges. Our people have responded well and this has been a major factor in the annual result.

We continue to seek out opportunities to facilitate career advancement and development for our people, as well as opportunities for them to share in the growing success of the Company.

Outlook

Our future plans will focus on identified internal improvement opportunities.

A generational change in our buying team has created exciting prospects for benefits from fresh merchandise ideas and upgraded procurement and stock management methods.

Geographic expansion will gather speed, and the store opening program is well advanced.

Information technology remains a major focus for improved capability. We plan further strategic allocations of resources to this area to support merchandise, store operations and logistics improvements.

A major step forward in logistics will be facilitated by the opening of the new Tullamarine DC early in FY2007. This will enable us to better handle our recent and projected growth with the introduction of selected cost effective equipment such as reach conveyors and voice technology. More importantly it contributes to our continuing journey towards industry best practice in the core capabilities of any chain retailer.

We expect net profit after tax for the year to June 2007 to be in the range of $10.7 to $10.9 million.

We expect the Board managed process for the transfer of leadership in June 2007 to open up even more opportunities for the continued growth of our people and further profitability and growth of this exciting business.

Our people make it happen.

The success of the year is due to the dedication, skills, energies and ideas of our people in all functions. Each group has met and overcome a variety of new and continuing challenges and achieved much, for which they have my thanks and appreciation.

As we enter the next phase of our growth we freely acknowledge that in many respects we have only just begun.

Barry Saunders
Managing Director

CONTINUOUS IMPROVEMENT

Five-Year Planning Horizon

We are steadfast in our commitment to continually improve every aspect of the business. This is achieved by close attention on the day to day trading within the context of a five-year strategic plan. The plan is updated annually by management, reviewed and authorised by the Board, and establishes a consistent agenda by function for the direction, profitability and growth of the business.

Understanding Our Markets

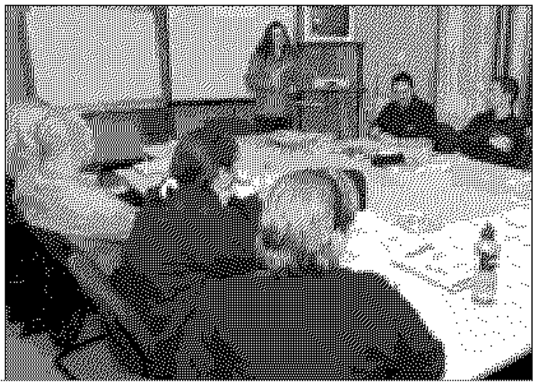
Over the last two years we have expanded and strengthened our buying team adding a new layer of management, additional buyers, increased planning and administrative assistance, and greatly enhanced IT support to decision making. This enables improved outcomes in product sourcing, pricing, quantification, stock allocation, marketing and item logistics.

Re-engineering the Stock Pipeline

Our new distribution centre will be operational in the first half of FY2007. The new facilities will provide benefits through additional space, better work flows, upgraded equipment and IT systems including voice technology, boom conveyors and an upgraded warehouse management system. The facility provides further scope to support our future growth.

Improving the Shopping Experience

We continue to invest time and resources to enable our stores to improve how we serve the customers. We seek continuous improvement in the targeted ranging of everyday needs and bargains, better in-stocks of basics, competitive pricing, more effective store layouts and stock presentation, and clearer shelf edge pricing. We are currently upgrading our point of sale equipment to improve checkout service and to better capture data.



Recruiting and Retaining Good People

We recognise our people are critical to the long- term success of the business and are firmly committed to providing rewarding careers with opportunities for personal growth. More than 65% of management positions created by our recent growth have been filled by internal promotions. Our recruitment and training programs are designed to identify and develop the best available people. We seek to retain them through making available opportunities to participate in the company's success.

Our IT Systems Facilitate Success

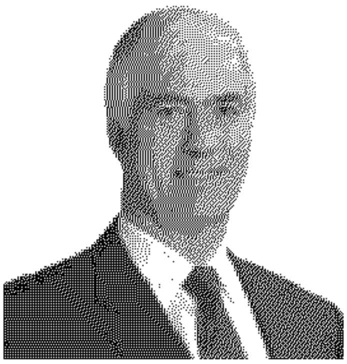
We constantly seek out opportunities to use technology to help our people produce better results. Investments in radio frequency technology in stores, voice technology in distribution centres, and a data warehouse to support decision making are examples that will continue to provide significant operational benefits. We are actively pursuing a range of further equipment and system projects with the potential to improve the business further.

THE BOARD OF DIRECTORS

Brian Beattie - Non-Executive Chairman

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

Brian joined the Board of The Reject Shop in February 2004.



Barry Saunders *BCom* **- Managing Director**

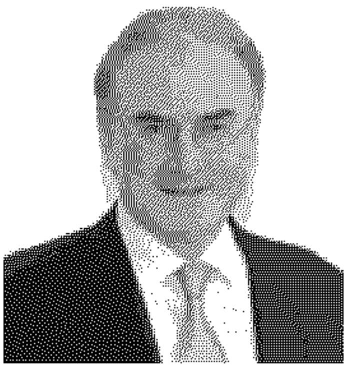
Barry began his retail career with The Myer Emporium Ltd. He was the Chief Executive of Target Australia and BIG W, and has served on the boards of The Myer Emporium Ltd, Coles Myer Ltd and Woolworths Limited and on the Executive Committee at Pacific Dunlop Limited.

Barry has been the Managing Director of The Reject Shop since January 2000.

John Shuster *LLB* **- Non-Executive Director**

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

John is a former Chairman of the Company and has been a director since 1983.

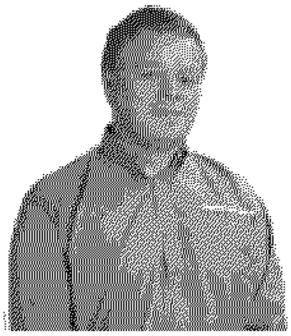


A.C. (Craig) McMorron *FAICD* **- Non-Executive Director**

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

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

THE MANAGEMENT TEAM



Ron Jones
General Manager - Retail Operations

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

Philip Beckett
General Manager - Logistics

Philip has over 33 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

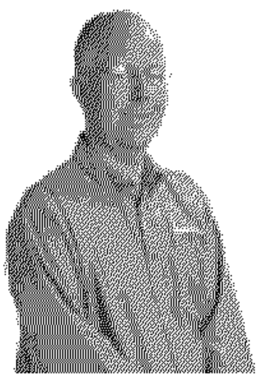
Phillip has worked in commercial and retail real estate for 29 years including four years with Coles Myer Ltd. Phillip joined The Reject Shop, first as a consultant in 1995 and then as Property Manager from May 2001.

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

Prior to joining The Reject Shop, Chris spent over ten years with PricewaterhouseCoopers in Australia and the United States. Chris was CFO and then General Manager of a computer and internet company, before joining The Reject Shop in February 2003. Chris was appointed Company Secretary in April 2006.

Darren O'Connor *BAppSc*
Chief Information Officer

Darren has had a 20 year career 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.



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.

EXPANSION INTO A NEW MARKET.

This year The Reject Shop opened its first store in Western Australia.

The Company now operates stores in New South Wales, Queensland, South Australia, Victoria, Western Australia and ACT. We continue to actively seek further opportunities.

2 Stores
Western Australia

5 Stores
Queensland

51 Stores
New South Wales including ACT

12 Stores
South Australia

44 Stores
Victoria

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.

BAE Saunders as 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, their attendance at Board and Committee meetings is contained in the Directors' Report on page 14 of 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 August 2005 with the current review scheduled for September 2006. Results of these reviews will be 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Audit committee

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

Composition of the audit committee

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

AC McMorron (Chairman)
J Shuster

The current composition of the Audit Committee does not comply with the total minimum number of members recommended by the Corporate Governance Council and the Audit Committee Charter. However, the Board believes strongly the Committee provides the appropriate level of expertise and focus to maintain integrity of the Company's financial reporting, in the context of a smaller sized public Company. The Board believes to comply with the recommendation would require all three independent directors to be members of the Committee which would limit the Committee's ability to act separately and independently from the Board.

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 review, assess and update internal controls and risk management;
- Review, monitor and assess 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
- 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, the Chief Financial Officer, and the Board.

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.

All information disclosed to the ASX is posted on the Company's website. In addition, annual and half year reports, media and analysts' presentations and press releases are also available on the Company's website.

Code of conduct

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

The Company has a Share Trading Policy which restricts the trading of securities by directors and employees to specified periods during the year, namely 30 working days after the release of the Company's half yearly results, annual results and after the close of the Company's annual general meeting.

Remuneration committee

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

Composition of the remuneration committee

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

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

The Remuneration Committee currently comprises the following members:

BJ Beattie (Chairman)
J Shuster
AC McMorron

Role of the remuneration committee

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

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

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

Information regarding director and key management personnel remuneration is provided in the Directors' Report and on pages 45 to 48 of this annual report.

DIRECTORS' REPORT

Your directors present their report on the Company and its subsidiary for the financial year ended 25 June 2006.

Directors

The names of directors in office at any time during or since the end of the financial year are:

BJ Beattie

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

BAE Saunders

Managing Director

AC McMorron

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

J Shuster

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

All directors named above were a director of the Company for the full year and continue as directors to the date of this report. BJ Beattie was the non-executive Chairman of Austin Group Limited from April 2003 to July 2006. 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, J Shuster will retire as a director at the annual general meeting and, being eligible, will offer himself for re-election.

Meetings of directors

The number of meetings of the Board of directors and Committees held during the year ended 25 June 2006 and the number of meetings attended by each director were:

	Director Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
Director	A	B	A	B	A	B
BJ Beattie	11	11	XX	XX	2	2
BAE Saunders	11	11	XX	XX	XX	XX
AC McMorron	10	11	2	2	2	2
J Shuster	10	11	2	2	2	2

Note:
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.

Dividends

Dividends paid to members during the financial year were a final ordinary dividend for the financial year ended 26 June 2005 of 7.0 cents per share totalling $1,764,231 on 23 September 2005, and an interim ordinary dividend for the financial year ended 25 June 2006 of 13.0 cents per share totalling $3,282,928 on 17 March 2006.

Since the end of the financial year the directors have declared the payment of a final ordinary dividend of 10 cents per share and a special dividend of 7.5 cents per share. Both dividends are fully franked at a tax rate of 30% and will be paid on 15 September 2006.

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 $9,051,621 (2005: $6,527,301). 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 disclosure 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 pages 11 to 13 of this annual report.

Directors' fees

The current aggregate limit for directors' fees is $350,000 per annum with a base fee payable to a non-executive director currently of $40,000 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.

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 Executive Option Plan, and
- Other remuneration such as superannuation payments.

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 share basis reward for performance, 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.

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

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 criteria 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

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 (PRP). 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 years.

Performance Rights Plan

The Company implemented the PRP on 27 April 2004, to form the basis of The Reject Shop's ongoing long-term incentive scheme for selected senior employees. The Remuneration Committee has chosen earnings per share as the appropriate financial performance target. This criteria 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 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.

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 (from 1 January 2006)

DR Jones – General Manager, Store Operations

CJ Bryce – Chief Financial Officer & Company Secretary (Company Secretary from 1 April 2006)

DJ O'Connor – Chief Information Officer

PG Beckett – General Manager, Logistics

P Nutbean – General Manager, Property

J Bell – General Manager, Human Resources

AE Sloshberg – General Manager, Merchandise (from 27 June 2005 to 31 December 2005)

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire year ended 25 June 2006 and the year ended 26 June 2005 unless otherwise stated.

DIRECTORS' REPORT (CONTINUED)

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:

2006	Short-term benefits			Post-employment benefits		Share-based payments			
	Cash Salary and Fees	Cash Bonus	Non-Monetary Benefits	Super-annuation	Retirement Benefits	Performance Rights	Proportion of Remuneration as Equity Related	Total	Proportion of Remuneration as Performance Related
Name	$	$	$	$	$	$	$	$	%
Non-executive Directors									
BJ Beattie	100,459	-	-	9,042	-	-	-	109,501	-
AC McMorron	65,825	-	-	5,924	-	-	-	71,749	-
J Shuster	62,386	-	-	5,615	-	-	-	68,001	-
Total Non-executive Directors	228,670	-	-	20,581	-	-		249,251	
Executive Director									
BAE Saunders	535,813	251,089	24,495	12,139	60,000	100,939	10.3%	984,475	35.8%
Other Key Management Personnel									
CT McShanag	254,321	98,853	35,870	22,889	-	33,785	7.6%	445,718	29.8%
DR Jones	257,385	97,277	-	21,844	-	46,487	11.0%	422,993	34.0%
CJ Bryce	221,422	44,450	-	18,578	-	38,958	12.0%	323,408	25.8%
DJ O'Connor	181,492	36,213	-	12,139	-	28,408	11.0%	258,252	25.0%
PG Beckett	179,551	33,825	-	12,139	-	24,106	9.7%	249,621	23.2%
P Nutbean	127,385	24,076	-	10,115	-	15,928	9.0%	177,504	22.5%
J Bell	90,012	19,057	16,063	8,101	-	15,928	10.7%	149,161	23.5%
AE Sloshberg	135,953	-	-	6,070	-	16,599	10.5%	158,622	10.5%
Total Other Key Management Personnel	1,447,521	353,751	51,933	111,875	-	220,199		2,185,279	
Total	2,212,004	604,840	76,428	144,595	60,000	321,138		3,419,005	

G Lever was the Company Secretary, an officer of the consolidated entity, from 27 June 2005 to 31 March 2006 and received a total remuneration of $144,397 (FY2005:$173,029) comprising cash and salary of $122,605 (FY2005: $132,275), cash bonus of $nil, (FY2005: $14,850), non-monetary benefits of $11,667 (FY2005: $14,000) and superannuation of $10,125 (FY2005: $11,904).

2005	Short-term benefits			Post-employment benefits		Share-based payments			
Name	Cash Salary and Fees $	Cash Bonus $	Non-Monetary Benefits $	Super-annuation $	Retirement Benefits $	Performance Rights $	Proportion of Remuneration as Equity Related $	Total $	Proportion of Remuneration as Performance Related %
Non-executive Directors									
BJ Beattie	82,568	-	-	7,431	-	-	-	89,999	-
AC McMorron	59,633	-	-	5,367	-	-	-	65,000	-
J Shuster	54,663	-	-	10,337	-	-	-	65,000	-
Total Non-executive Directors	196,864	-	-	23,135	-	-		219,999	
Executive Director									
BAE Saunders	464,820	117,033	22,090	41,850	-	100,939	13.5%	746,732	29.2%
Other Key Management Personnel									
DR Jones	251,338	41,057	-	22,620	-	68,654	17.9%	383,669	28.6%
CJ Bryce	210,152	21,193	-	16,891	-	53,636	17.8%	301,872	24.8%
DJ O'Connor	168,935	17,438	-	12,033	-	42,908	17.8%	241,314	25.0%
PG Beckett	149,935	16,396	10,500	12,025	-	34,327	15.4%	223,183	22.7%
P Nutbean	106,533	11,807	-	9,588	-	21,454	14.4%	149,382	22.3%
J Bell	82,609	9,174	15,000	7,435	-	21,454	15.8%	135,672	22.6%
AE Sloshberg	287,701	53,174	-	25,893	-	68,654	15.8%	435,422	28.0%
Total Other Key Management Personnel	1,257,203	170,239	25,500	106,485	-	311,087		1,870,514	
Total	1,918,887	287,272	47,590	171,470	-	412,026		2,837,245	

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

C - Service agreements

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

BAE Saunders, Managing Director:

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

CJ Bryce, Chief Financial Officer & Company Secretary:

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

DJ O'Connor, Chief Information Officer

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

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

DIRECTORS' REPORT (CONTINUED)

D – Share-based compensation

The number of performance rights over shares in the Company provided as remuneration to each director and other key management personnel during the current financial year is set out below:

2006	Grant Date	Rights Granted during the year	Date Exercisable	Expiry Date	Total fair value of Performance Rights at Grant Date	Performance Rights Vested during the year	Performance Rights Granted post year end
Executive Director							
BAE Saunders	-	-	-	-	-	-	-
Other Key Management Personnel							
CT McShanag	17 Aug 2005	12,000	1 Jul 2009	18 Aug 2010	$29,520	15,625	13,375
DR Jones	17 Aug 2005	21,000	1 Jul 2009	18 Aug 2010	$51,660	20,000	-
CJ Bryce	17 Aug 2005	21,000	1 Jul 2009	18 Aug 2010	$51,660	15,625	-
DJ O'Connor	17 Aug 2005	12,000	1 Jul 2009	18 Aug 2010	$29,520	12,500	-
PG Beckett	17 Aug 2005	12,000	1 Jul 2009	18 Aug 2010	$29,520	10,000	-
P Nutbean	17 Aug 2005	9,000	1 Jul 2009	18 Aug 2010	$22,140	6,250	-
J Bell	17 Aug 2005	9,000	1 Jul 2009	18 Aug 2010	$22,140	6,250	-
AE Sioshberg	17 Aug 2005	21,000	1 Jul 2009	18 Aug 2010	$51,660	20,000	-
Total		117,000			$287,820	106,250	13,375

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

No performance rights were granted or vested during FY2005. No options were granted or vested in FY2005 or FY2006.

All performance rights granted during the current year will vest on 1 July 2009 provided the required performance hurdles are achieved and the employee remains employed with the Company at the vesting date. The total payable on the exercise of one or more performance rights on a particular day, is $1.00 irrespective of the number exercised on that day. The minimum possible value to be received by each director or other key management personnel under each grant of performance rights is $Nil.

Subsequent to year end, a grant of 13,375 performance rights was made to key management personnel on 12 July 2006.

Details of grants made under the Exectuvie 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 is outlined in the following tables:

2006	Type	Date Granted	Date Exercised	Number of Shares Issued	Exercise Price $	Fair value at exercise date $
Executive Director						
BAE Saunders	-	-	-	-	-	-
Other Key Management Personnel						
CT McShanag	Rights	1 Jun 2004	19 Jul 2005	15,625	-	45,156
DR Jones	Rights	1 Jun 2004	19 Jul 2005	20,000	-	57,800
CJ Bryce	Rights	1 Jun 2004	19 Jul 2005	15,625	-	45,156
DJ O'Connor	Rights	1 Jun 2004	19 Jul 2005	12,500	-	36,125
PG Beckett	Rights	1 Jun 2004	19 Jul 2005	10,000	-	28,900
P Nutbean	Rights	1 Jun 2004	19 Jul 2005	6,250	-	18,062
J Bell	Rights	1 Jun 2004	19 Jul 2005	6,250	-	18,062
AE Sioshberg	Rights	1 Jun 2004	19 Jul 2005	20,000	-	57,800
DR Jones	Options	17 Sep 2003	24 Feb 2006	50,000	1.52	167,500
DR Jones	Options	17 Sep 2003	22 Jun 2006	60,000	1.52	265,800
Total				216,250		740,361

2005	Type	Date Granted	Date Exercised	Number of Shares Issued	Exercise Price $	Fair value at exercise date $
Executive Director						
BAE Saunders	Options	17 Sep 2003	25 Feb 2005	461,273	1.52	793,390
Other Key Management Personnel						
DR Jones	Options	28 Feb 2000	25 Feb 2005	168,252	0.67	432,408
DR Jones	Options	17 Sep 2003	25 Feb 2005	80,637	1.52	138,696
AE Sloshberg	Options	17 Sep 2003	21 Feb 2005	230,637	1.52	433,598
Total				940,799		1,798,092

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

Cash Bonuses and Performance Rights

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

	Cash Bonus		Performance Rights				
Key Management Personnel	Paid %	Forfeited %	Date Granted	Vested %	Forfeited %	Financial years in which rights may vest	Maximum total value of grants yet to vest $
Executive Director							
BAE Saunders	100	0	FY2004	0	0	FY2007	210,289
Other Key Management Personnel							
CT McShanag	100	0	FY2006	0	0	FY2010	29,520
			FY2004	25	0	FY2007-9	75,690
DR Jones	100	0	FY2006	0	0	FY2010	51,660
			FY2004	0	0	FY2007-9	96,883
CJ Bryce	100	0	FY2006	0	0	FY2010	51,660
			FY2004	25	0	FY2007-9	75,690
DJ O'Connor	100	0	FY2006	0	0	FY2010	29,520
			FY2004	25	0	FY2007-9	60,552
PG Beckett	100	0	FY2006	0	0	FY2010	29,520
			FY2004	25	0	FY2007-9	48,441
P Nutbean	100	0	FY2006	0	0	FY2010	22,140
			FY2004	25	0	FY2007-9	30,276
J Bell	100	0	FY2006	0	0	FY2010	22,140
			FY2004	25	0	FY2007-9	30,276
AE Sloshberg[1]	0	100	FY2006	0	100	-	0
			FY2004	25	50	FY2007-9	34,581

[1] *Performance Rights granted to AE Sloshberg lapsed on 26 June 2006.*

DIRECTORS' REPORT (CONTINUED)

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 listing:

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	Dividends paid or declared per share
FY2005	$6.5m	21.4%	26.7	16.2%	$2.00	$2.99	49.5%	$0.170
FY2006	$9.1m	38.7%	35.9	34.5%	$2.99	$5.95	99.0%	$0.305

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% and 38.7% in FY2005 and FY2006 and shareholder wealth has grown by 198% over the 2 years. In addition, dividends have been paid or declared of $0.170 and $0.305 per share in FY2005 and FY2006 respectively. Performance related remuneration paid to key management personnel who were key management personnel in both current and prior years, has grown by 13.5% in FY2006.

Shares under options or performance rights

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

Type	Date of Grant	Expiry Date	Date Exercisable	Value at Grant Date $	Exercise Price $	No. on Issue
Options	17 Sept 2003	17 Sept 2008	1 June 2004	-	1.52	40,000
Rights	1 June 2004	31 May 2009	26 June 2006	1.73	-	20,000
Rights	1 June 2004	31 May 2009	2 July 2007	1.61	-	105,000
Rights	1 June 2004	31 May 2009	30 June 2008	1.50	-	105,000
Rights	17 Aug 2005	16 Aug 2010	1 July 2009	2.46	-	132,000
Rights	12 July 2006	31 May 2009	30 June 2008	5.33	-	4,375
Rights	12 July 2006	18 Aug 2010	1 July 2009	5.33	-	9,000
Total						415,375

Shares issued on the exercise of options and performance rights

The following shares of the Company were issued during the year ended 25 June 2006 and to the date of this report on the exercise of options and performance rights:

Date Granted	Issue price of shares $	Number of shares issued
17 September 2003	1.52	110,000
1 June 2004	-	355,000
Total		465,000

No amounts are unpaid on any of these shares.

Remuneration of auditors

	Consolidated Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
During the year the following services were paid to PricewaterhouseCoopers as the auditor of the parent entity and its related practices:				
Audit and Accounting Related Services				
Audit and review work	149,000	104,200	149,000	104,200
IFRS accounting services	-	41,500	-	41,500
	149,000	145,700	149,000	145,700
Tax Compliance and Consulting Services				
Tax compliance	23,000	15,000	23,000	15,000
Tax consulting advice	-	19,300	-	19,300
	23,000	34,300	23,000	34,300
Other Services				
Other assurance services	-	52,690	-	52,690
Total Remuneration	172,000	232,690	172,000	232,690

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:

- All non-audit services reviewed by the Board did not impact 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 reviewing or auditing the auditors own work, acting in a management or a decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk or rewards.

A copy of the auditor's independence declaration is contained on page 24 of this annual report.

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

BJ Beattie
Chairman

BAE Saunders
Managing Director

16 August 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website:www.pwc.com/au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999
Direct Phone +61 3 860 36860
Direct Fax +61 3 861 32151

Auditor's Independence Declaration

As lead auditor for the audit of The Reject Shop Limited for the year ended 25 June 2006, I declare that to the best of my knowledge and belief, there have been:

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

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
16 August 2006

INCOME STATEMENTS
For the year ended 25 June 2006

		Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
	Note	$'000	$'000	$'000	$'000
Revenues from continuing operations					
Sales revenue	2	237,192	203,098	237,192	203,098
Other income	2	567	317	567	317
		237,759	203,415	237,759	203,415
Expenses					
Cost of sales		123,137	105,604	123,137	105,604
Store expenses		74,744	65,869	74,744	65,869
Administrative expenses		19,186	16,136	19,186	16,136
Warehousing expenses		7,084	5,709	7,084	5,709
		224,151	193,318	224,151	193,318
Finance costs	3	536	679	536	679
Profit before income tax		13,072	9,418	13,072	9,418
Income tax expense	4	4,020	2,891	4,020	2,891
Profit Attributable to Members of The Reject Shop Limited		9,052	6,527	9,052	6,527
Earnings per Share		Cents	Cents	Cents	Cents
Basic earnings per share	30	35.9	26.7	35.9	26.7
Diluted earnings per share	30	34.9	25.7	34.9	25.7

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

BALANCE SHEETS
As at 25 June 2006

		Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
	Note	$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash assets	5	5,640	4,930	5,640	4,930
Receivables	6	224	47	224	47
Inventories	7	23,699	21,305	23,699	21,305
Other	8	430	615	430	615
TOTAL CURRENT ASSETS		29,993	26,897	29,993	26,897
NON-CURRENT ASSETS					
Other financial assets	9	-	-	1	1
Property, plant and equipment	10	24,715	17,659	24,715	17,659
Deferred tax assets	11	2,900	2,211	2,900	2,211
TOTAL NON-CURRENT ASSETS		27,615	19,870	27,616	19,871
TOTAL ASSETS		57,608	46,767	57,609	46,768
CURRENT LIABILITIES					
Payables	12	15,726	10,882	16,729	11,886
Borrowings	13	937	2,390	937	2,390
Tax liabilities	14	1,496	1,314	1,496	1,314
Provisions	15	5,584	3,731	5,584	3,731
Other	16	4,419	3,448	4,419	3,448
TOTAL CURRENT LIABILITIES		28,162	21,765	29,165	22,769
NON-CURRENT LIABILITIES					
Borrowings	17	421	1,079	421	1,079
Provisions	18	2,390	2,030	2,390	2,030
TOTAL NON-CURRENT LIABILITIES		2,811	3,109	2,811	3,109
TOTAL LIABILITIES		30,973	24,874	31,976	25,878
NET ASSETS		26,635	21,893	25,633	20,890
EQUITY					
Contributed equity	19	3,442	3,046	3,442	3,046
Reserves	20	1,668	1,327	1,668	1,327
Retained profits	21	21,525	17,520	20,523	16,517
TOTAL EQUITY		26,635	21,893	25,633	20,890

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

STATEMENTS OF CHANGES IN EQUITY

For the year ended 25 June 2006

		Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
	Note	$'000	$'000	$'000	$'000
Total equity at the beginning of the period		21,893	16,566	20,891	15,563
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to Hedging Reserve	20	105	-	105	-
Net revaluation of Cash Flow Hedges	20	113	-	113	-
Deferred tax credited directly to equity	19	50	51	50	51
Net income recognised directly in equity		268	51	268	51
Profit for the year	21	9,052	6,527	9,052	6,527
Total recognised income and expense for the period		31,213	23,144	30,211	22,141
Transaction costs arising from issuing of shares		(72)	-	(72)	-
Transactions with equity holders in their capacity as equity holders:					
Proceeds from exercise of options	19	167	1,329	167	1,329
Dividends provided for or paid	21	(5,047)	(3,110)	(5,047)	(3,110)
Share based remuneration	20	374	530	374	530
Total equity at the end of the period		26,635	21,893	25,633	20,890

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

CASH FLOW STATEMENTS
For the year ended 25 June 2006

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		260,491	223,223	260,491	223,223
Payments to suppliers and employees (inclusive of goods and services tax)		(236,549)	(207,773)	(236,549)	(207,773)
Interest received		229	150	229	150
Borrowing costs paid		(536)	(679)	(536)	(679)
Income tax paid		(4,476)	(3,887)	(4,476)	(3,887)
Net cash inflow from operating activities	24	19,159	11,034	19,159	11,034
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		60	102	60	102
Payments for property, plant and equipment		(11,446)	(6,145)	(11,446)	(6,145)
Net cash outflow from investing activities		(11,386)	(6,043)	(11,386)	(6,043)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	19	167	1,329	167	1,329
Payment of transaction costs arising from issue of shares	19	(72)	-	(72)	-
Repayment of finance leases		(1,614)	(1,273)	(1,614)	(1,273)
Dividends paid	21	(5,047)	(3,110)	(5,047)	(3,110)
Net cash outflow from financing activities		(6,566)	(3,054)	(6,566)	(3,054)
Net increase in cash held		1,207	1,937	1,207	1,937
Cash at the beginning of the financial year		4,433	2,496	4,433	2,496
Cash at the end of the year	24	5,640	4,433	5,640	4,433

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 equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issued Group Interpretations and the Corporations Act 2001.

Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of The Reject Shop Limited comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs 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.*

These financial statements are the first The Reject Shop Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of The Reject Shop Limited until 26 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing The Reject Shop Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 27 June 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the consolidated entities equity and its net income are given in note 35.

Early adoption of standards

The Group has elected to apply AASB 119 *Employee Benefits* (issued in December 2004) to the annual reporting period beginning 27 June 2005. This includes applying the standards to the comparatives in accordance with AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

Historical cost convention

These financial statements have been prepared under the historical cost convention.

(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 25 June 2006 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.

(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, are 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
- Fixture and Fittings	5 – 14 years
- Motor vehicles	4 – 8 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 lease property 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.

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 no realistic alternative but to settle the 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.

For options vested before 1 January 2005, no expense has been recognised in respect of these options. The shares are recognised when the options are exercised and any proceeds received allocated to contributed equity.

For performance rights granted after 7 November 2002 and vested after 1 January 2005, the fair value of performance rights granted are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares. The fair value at grant date is determined using a Black-Scholes options pricing model that takes into account the exercise price, the term of the performance rights, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the performance rights, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance rights.

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

From 27 June 2004 to 26 June 2005

The consolidated entity has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 27 June 2005. The consolidated entity has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139 where the net amount receivable or payable under the hedging transaction was recorded in the balance sheet.

Adjustments on transition date: 27 June 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured at fair value. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition changes in the carrying amounts of derivatives were taken to retained earnings or reserves, depending on whether the criteria for hedge accounting was satisfied at the transition date.

From 27 June 2005

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 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) 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.

(l) Borrowing costs

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

(m) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable at each reporting date. 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.

(n) 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.

(o) 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.

(p) 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 number of ordinary shares outstanding at the end of the 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.

(q) 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.

(r) 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.

(s) Restoration costs

Upon the finalisation of a lease period and prior to return of the premises to a landlord, a leased premise may require expenditure to return the premise to its original format. An expense is provided for in the period that the closure is formally approved by the Company, as this is when costs are committed and reliably measured.

(t) Store opening costs

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

(u) Training subsidies

Government subsidies for employees undertaking external traineeships are treated as income in the period they are received.

(v) 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.

(w) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for the 25 June 2006 reporting period. The Company's assessment of the impact of these new standards and interpretations is set out below:

(i) UIG 4 Determining whether an Asset Contains a Lease

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The Company has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The Company will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 27 June 2006. Implementation of UIG 4 is not expected to change the accounting for any of the Company's current arrangements.

(ii) AASB 2005-9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]

AASB 2005-9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Company has not elected to adopt the amendments early. It will apply the revised standards in its June 2007 financial statements. Application of the revised rules may result in the recognition of financial liabilities in the financial statements of the parent entity, under guarantees given pursuant to the deed of cross guarantee (see note 13) in respect of amounts payable by its wholly-owned subsidiary. An assessment of the fair value of these guarantees has not yet been performed. The new rules will be implemented retrospectively with a restatement of the comparatives as required by AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

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

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

(iv) AASB 2005-1 Amendments to Australian Accounting Standard [AASB 139]

AASB 2005-1 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to cash flow hedge accounting of forecast intra-group transactions. The Company has not elected to adopt the standard early. Application of the standard is not expected to change the accounting for any of the Company's current arrangements.

Note 2: Revenue from continuing operations

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Sales Revenue				
Sales of goods	237,192	203,098	237,192	203,098
Other Income				
Interest	229	150	229	150
Training subsidies	338	167	338	167
	567	317	567	317
	237,759	203,415	237,759	203,415

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000

Note 3: Expenses

Profit before income tax expense includes the following expenses:

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Interest and finance charges paid/payable	536	679	536	679
Depreciation and amortisation	4,022	3,392	4,022	3,392
Net loss on disposal of property, plant and equipment	308	867	308	867
Rental expenses relating to operating leases				
Minimum lease payments	28,224	25,222	28,224	25,222
Provision for rent escalation	320	46	320	46
Rent paid on percentage of sales basis	275	305	275	305

Note 4: Income tax expense

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Income tax expense				
Current tax	4,723	3,764	4,723	3,764
Deferred tax	(689)	(780)	(689)	(780)
Over provided in prior years	(14)	(93)	(14)	(93)
	4,020	2,891	4,020	2,891
Deferred income tax expense included in income tax expense comprises:				
Increase in net deferred tax assets	(689)	(780)	(689)	(780)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	13,072	9,418	13,072	9,418
Tax at the Australian tax rate of 30% (2005 – 30%)	3,922	2,825	3,922	2,825
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share based payments	112	159	112	159
	4,034	2,984	4,034	2,984
Over provided in prior years	(14)	(93)	(14)	(93)
Income tax expense	4,020	2,891	4,020	2,891
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited in equity				
Current tax – credited directly to equity	(50)	(50)	(50)	(50)

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000

Note 5: Current assets - cash assets

	Note	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
Cash on hand	24	368	283	368	283
Cash at bank	24	5,272	4,647	5,272	4,647
		5,640	4,930	5,640	4,930

Note 6: Current assets - receivables

	Note	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
Other debtors		224	47	224	47

Note 7: Current assets - inventories

	Note	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
Inventory at cost		23,642	21,086	23,642	21,086
Inventory at net realisable value		57	219	57	219
		23,699	21,305	23,699	21,305

Note 8: Current assets - other

	Note	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
Prepayments		69	84	69	84
Derivative financial instruments		218	365	218	365
Other current assets		143	166	143	166
		430	615	430	615

Note 9: Non-current assets - other financial assets

	Note	Consolidated 2006	Consolidated 2005	Parent 2006	Parent 2005
Shares in controlled entities - at cost		-	-	1	1

Note 10: Non-current assets - property, plant and equipment

	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Leasehold improvements				
At cost	9,188	7,710	9,188	7,710
Less accumulated depreciation	(4,710)	(4,392)	(4,710)	(4,392)
	4,478	3,318	4,478	3,318
Under finance lease and hire purchase	1,540	1,559	1,540	1,559
Less accumulated amortisation	(463)	(325)	(463)	(325)
	1,077	1,234	1,077	1,234
Plant & equipment*				
At cost	28,271	20,118	28,271	20,118
Less accumulated depreciation	(12,404)	(11,112)	(12,404)	(11,112)
	15,867	9,006	15,867	9,006
Under finance lease and hire purchase	9,112	9,054	9,112	9,054
Less accumulated amortisation	(5,819)	(4,953)	(5,819)	(4,953)
	3,293	4,101	3,293	4,101
Total Property, Plant & Equipment	24,715	17,659	24,715	17,659

* Plant & equipment includes fixtures, fittings and motor vehicles as well as $2,952,271 (FY2005: $Nil) of work in progress costs associated with the development of the new Distribution Centre.

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 At Cost $'000	Leasehold improvements Leased $'000	Plant & equipment At Cost $'000	Plant & equipment Leased $'000	Total $'000
Balance at beginning of the year	3,318	1,234	9,006	4,101	17,659
Additions	1,881	-	9,260	305	11,446
Disposals	(102)	-	(187)	(79)	(368)
Depreciation/amortisation expense	(619)	(157)	(2,212)	(1,034)	(4,022)
Balance at end of the year	4,478	1,077	15,867	3,293	24,715

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000

Note 11: Non-current assets – deferred tax assets

The balance comprises temporary differences attributable to:

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Amounts recognised in profit or loss					
Employee benefits		1,272	989	1,272	989
Non deductible accruals		818	723	818	723
Inventories		565	555	565	555
Lease incentives		108	145	108	145
Sundry items		137	65	137	65
		2,900	2,477	2,900	2,477
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:					
Finance leases		(43)	(69)	(43)	(69)
Depreciation		32	(175)	32	(175)
Sundry items		11	(22)	11	(22)
		2,900	2,211	2,900	2,211

Note 12: Current liabilities – payables

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Unsecured liabilities					
Trade creditors		13,742	9,348	13,742	9,348
Sundry creditors and accruals		1,984	1,534	2,987	2,538
		15,726	10,882	16,729	11,886

Note 13: Current liabilities - borrowings

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Secured liabilities					
Bank overdrafts	24	-	497	-	497
Finance lease liability	22	123	358	123	358
Hire purchase liability	22	814	1,535	814	1,535
		937	2,390	937	2,390

Bank overdraft and bank loans 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, undertaking (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, undertaking (including goodwill) and unpaid/uncalled capital of the Company.

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

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000

Note 14: Current liabilities - tax liabilities

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Income tax		1,496	1,314	1,496	1,314

Note 15: Current liabilities – provisions

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Employment entitlements		5,584	3,731	5,584	3,731

Note 16: Current liabilities - other

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Accrued expenses		3,883	2,930	3,883	2,930
Deferred income		536	518	536	518
		4,419	3,448	4,419	3,448

Note 17: Non-current liabilities – borrowings

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Secured liabilities					
Finance lease liability	22	57	181	57	181
Hire purchase liability	22	364	898	364	898
		421	1,079	421	1,079

Note 18: Non-current liabilities – provisions

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Employment entitlements		837	927	837	927
Provision for rent escalation		1,553	1,103	1,553	1,103
		2,390	2,030	2,390	2,030

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

	$'000
Balance at beginning of period	1,103
Transfer to profit and loss	(185)
Additional provision recognised	635
Balance at end of period	1,553

Note 19: Contributed equity

Movements in ordinary share capital:

Date	Details	Number of shares	Issue price per share $	Contributed Equity $'000
Opening balance		24,075,110		1,667
21 February 2005	Proceeds from exercise of options	230,637	$1.52	351
25 February 2005	Proceeds from exercise of options	230,638	$0.67	154
25 February 2005	Proceeds from exercise of options	541,910	$1.52	824
	Deferred tax credit			50
Closing balance		25,078,295		3,046

Date	Details	Number of shares	Issue price per share $	Contributed Equity $'000
Opening balance		25,078,295		3,046
19 July 2005	Exercise of performance rights including transfer from share-based payments reserve on exercise	125,000	-	251
24 February 2006	Proceeds from exercise of options	50,000	$1.52	76
22 June 2006	Proceeds from exercise of options	60,000	$1.52	91
21 June 2006	Transaction costs arising from issuing of shares			(72)
	Deferred tax credit			50
Closing balance		25,313,295		3,442

Note 20: Equity – reserves

	Consolidated Entity		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Capital profits reserve	739	739	739	739
Share based payments reserve	711	588	711	588
Hedging reserve – cash flow hedges	218	-	218	-
	1,668	1,327	1,668	1,327
Movements:				
Share based payments reserve				
Balance at beginning of period	588	58	588	58
Rights expense	374	530	374	530
Transfer to contributed equity	(251)	-	(251)	-
Balance at end of period	711	588	711	588
Hedging reserve – cash flow hedges				
Balance at beginning of period	-			-
Adjustments on adoption of AASB 132 and AASB 139, net of tax	105	-	105	-
Transfer to inventory	(105)	-	(105)	-
Revaluation of cash flow hedges	218	-	218	-
Balance at end of period	218	-	218	-

Nature and purpose of reserves

(i) Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 25. Amounts accumulated in equity are included in the cost of the hedged item when the forecast purchase that is hedged takes place.

(ii) Share-based payments reserve

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

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000

Note 21: Equity – retained profits

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Retained profits at the beginning of the financial period		17,520	14,103	16,518	13,100
Net profit attributable to members of the consolidated entity		9,052	6,527	9,052	6,527
Dividends provided for or paid		(5,047)	(3,110)	(5,047)	(3,110)
Retained profits at reporting date		21,525	17,520	20,523	16,517

Dividends were paid on 23 September 2005 of 7.0 cents per share totalling $1,764,231 and on 17 March 2006 of 13.0 cents per share totalling $3,282,928.

Note 22: Commitments

Operating lease commitments

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

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Not later than one year		27,192	24,306	27,192	24,306
Later than one year and not later than five years		62,879	51,591	62,879	51,591
Later than five years		2,845	2,952	2,845	2,952
		92,916	78,849	92,916	78,849

Finance leasing commitments

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Payable:					
Not later than one year		137	401	137	401
Later than one year and not later than five years		59	196	59	196
Minimum lease payments		196	597	196	597
Less future finance charges		(16)	(58)	(16)	(58)
Total lease liability		180	539	180	539
Represented by:					
Current liability	13	123	358	123	358
Non-current liability	17	57	181	57	181
		180	539	180	539

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

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000

Hire purchase commitments

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Payable:					
Not later than one year		911	1,764	911	1,764
Later than one year and not later than five years		416	973	416	973
Minimum hire purchase payments		1,327	2,737	1,327	2,737
Less future finance charges		(149)	(304)	(149)	(304)
Total hire purchase liability		1,178	2,433	1,178	2,433

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

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Represented by:					
Current liability	13	814	1,535	814	1,535
Non-current liability	17	364	898	364	898
		1,178	2,433	1,178	2,433

Capital commitments

The consolidated entity has capital commitments totalling $905,898 (FY2005 - $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:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Within one year	-	-	-	-
Later than one year and not later than five years	200	200	200	200
Later than five years	-	-	-	-
	200	200	200	200

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel of the remuneration report on page 19 that are not recognised as liabilities and are not included in the key management personnel compensation.

Note 23: Contingent liabilities

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

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Letters of credit established for acquisition of goods for resale	474	211	474	211
ANZ Bank indemnity guarantee to landlords	1,608	1,073	1,608	1,073
	2,082	1,284	2,082	1,284

Note 24: Cash flow information

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:

	Note	Consolidated Entity 2006 $'000	Consolidated Entity 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Cash on hand		368	283	368	283
Cash at bank		5,272	4,647	5,272	4,647
Bank overdrafts		-	(497)	-	(497)
		5,640	4,433	5,640	4,433
Reconciliation of Cash Flow from operations with profit from ordinary activities					
Profit from ordinary activities after Income Tax		9,052	6,527	9,052	6,527
Non-cash flows in profit from ordinary activities					
Amortisation of leased assets		368	487	368	487
Depreciation		3,654	2,906	3,654	2,906
Loss on sale of property, plant and equipment		308	867	308	867
Non cash share based expense		374	530	374	530
Fair Value adjustment to derivatives		218	-	218	-
Current tax credited directly to equity		50	50	50	50
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries					
(Increase) / Decrease in receivables and other assets		8	(231)	8	(231)
(Increase) in inventories		(2,394)	(1,056)	(2,394)	(1,056)
Increase in trade and other creditors and other provisions		8,028	2,000	8,028	2,000
Increase / (Decrease) in income tax payable		182	(266)	182	(266)
(Increase) in deferred tax assets		(689)	(780)	(689)	(780)
Net cash provided by operations		19,159	11,034	19,159	11,034
Non-cash financing and investing activities					
Acquisition of plant & equipment by means of finance lease		305	305	305	305

Credit standby arrangement and loan facilities

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

	2006 Limit $'000	2006 Utilised $'000	2005 Limit $'000	2005 Utilised $'000
Interchangeable Working Capital Facility	11,000	474	11,000	971
Interchangeable Asset Finance Facility	5,000	823	5,000	2,949
Foreign Currency Settlement	2,000	-	2,000	867
Other Facilities	4,992	1,608	4,992	1,073
Total	22,992	2,905	22,992	5,860

A seasonal facility of $12,000,000 was utilised from 1 July 2005 and repaid in full by 25 December 2005.

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000

Note 25: Financial instruments

Derivative financial instruments

Current assets				
Forward foreign exchange contracts – cash flow hedges	218	-	218	-

Transition to AASB 132 and AASB 139

The consolidated entity has taken the exemption available under AASB 1 First-time adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosures and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. At the date of transition to these standards of 1 July 2005 a pre-tax net adjustment of a $104,545 increase in net assets was recognised representing the re- classification of foreign currency cash flow hedges under AASB 139 from deferred exchange gains to equity and re-measurement to fair value.

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	
		2006	2005	2006	2005
Sell	Buy	$'000	$'000	$	$
Australian Dollars	United States Dollars	16,141	14,907	0.74	0.77
Australian Dollars	Euro	254	1,160	0.59	0.60
Australian Dollars	Pounds Sterling	482	1,087	0.42	0.41

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

At the balance date these contracts were assets of $218,160 (FY2005 - $Nil) classified in other debtors. In the year ended 25 June 2006:

- On the date of transition to AASB 132 and AASB 139 on 27 June 2005 the assets were reclassified from other debtors and remeasured to $104,545. An equivalent amount was reclassified to equity, net of tax; and
- There was a gain from the increase in fair value of the asset of $113,615 during the year.

During the year ended 25 June 2006 $104,545 (FY2005 - $Nil) was removed from equity and included in the acquisition cost of goods and a gain of $Nil (FY2005 - $Nil) was transferred to profit and loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note 25: Financial instruments (cont)

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	
	2006 %	2005 %	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Financial Assets						
Cash	4.17	3.83	5,640	4,930	-	-
Financial Liabilities						
Bank loans and overdrafts	5.75	5.55	-	-	-	497
Hire purchase liabilities	6.56	6.88	-	-	814	1,535
Lease liabilities	6.46	8.50	-	-	123	358
Total Financial Liabilities			-	-	937	2,390

	Fixed Interest Rate Maturing 1 to 5 years		Over 5 Years	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Financial Assets	-	-	-	-
Financial Liabilities				
Hire purchase liabilities	364	898	-	-
Lease liabilities	57	181	-	-
Total Financial Liabilities	421	1,079	-	-

	Non-interest Bearing		Total	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Financial Assets				
Cash	-	-	5,640	4,930
Receivables and other debtors	224	47	224	47
Total Financial Assets	224	47	5,864	4,977
Financial Liabilities				
Bank loans and overdrafts	-	-	-	497
Trade, sundry, and other creditors	20,145	14,330	20,145	14,330
Hire purchase liabilities	-	-	1,178	2,433
Lease liabilities	-	-	180	539
Total Financial Liabilities	20,145	14,330	21,503	17,799

Credit risk

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

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

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

Net fair values

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

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

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

Note 26: Key management personnel disclosures

Non executive directors

BJ Beattie – Chairman

AC McMorron – Non-executive director

J Shuster – Non-executive director

Executive director

BAE Saunders – Managing Director

All of the above persons were directors of The Reject Shop Limited for the entire year ended 25 June 2006.

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 (from 1 January 06)
DR Jones	–	General Manager, Store Operations
CJ Bryce	–	Chief Financial Officer
DJ O'Connor	–	Chief Information Officer
PG Beckett	–	General Manager, Logistics
AE Sloshberg	–	General Manager, Merchandise (27 June 05 to 31 December 05)
P Nutbean	–	General Manager, Property
J Bell	–	General Manager, Human Resources

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire year ended 25 June 2006, unless otherwise stated.

Note 26: Key management personnel disclosures (cont)

Remuneration of key management personnel

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Short-term employee benefits	2,893,272	2,253,749	2,893,272	2,253,749
Post-employment benefits	204,595	171,470	204,595	171,470
Share-based payments	321,138	412,026	321,138	412,026
	3,419,005	2,837,245	3,419,005	2,837,245

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 16 to 22.

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 terms and conditions of the options and performance rights, can be found in the remuneration report on pages 16 to 22 of this annual report.

The number of 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:

2006	Balance at the start of the year	Performance rights granted during the year	Options exercised during the year	Performance rights exercised during the year	Other changes during the year	Balance at end of the year	Options vested and exercisable at end of the year	Performance rights vested during the year
Directors								
BJ Beattie	-	-	-	-	-	-	-	-
AC McMorron	-	-	-	-	-	-	-	-
J Shuster	-	-	-	-	-	-	-	-
Executive Director								
BAE Saunders	125,000	-	-	-	-	125,000	-	-
Other Key Management Personnel								
CT McShanag	62,500	12,000	-	(15,625)	-	58,875	-	15,625
DR Jones	230,000	21,000	(110,000)	(20,000)	-	121,000	40,000	20,000
CJ Bryce	62,500	21,000	-	(15,625)	-	67,875	-	15,625
DJ O'Connor	50,000	12,000	-	(12,500)	-	49,500	-	12,500
PG Beckett	40,000	12,000	-	(10,000)	-	42,000	-	10,000
P Nutbean	25,000	9,000	-	(6,250)	-	27,750	-	6,250
J Bell	25,000	9,000	-	(6,250)	-	27,750	-	6,250
AE Stoshberg	80,000	21,000	-	(20,000)	-	81,000	-	20,000
Total	700,000	117,000	(110,000)	(106,250)	-	600,750	40,000	106,250

Subsequent to year end 13,375 performance rights have been granted to key management personnel. In addition 231,250 performance rights granted to key management personnel vested, of which 211,250 have been exercised. A total of 61,000 performance rights granted to key management personnel have lapsed since year end.

2005	Balance at the start of the year	Performance rights granted during the year	Options exercised during the year	Performance rights exercised during the year	Other changes during the year	Balance at end of the year	Vested and exercisable at end of the year	Options/ Performance rights vested during the year
Directors								
BJ Beattie	-	-	-	-	-	-	-	-
AC McMorron	-	-	-	-	-	-	-	-
J Shuster	-	-	-	-	-	-	-	-
Executive Director								
BAE Saunders	586,273	-	(461,273)	-	-	125,000	-	-
Other Key Management Personnel								
DR Jones	478,889	-	(248,889)	-	-	230,000	150,000	-
CJ Bryce	62,500	-	-	-	-	62,500	-	-
DJ O'Connor	50,000	-	-	-	-	50,000	-	-
PG Beckett	40,000	-	-	-	-	40,000	-	-
P Nutbean	25,000	-	-	-	-	25,000	-	-
J Bell	25,000	-	-	-	-	25,000	-	-
AE Sloshberg	310,637	-	(230,637)	-	-	80,000	-	-
Total	1,578,299	-	(940,799)	-	-	637,500	150,000	-

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:

2006	Balance at the start of the year	Received during the year on the exercise of performance rights or options	Other changes during the year	Balance at end of the year
Non-executive Directors				
BJ Beattie	-	-	100,000	100,000
AC McMorron	140,000	-	-	140,000
J Shuster	575,000	-	-	575,000
Key Management Personnel				
Executive Director				
BAE Saunders	982,979	-	(40,000)	942,979
Other Key Management Personnel				
CT McShanag	587,312	15,625	(251,000)	351,937
DR Jones	248,889	130,000	(20,000)	358,889
CJ Bryce	69,019	15,625	(6,500)	78,144
DJ O'Connor	13,500	12,500	-	26,000
PG Beckett	5,000	10,000	-	15,000
P Nutbean	-	6,250	-	6,250
J Bell	2,500	6,250	(2,500)	6,250
AE Sloshberg[1]	398,889	20,000	(418,889)	-
Total	3,023,088	216,250	(638,639)	2,600,449

[1] *AE Sloshberg's share holding has been shown as nil at the end of the year as he is no longer a key management personnel.*

Note 26: Key management personnel disclosures (cont)

2005	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Non-executive Directors				
BJ Beattie	-	-	-	-
AC McMorron	70,000	-	70,000	140,000
J Shuster	575,000	-	-	575,000
Key Management Personnel				
ExecutiveDirector				
BAE Saunders	521,706	461,273	-	982,979
Other Key Management Personnel				
DR Jones	-	248,889	-	248,889
CJ Bryce	35,000	-	34,019	69,019
DJ O'Connor	13,500	-	-	13,500
PG Beckett	5,000	-	-	5,000
P Nutbean	-	-	-	-
J Bell	2,500	-	-	2,500
AE Sloshberg	168,252	230,637	-	398,889
Total	1,390,958	940,799	104,019	2,435,776

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 25 June 2006 (FY2005 - $Nil).

No other transactions were undertaken with directors or other key management personnel, including related parties during the year (FY2005 - $Nil).

Note 27: Share-based payments

Performance Rights Plan (PRP)

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

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

2006

Date of grant	Expiry Date	Date Exercisable	Fair Value at Grant Date $	Balance at start of year	Granted during the year	Exercised during the year	Other changes during the year	Balance at end of the year	Vested and exercisable at the end of the year
1 June 2004	31 May 2009	27 June 2005	1.85	125,000	-	(125,000)	-	-	-
1 June 2004	31 May 2009	26 June 2006	1.73	200,000	-	-	-	200,000	-
1 June 2004	31 May 2009	2 July 2007	1.61	175,000	-	-	-	175,000	-
1 June 2004	31 May 2009	30 June 2008	1.50	125,000	-	-	-	125,000	-
17 Aug 2005	16 Aug 2010	1 July 2009	2.46	-	153,000	-	-	153,000	-
Total				625,000	153,000	(125,000)	-	653,000	-

2005

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	Other changes during the year	Balance at end of the year	Vested and exercisable at the end of the year
1 June 2004	31 May 2009	27 June 2005	1.85	125,000	-	-	-	125,000	-
1 June 2004	31 May 2009	26 June 2006	1.73	200,000	-	-	-	200,000	-
1 June 2004	31 May 2009	2 July 2007	1.61	175,000	-	-	-	175,000	-
1 June 2004	31 May 2009	30 June 2008	1.50	125,000	-	-	-	125,000	-
Total				625,000	-	-	-	625,000	-

For all grants the performance right is only exercisable if the EPS hurdle is met each year and the participant remains employed until one day after the end of the following financial year. For all grants made on 1 June 2004, in instances where an EPS hurdle is not met, the performance rights granted for that year convert to and are added to the following year's grant. The total exercise price payable on the exercise of one or more performance rights on a particular day is $1.00, irrespective 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 17 August 2005 the fair value was determined using Black-Scholes option pricing model that takes into account the following inputs:

(a) Performance rights are granted for no consideration, all grants are exercisable on 1 July 2009 provided the relevant EPS hurdle rate is met
(b) exercise price: $1.00 in total for all performance rights exercised
(c) expiry date: 30 June 2009
(d) share price at grant date: $3.22
(e) expected volatility of the Company's shares: 15%
(f) expected dividend yield: 7.0%
(g) risk-free interest rate: 5.5%

There were no performance rights granted in FY2005.

Performance rights do not carry voting or dividend entitlements.

Subsequent to year end, the Board has granted a further 13,375 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:

2006

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

Note 27: Share-based payments (cont)

2005

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
28 Feb 2000	28 Feb 2005		$0.67	168,252	-	(168,252)	-	-	-
10 Sept 2001	10 Sept 2006		$0.67	62,386	-	(62,386)	-	-	-
17 Sept 2003	17 Sept 2008		$1.52	922,547	-	(772,547)	-	150,000	150,000
Total				1,153,185	-	(1,003,185)	-	150,000	150,000

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 for performance rights granted for FY2006 are $374,094 (FY2005 - $530,023) for the Company and consolidated entity.

Note 28: Remuneration of auditors

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

	Consolidated Entity		Parent Entity	
	2006 $	2005 $	2006 $	2005 $
Audit and Accounting Related Services				
Audit and review work	149,000	104,200	149,000	104,200
IFRS accounting services	-	41,500	-	41,500
	149,000	145,700	149,000	145,700
Tax Compliance and Consulting Services				
Tax compliance	23,000	15,000	23,000	15,000
Tax consulting advice	-	19,300	-	19,300
	23,000	34,300	23,000	34,300
Other Services				
Other assurance services	-	52,690	-	52,690
Total remuneration	172,000	232,690	172,000	232,690

Note 29: Dividends

	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Since year end the directors have declared the payment of a fully franked final dividend of 10 cents per share and a fully franked special dividend of 7.5 cents per share. The amount of the proposed dividends to be paid on 15 September 2006 out of retained profits, but not recognised as a liability at year end, is	4,470	1,764	4,470	1,764
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%	13,832	11,438	15,247	11,438

Note 30: Earnings per share

	Consolidated	
	2006	2005
Basic earnings per share (cents)	35.9	26.7
Diluted earnings per share (cents)	34.9	25.7
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	25,212,855	24,410,200
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	25,939,103	25,427,925

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	
	2006	2005	2006	2005
	cents	cents	cents	cents
Net tangible asset backing per ordinary share	105.2	90.5	105.2	90.5

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 (FY2005 - $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.

Note 35: Explanation of transition to Australian equivalents to IFRSs

The effect of transition from AGAAP to AIFRS for the parent entity is the same as the effect on transition for the consolidated entity.

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 28 June 2004

		Consolidated Entity		
	Note	Previous AGAAP $'000	Effect of transition $'000	AIFRS $'000
CURRENT ASSETS				
Cash assets		3,056		3,056
Receivables		180		180
Inventories		20,249		20,249
Other		251		251
TOTAL CURRENT ASSETS		23,736		23,736
NON-CURRENT ASSETS				
Other financial assets		-		-
Property, plant and equipment	e	15,961	(86)	15,875
Deferred tax assets	d	1,107	324	1,431
TOTAL NON-CURRENT ASSETS		17,068		17,306
TOTAL ASSETS		40,804		41,042
CURRENT LIABILITIES				
Payables		10,689		10,689
Short term borrowings		2,351		2,351
Tax liabilities		1,580		1,580
Provisions	a	2,996	100	3,096
Other		2,668		2,668
TOTAL CURRENT LIABILITIES		20,284		20,384
NON-CURRENT LIABILITIES				
Long term borrowings		2,454		2,454
Provisions	a,c	655	983	1,638
TOTAL NON-CURRENT LIABILITIES		3,109		4,092
TOTAL LIABILITIES		23,393		24,476
NET ASSETS		17,411		16,566
EQUITY				
Contributed equity	d	1,616	50	1,666
Share based payments reserve	b	-	58	58
Capital profits reserve		739		739
Retained profits	h	15,056	(953)	14,103
TOTAL EQUITY		17,411		16,566

(b) At the end of the last reporting period under previous AGAAP: 26 June 2005

		Consolidated Entity		
	Note	Previous AGAAP $'000	Effect of transition $'000	AIFRS $'000
CURRENT ASSETS				
Cash assets		4,930		4,930
Receivables		47		47
Inventories		21,305		21,305
Other		615		615
TOTAL CURRENT ASSETS		26,897		26,897
NON-CURRENT ASSETS				
Other financial assets		-		-
Property, plant and equipment		17,659		17,659
Deferred tax assets	d	1,906	305	2,211
TOTAL NON-CURRENT ASSETS		19,565		19,870
TOTAL ASSETS		46,462		46,767
CURRENT LIABILITIES				
Payables		10,882		10,882
Short term borrowings		2,390		2,390
Tax liabilities		1,314		1,314
Provisions	a	3,731		3,731
Other		3,448		3,448
TOTAL CURRENT LIABILITIES		21,765		21,765
NON-CURRENT LIABILITIES				
Long term borrowings		1,079		1,079
Provisions	a,c	927	1,103	2,030
TOTAL NON-CURRENT LIABILITIES		2,006		3,109
TOTAL LIABILITIES		23,771		24,874
NET ASSETS		22,691		21,893
EQUITY				
Contributed equity	d	2,945	101	3,046
Share based payments reserve	b	-	588	588
Capital profits reserve		739		739
Retained profits	h	19,007	(1,487)	17,520
TOTAL EQUITY		22,691		21,893

Note 35: Explanation of transition to Australian equivalents to IFRSs (cont)

(2) Reconciliation of profit under previous AGAAP to profit under AIFRS

(a) Reconciliation of profit for the year ended 26 June 2005

		Consolidated Entity		
	Note	Previous AGAAP $'000	Effect of transition $'000	AIFRS $'000
Revenues from continuing activities				
Sales revenue		203,098		203,098
Other revenues from continuing activities	f	252	(102)	150
		203,350		203,248
Cost of sales		103,904		103,904
Store expenses	a,e	65,909	(40)	65,869
Administrative expenses	b,c,f	15,567	402	15,969
Distribution centre expenses		7,409		7,409
		192,789		193,151
Borrowing costs		679		679
Profit from continuing activities before income tax expense		9,882		9,418
Income tax expense relating to continuing activities	d	2,821	70	2,891
Net Profit Attributable to Members of The Reject Shop Limited		7,061		6,527

(3) Reconciliation of the cash flow statement for the year ended 26 June 2005

The adoption of AIFRS has not resulted in any material adjustments to the cash flows statements.

(4) Notes to the reconciliation

(a) Leases

AASB 117 – Leases requires the escalation amounts on leases containing fixed escalation clauses to be determined on lease inception and expensed evenly over the lease term, therefore bringing forward the impact of such escalation clauses into the current period. Under previous AGAAP lease payments under an operating lease were recognised as an expense in the period in which they were incurred.

(i) At 28 June 2004

For the consolidated entity there has been an increase of $1,186,749 in provision for future lease payments and a corresponding decrease in retained earnings.

(ii) At 26 June 2005

For the consolidated entity there has been an increase of $1,233,006 in provision for future lease payments and a corresponding decrease in retained earnings.

(iii) For the year ended 26 June 2005

For the consolidated entity there has been an increase of $46,257 in lease expense.

(b) Equity Based Compensation

AASB 2 – Share based payments requires the recognition of expense for all performance rights and options issued to employees after 7 November 2002 that had not vested by 1 January 2005. Under previous AGAAP there was no expense recognised for equity based compensation.

(i) At 28 June 2004

For the consolidated entity there has been an increase of $57,650 in share based payment reserve and a corresponding decrease in retained earnings.

(ii) At 26 June 2005

For the consolidated entity there has been an increase of $587,673 in share based payment reserve and a corresponding decrease in retained earnings.

(iii) For the year ended 26 June 2005

For the consolidated entity there has been an increase of $530,023 in employee benefit expense.

(c) Employee Benefits

AASB 119 – Employee benefits requires liabilities for employee annual leave to be discounted when the remaining liability is greater than 12 months. Previous AGAAP did not require discounting.

(i) At 28 June 2004

For the consolidated entity there has been a decrease of $104,415 in non current employee entitlements provision and a corresponding increase in retained earnings.

(ii) At 26 June 2005

For the consolidated entity there has been a decrease of $129,936 in non current employee entitlements provision and a corresponding increase in retained earnings.

(iii) For the year ended 26 June 2005

For the consolidated entity there has been a decrease of $25,521 in employee benefit expense.

(d) Income Taxes

AASB 112 – Income taxes requires deferred tax balances to be determined using the balance sheet method which calculates temporary differences based on the carrying amount of an entity's assets and liabilities in the balance sheet and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

Previous AGAAP determined tax balances using the income statement method, items are only tax-effected if they were included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes could not be recognised directly in equity.

(i) At 28 June 2004

For the consolidated entity there has been an increase of $324,453 in deferred tax assets and a corresponding increase in retained earnings as well as a deferred tax credit of $50,471 debited to retained earnings and a corresponding credit to contributed equity.

(ii) At 26 June 2005

For the consolidated entity there has been an increase of $304,835 in deferred tax assets and a corresponding increase in retained earnings, as well as a deferred tax credit of $100,942 debited to retained earnings and a corresponding credit to contributed equity.

(iii) For the year ended 26 June 2005

For the consolidated entity there has been an increase of $19,618 in tax expense.

Additionally, the consolidated entity there has been an increase of $50,471 in tax expense.

(e) Impairment of Assets

AASB 136 – Impairment of assets requires the recoverable amount of all assets be assessed at each reporting date on a discounted cash flow basis. The assessment is made for each store, as a defined cash generating unit. Under previous AGAAP the consolidated entity assessed recoverable amount on a non-discounted basis at the aggregate level of assets.

(i) At 28 June 2004

For the consolidated entity there has been a decrease of $86,129 in property, plant and equipment and a corresponding decrease in retained earnings.

(ii) At 26 June 2005

For the consolidated entity there was no effect.

(iii) For the year ended 26 June 2005

For the consolidated entity there has been a decrease of $86,219 in store expenses.

(f) Revenue

Under AIFRS, the revenue recognised in relation to the sale of non-current assets is the net gain or loss on sale. Under previous AGAAP gross proceeds from the sale were recognised as revenue and the carrying amount of the assets sold was recognised as expense.

(i) At 28 June 2004

For the consolidated entity there was no effect.

(ii) At 26 June 2005

For the consolidated entity there was no effect.

(iii) For the year ended 26 June 2005

For the consolidated entity there has been a decrease of $101,789 in revenue and a corresponding decrease in administration expenses.

Note 35: Explanation of transition to Australian equivalents to IFRSs (cont)

(g) Financial instruments

The consolidated entity has taken advantage of the exemption available under AASB 1 to apply AASB 132 – Financial Instruments: Disclosure and Presentation and AASB 139 – Financial Instruments: Recognition and Measurement only from 27 June 2005. This allows the consolidated entity to apply previous AGAAP to the comparative information of financial instruments within the scope of AASB 132 and AASB 139.

Under AASB 132, the current classification of financial instruments issued by the consolidated entity would not change.

(h) Retained earnings

The effect on retained earning of the changes set out above are as follows:

	Notes	28 June 2004 $'000	26 June 2005 $'000
Leases	a	(1,187)	(1,233)
Equity based compensation	b	(58)	(588)
Employee benefits	c	104	130
Income taxes	d	274	204
Impairment of assets	e	(86)	-
		(953)	(1,487)

DIRECTORS' DECLARATION

In the directors' opinion:

(a) The financial statements and notes set out on pages 25 to 56 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 25 June 2006 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out in pages 16 to 22 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

BAE Saunders
Managing Director

Dated this 16th day of August 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website:www.pwc.com/au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999
Direct Phone +61 3 860 36860
Direct Fax +61 3 861 32151

Independent audit report to the members of The Reject Shop Limited

Audit opinion

In our opinion:

1. the financial report of The Reject Shop Limited:
   - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of The Reject Shop Limited and The Reject Shop Limited Group as at 25 June 2006, and of their performance for the year ended on that date, and
   - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and

2. the remunerations disclosures that are contained on pages 16 to 22 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

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

Scope

The financial report, remunerations disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both The Reject Shop Limited (the company) and The Reject Shop Limited Group (the consolidated entity), for the year ended 25 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (audited remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 16 to 22 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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

PRICEWATERHOUSECOOPERS

Audit approach

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

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

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

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

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

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

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

Independence

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

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
16 August 2006

SHAREHOLDERS INFORMATION

The shareholder information set out below was applicable as at 31 July 2006.

(a) The distribution of shareholding was as follows:

Size of Shareholding	Shareholders
1 - 1,000	744
1,001 - 5,000	1153
5,001 - 10,000	233
10,001 - 100,000	142
100,001 and over	30

(b) 15 shareholders hold less than a marketable parcel of shares, being a market value of less than $500

(c) Substantial shareholders were:

Shareholder	Number	% Held
Commonwealth Bank of Australia	1,963,311	7.69%
Acorn Capital Limited	1,830,135	7.17%
Grahger Capital Investment P/L	1,800,000	7.05%
K2 Asset Management Pty Limited	1,746,656	6.84%

(d) The fully paid issued capital of the Company consisted of 25,543,295 shares held by 2,302 shareholders.

Each share entitles the holder to one vote.

(e) Unquoted Equity Securities

	Number on Issue	Number of holders
Unquoted Equity Securities Options issued under The Reject Shop Executive Option Plan	40,000	1
Performance Rights issued under The Reject Shop Performance Rights Plan	375,375	13

(f) Twenty largest shareholders

Shareholder	Number	% Held
National Nominees Limited	1,941,578	7.60%
Grahger Capital Investment P/L	1,800,000	7.05%
Citicorp Nominees P/L (CFSIL CFS WS Small Comp Account)	1,683,570	6.59%
JP Morgan Nominees Australia Ltd	1,657,221	6.49%
ANZ Nominees Limited	1,629,923	6.38%
Westpac Custodian Nominees Limited	1,596,553	6.25%
Highmont Heights Pty Ltd (Saunders Super Fund A.C)	935,479	3.66%
Cogent Nominees Pty Limited	538,735	2.11%
HSBC Custody Nominees (Australia) Limited	519,187	2.03%
Invia Custodian Pty Limited	459,820	1.80%
Perpetual Trustees Consolidated Limited	450,142	1.76%
RBC Global Services Australia Nominees Pty Limited	432,685	1.69%
Kembla No 20 Pty Ltd	415,902	1.63%
Mr Charlie McShanag	346,937	1.36%
Aust Executor Trustees NSW Ltd	270,709	1.06%
Cogent Nominees Pty Limited (SMP Account)	254,046	0.99%
Citicorp Nominees Pty Limited (CFSIL Cwlth Boff Super Account)	232,741	0.91%
Mr Ron and Mrs Cathy Jones	208,252	0.82%
Mr Anthony Young	175,000	0.69%
Mr Ron and Cathy Jones (R Jones Super Fund Plan Account)	170,637	0.67%
Total Top 20	15,719,117	61.54%

The twenty members holding the largest number of shares together held a total of 61.54% of the issued capital.

(g) Restricted Shares

There are no restricted shares on issue.

DIRECTORY

Company	The Reject Shop Limited
ABN	33 006 122 676
Directors	BJ Beattie *Chairman*
	BAE Saunders *Managing Director*
	AC McMorron *Non-executive Director*
	J Shuster *Non-executive Director*
Company Secretary	CJ Bryce
Principal Registered Office	245 Racecourse Road Kensington Vic 3031 Phone: (03) 9371 5555
Share Registry	Link Market Services Ltd Level 4, 333 Collins St Melbourne Vic 3000
Auditors	PricewaterhouseCoopers Freshwater Place 2 Southbank Boulevard Southbank Vic 3006
Lawyers	Baker McKenzie Level 39 525 Collins Street Melbourne Vic 3000
Stock Exchange Listing	The Reject Shop Limited shares are listed on the Australian Stock Exchange.
Website	www.rejectshop.com.au