Appendix 4D

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary half year report

For the 26 weeks ended 25 December 2011
Compared to the 26 weeks ended 26 December 2010

				$A'000
Revenues from continuing operations	up	6.1%	to	292,794
Profit from continuing operations after tax attributable to members	up	4.0%	to	16,553
Net profit for the period attributable to members	up	4.0%	to	16,553

Dividends	Amount per share	Franked amount per share
Interim dividend	24.0¢	100%

Record date for determining entitlements to the dividend	28 March 2012
Dividend payment date	16 April 2012

Commentary on the Company's trading result is included in the media release and on pages 2 to 4 of the half year report enclosed.

Overview of Financial Performance

Sales grew by 6.1% from $275.9m to $292.8m against the corresponding period last year. Comparable store sales declined by 1.6%. The first quarter sales were down 4.1% while second quarter sales progressively improved on the back of the reinstatement of the Ipswich Distribution Centre (DC) and a strong seasonal trade to be up 1.0%.

The uncertainty over the availability of the Ipswich Distribution Centre made the ability to plan inventory levels and sales for the first quarter challenging, which is reflected in the first few months of trading. The re-opening of the Ipswich DC (which had been closed since the January 2011 floods) and the October 2011 transfer of stock between Melbourne and Brisbane coincided with the peak seasonal trade, with a progressive improvement in sales throughout the second quarter.

Overall sales growth was driven by ten new store openings in the half, as well as growth from stores opened in the prior year. Two stores were successfully relocated during the half although several existing stores were negatively impacted by retail centre developments during the period.

Gross margin (after logistics and warehousing costs) increased from 43.6% to 44.8% as a percentage of sales compared to the corresponding period last year. As noted last year, the implementation of the Ipswich DC and the need to service two separate sites required significant changes to the overall supply chain of the business. Increasing the use of overseas consolidation centres added complexity to the sourcing process. The change led to increased shipping costs for products sourced overseas last year, with some process issues increasing these costs higher than anticipated.

In addition to the changes to product costing above, the overall logistics and warehousing costs increased this half due to the Ipswich DC being out of commission. The continuing need to service the entire store portfolio from Melbourne during the first four months of this year meant additional costs were incurred primarily in accumulating, storing and transferring inventory from Melbourne to Ipswich on the re-opening of the facility. The treatment of such recoverable costs (as a component of cost of sales) makes the reported gross margin not reflective of normalised gross margin.

Adjusting for the impact of the flood on logistics and warehousing costs, the underlying gross margin improved significantly from the prior year, reflecting a combination of:

- Significant process improvements in the use of overseas consolidation centres which reduced shipping costs for overseas inventory purchases; and
- Improved seasonal sales leading to a reduction in seasonal markdowns;

The overall margin improvement was despite:

- The need to clean out inventory imbalances via markdowns in the first few months as a result of the disruption to trading; and
- Continued price deflation offset to some degree by a strong currency.

Overall operating costs, as a percentage of sales, were well managed; however with less leverage of fixed costs as a result of negative comparable store sales. Despite the tough trading conditions, the Company ensured store standards were maintained. We also incurred additional costs on an extensive marketing trial to enhance brand awareness, primarily in South Australia.

From mid-September the Ipswich DC facility progressively returned to full capacity. The efficiency improvements evident prior to the flood quickly returned, with scope for further improvement still available. Accordingly, the Company expects the second half reported gross margin and operating costs to reflect a more normalised cost structure.

Depreciation and amortisation expense, as a percentage of sales, decreased from 2.1% to 2.0% during the half, as no significant capital expenditure was incurred other than new store openings.

Interest expense increased on the corresponding prior half based on the higher levels of borrowings required to fund the further investment in the Ipswich DC and the negative impact on cash flows of the Ipswich flood.

The Company's tax expense ratio increased from 29.0% to 29.6% as the prior corresponding period benefited from a higher level of qualifying research and development expenditure.

The Company significantly reduced its debt primarily as a result of being able to better plan and control inventory levels once the re-instatement of the Ipswich DC was complete. Whilst the Company has reduced its debt significantly over the half, the Board considers the conservative approach to capital management be maintained for the near term. The Board has therefore declared an interim fully franked dividend of 24.0 cents per share, representing 50% of the estimated full year earnings, and this dividend ratio is expected to remain at least until the end of the financial year.

Overview of Operational Performance

The closure of the Ipswich DC continued to impact operating capability throughout the first few months of FY2012. This required extensive focus by the business to continue to service stores from Melbourne, as well as plan for and execute the re-instatement of the DC. From mid-September the business progressively increased the operating capacity of the Ipswich DC and finalised the transfer of stock between Melbourne and Brisbane in mid-October.

Ten new stores were opened during the period with the Company finishing the half with 228 stores. The store openings were widespread with five in Queensland, two in Victoria and one store in each of Western Australia, New South Wales, and South Australia. Overall the new stores performed well.

During the half the Company continued to review its existing store portfolio to ensure it maintains profitability in all retail stores. This ongoing review will enable the Company to assess all existing sites prior to lease renewals to ensure occupancy costs are realistic and the retail precinct remains viable over the long term. While this could lead to reduced occupancy costs in selected sites, it is also likely to lead to an increased level of store relocations and/or closures to ensure the Company positions its stores in the best possible locations.

Finalisation of Ipswich Re-Opening

The Ipswich DC is now fully operational and servicing an increased number of stores compared to the period prior to the flood. Post-flood there are two significant outstanding, namely:

- The finalisation of the insurance claim process. To date the Company has received $18.2m in recoveries with $6.2m received during the half. During the first half the Company recorded $2.1m in the income statement for both loss of sales and increased costs of working. As at 25th December the Company has an insurance receivable of $1.2m. The Company fully expects to recover this amount.
- The Flood Mitigation Plan over the facility is now complete. The Plan incorporates a Flood Barrier System (FBS) which physically protects the site in the event of flooding. The FBS is a self installation system which will be delivered in early March 2012. Whilst certain other actions will also be required within the operating environment of the site itself, the Company is confident the FBS offers the best alternative to protect against a future flood event. The $2 million capital cost of the system is considerable, however the Company believes the investment is required to provide ongoing certainty over the site until lease end.

Outlook for the FY2012 and Beyond

The Company has spent most of the last 12 months re-establishing a “business as usual” operating environment. This is largely complete however, as previously announced, forecasting sales for the coming half was challenging given the impacts the flood had on lost inventory and sales, and the lack of distribution centre capacity through to October 2011.

The Company expects challenging retail conditions will continue in the foreseeable future given the current world economic instability and lack of consumer confidence locally. The Company has therefore taken a prudent approach to inventory investment this half, to ensure the business does not overcompensate for the impact of the flood in the corresponding half last year.

Despite the current retail environment the Company remains confident in its business model its long term growth plans. With the business now operating with fully functional distribution centres, management focus can now move to other opportunities. In the short term these include a satellite Western Australian distribution centre, improvements to its SAP IT platform, and to overall stock-flow efficiency. In addition, increased time will be spent on assessing the potential for a greater on-line presence, and reviewing overseas sourcing alternatives.

The Company will continue to expand its store footprint with seven new store openings planned in the second half. Consistent with prior years, the initial profit contribution from these stores is not expected to cover their opening costs during the period. The Company continues to assess alternative store locations including the opening of stores in smaller towns.

The Company did not provide full year profit guidance in August 2011 given the uncertainty over a number of significant outstanding matters at that time. These included the timing and cost of the re-instatement of the Ipswich DC, and the flow on impact on trading and the ongoing insurance claim. Whilst the Ipswich DC is now fully functional, the final settlement of the insurance claim remains outstanding and this may influence the overall profit result for the financial year.

The Company will also report on a 53 week basis this financial year versus 52 weeks last year. This will impact the comparability of the periods from a sales and profit perspective.

Although the first quarter results were significantly impacted by the flood, the second quarter trading results were pleasing. The first seven weeks of the second half have yielded positive comparable sales (against distorted sales in the corresponding half last year); however on balance the retail climate has not improved. The Company expects trading to remain volatile and therefore inventory investment this half to date reflects a prudent approach to sales growth.

Despite the current retail environment the Company is committed to significantly investing in marketing to increase overall brand awareness during this half. An initial trial in the first half, primarily in South Australia, produced pleasing results and therefore will be broadened from February 2012, to encompass other trade areas. While increased advertising may increase sales in the short term, the Company is not forecasting an immediate significant sales return from the expenditure in the current half, however believes this investment will yield long term benefits.

Based upon the first half trading result and a prudent sales forecast (inclusive of the increased marketing activity), the Company believes it can achieve NPAT of between $20.5m and $22.0m for the full 53 week period (or approximately $19.0m to $20.5m on a 52 week basis).

DIRECTORS' REPORT

Your directors present their report on the Company and its controlled entities for the half year ended 25 December 2011.

Directors
The following persons were directors of The Reject Shop Limited during the whole of the half year and up to the date of this report, unless otherwise stated:

WJ Stevens
Non-executive Director
Chairman of the Board and Chairman of the Remuneration Committee.

CJ Bryce
Managing Director

KJ Elkington
Non-executive Director
Chairman of the Audit Committee and Member of the Remuneration Committee.

DR Westhorpe
Non-executive Director
Member of the Audit Committee and a member of the Remuneration Committee.

M Conrad
Non-executive Director
Ms Conrad was appointed as a Director, member of the Audit Committee and a member of the Remuneration Committee on 19 August 2011 and continues in these offices at the date of this report.

Review of operations
The profit of the consolidated entity for the half year after providing for income tax amounted to $16,553,045.

The half year ended 25 December 2011, incorporates 26 weeks trading.

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

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

The balance sheet as at 25 December 2011 reflects a reduced level of borrowings as compared to other times during the year due to the seasonal nature of the consolidated entity's activities.

Dividends
On 10 October 2011, a fully franked final dividend of 8.0 cents per share totalling $2,085,694 was paid. On 15 February 2012, the directors declared a fully franked interim dividend of 24.0 cents per share to be paid on 16 April 2012.

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

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Rounding of amounts to nearest thousand dollars

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

Signed in accordance with a resolution of the directors:

WJ Stevens	CJ Bryce
Chairman	Managing Director
15 February 2012	

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Auditor's Independence Declaration

As lead auditor for the review of The Reject Shop Limited for the half year ended 25 December 2011, I declare that to the best of my knowledge and belief, there have been:

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

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

D Rosenberg

Daniel Rosenberg
Partner
PricewaterhouseCoopers

Melbourne
15 February 2012

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Consolidated Statement of Comprehensive Income
For the Half Year Ended 25 December 2011

	Note	Half Year 2011 $'000	Half Year 2010 $'000
Revenues from continuing operations			
Sales revenue	2	**292,794**	275,897
Other income	2	**2,093**	8
		294,887	275,905
Cost of sales		**161,742**	155,703
Store expenses		**91,056**	80,617
Administrative expenses		**16,793**	15,566
		269,591	251,886
Finance costs	3	**1,794**	1,601
Profit before income tax		**23,502**	22,418
Income tax expense	5	**6,949**	6,504
Profit for the half year		**16,553**	15,914
Other comprehensive income			
Changes in the fair value of cash flow hedges		**2,623**	(3,524)
Income tax relating to components of other comprehensive income		**(787)**	1,057
Other comprehensive income for the half-year, net of tax		**1,836**	(2,467)
Total Comprehensive Income for the Half Year Attributable To Members Of The Reject Shop Limited		**18,389**	13,447

Earnings per Share		**Cents**	**Cents**
Basic Earnings Per Share	25	**63.5**	61.1
Diluted Earnings Per Share	25	**62.8**	60.5

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

Consolidated Statement of Financial Position
As at 25 December 2011

	Note	**25 December 2011 $'000**	26 June 2011 $'000
Current Assets			
Cash	6	**7,888**	5,097
Receivables	7	**1,616**	5,584
Current tax receivable		**-**	1,336
Inventories	8	**62,821**	62,499
Derivative financial instruments	9	**670**	-
Other	10	**2,195**	1,490
Total Current Assets		**75,190**	76,006
Non-Current Assets			
Property, plant and equipment	11	**74,942**	71,942
Deferred tax assets	12	**6,940**	5,603
Total Non-Current Assets		**81,882**	77,545
Total Assets		**157,072**	153,551
Current Liabilities			
Payables	13	**36,249**	29,033
Borrowings	14	**10,662**	39,967
Tax liabilities		**5,254**	-
Provisions	15	**8,455**	7,366
Derivative financial instruments	9	**-**	1,954
Other	16	**9,804**	7,153
Total Current Liabilities		**70,424**	85,473
Non-Current Liabilities			
Borrowings	17	**6,000**	4,400
Provisions	18	**9,866**	9,478
Other	19	**1,075**	1,150
Total Non-Current Liabilities		**16,941**	15,028
Total Liabilities		**87,365**	100,501
Net Assets		**69,707**	53,050
Equity			
Contributed equity	20	**3,366**	3,366
Reserves	21	**5,292**	3,102
Retained profits	22	**61,049**	46,582
Total Equity		**69,707**	53,050

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

Consolidated Statement of Changes in Equity
For the Half Year Ended 25 December 2011

2011	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balances as at 27 June 2011	**3,366**	**739**	**3,731**	**(1,368)**	**46,582**	**53,050**
Total comprehensive income	-	-	-	1,836	16,553	18,389
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(2,086)	(2,086)
Share based remuneration	-	-	350	-	-	350
Tax credited directly to equity	-	-	4	-	-	4
Balances as at 25 December 2011	**3,366**	**739**	**4,085**	**468**	**61,049**	**69,707**

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

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

Consolidated Cash Flow Statement
For the Half Year Ended 25 December 2011

	Note	Half Year 2011 $'000	Half Year 2010 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		**321,585**	303,102
Payments to suppliers and employees (inclusive of goods and services tax)		**(282,670)**	(278,040)
Insurance claims received		**6,200**	-
Interest received		**27**	8
Borrowing costs paid		**(1,411)**	(1,542)
Income tax paid		**(2,479)**	(4,819)
Net cash inflows from operating activities	24	**41,252**	18,709
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		**322**	105
Payments for property, plant and equipment		**(8,992)**	(8,997)
Net cash outflows used in investing activities		**(8,670)**	(8,892)
Cash Flows from Financing Activities			
Repayment net of finance leases / hire purchases		**(659)**	(1,454)
Proceeds from borrowings		**127,000**	138,400
Repayment of borrowings		**(154,000)**	(140,900)
Dividends paid	27	**(2,086)**	(7,289)
Net cash outflows used in financing activities		**(29,745)**	(11,243)
Net increase/(decrease) in cash held		**2,837**	(1,426)
Cash at the beginning of the half year		**4,894**	4,339
Cash at the end of the half year	24	**7,731**	2,913

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

Note 1: Basis of preparation of half-year report

This general purpose interim financial report for the half year reporting period ended 25 December 2011 has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 26 June 2011 and any public announcements made by The Reject Shop Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

	Half Year 2011 $'000	Half Year 2010 $'000

Note 2: Revenue From Continuing Operations

	2011 $'000	2010 $'000
Sales Revenue		
Sales of goods	**292,794**	**275,897**
Other Income		
Interest	**27**	**-**
Income from insurance claims	**2,066**	**8**
	2,093	**8**
	294,887	**275,905**

Note 3: Expenses
Profit before income tax expense includes the following expenses:

	2011 $'000	2010 $'000
Interest and finance charges paid/payable	**1,794**	1,601
Depreciation and amortisation	**5,679**	5,665
Unrealised foreign exchange (gain)	**(131)**	(206)
Net (gain) on disposal of property, plant and equipment	**(10)**	(33)
Rental expenses relating to operating leases:		
Minimum lease payments	**36,891**	33,172
Provision for rent escalations	**189**	579
Rent paid on percentage of sales basis	**294**	225
Employee benefits expenses	**59,106**	53,305

Note 4: Accounting for Insurance Claims

The Company had a number of insured losses during the financial year. The most material of these claims related to the flooding of the Company's Ipswich Distribution Centre in Queensland.

Losses recognised in the Consolidated Statement of Comprehensive Income which are the subject of insurance recoveries are as follows:

	2011 $'000	2010 $'000
Cost of sales	**1,702**	-
Store expenses	**-**	-
Administrative expenses	**364**	-
Total insured expenses	**2,066**	-
Recoveries from insurance claims relate to:		
Loss of gross profits	**615**	-
Property, plant and equipment	**163**	-
Expenses	**1,288**	-
	2,066	-

	Half Year 2011 $'000	2010 $'000
Note 5: Income Tax		
(a) Income tax expense		
Current tax	**9,189**	6,940
Deferred tax	**(2,240)**	(445)
Under provided in prior years	**-**	9
	6,949	6,504
Deferred income tax expense included in income tax expense comprises:		
(Increase) in net deferred tax assets	**(2,240)**	(445)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**23,502**	22,418
Tax at the Australian tax rate of 30% (2010 – 30%)	**7,050**	6,725
Tax effect of amounts which are deductible in calculating taxable income:		
Research and development	**(101)**	(230)
	6,949	6,495
Under provided in prior years	**-**	9
Income tax expense	**6,949**	6,504
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited in equity		
Current tax – credited / (debited) directly to equity	**(783)**	1,234
(d) Tax (expense) / income relating to items of other comprehensive income		
Cash flow hedges	**(787)**	1,057

	Note	25 December 2011 $'000	26 June 2011 $'000
Note 6: Current Assets – Cash Assets			
Cash on hand	24	**1,076**	786
Cash at bank	24	**6,812**	4,311
		7,888	5,097
Note 7: Current Assets – Receivables			
Other debtors		**244**	34
Insurance receivable		**1,372**	5,550
		1,616	5,584

	25 December 2011 $'000	26 June 2011 $'000

Note 8: Current Assets – Inventories

Inventory at cost	**62,271**	61,643
Inventory at net realisable value	**550**	856
	62,821	62,499

Note 9: Current Assets – Derivative Financial Instruments

Forward foreign exchange contracts-cash flow hedges	**670**	(1,954)

Note 10: Current Assets – Other

Prepayments	**1,523**	1,145
Other current assets	**672**	345
	2,195	1,490

Note 11: Non-Current Assets – Property, Plant And Equipment

Leasehold improvements		
At cost	**33,857**	30,533
Less accumulated depreciation	**(14,415)**	(12,089)
	19,442	18,444
Under finance lease and hire purchase	**1,372**	2,680
Less accumulated amortisation	**(488)**	(1,281)
	884	1,399
Plant and equipment		
At cost	**97,036**	87,687
Less accumulated depreciation	**(43,483)**	(37,795)
	53,553	49,892
Under finance lease and hire purchase	**4,055**	9,839
Less accumulated amortisation	**(2,992)**	(7,632)
	1,063	2,207
Total property, plant and equipment	**74,942**	71,942

Note 12: Non Current Assets – Deferred Tax Assets

The balance comprises temporary differences attributable to:

Amounts recognised in profit or loss		
Employee benefits	**3,042**	2,535
Non deductible accruals	**2,824**	2,627
Inventories	**812**	829
Lease incentives	**731**	679
Sundry items	**267**	709
Employee share trust	**324**	341
Hedging reserve	**-**	586
	8,000	8,306

	25 December 2011 $'000	26 June 2011 $'000
Set-off of deferred tax liabilities of consolidated entity pursuant to set off provisions:		
Depreciation	**(409)**	(929)
Sundry items	**(38)**	(109)
Insurance receivable	**(412)**	(1,665)
Hedging reserve	**(201)**	-
	6,940	5,603
Deferred tax assets expected to be recovered within 12 months	**3,980**	2,760
Deferred tax assets expected to be recovered after more than 12 months	**2,960**	2,843
	6,940	5,603

Note 13: Current Liabilities – Payables

Unsecured liabilities		
Trade creditors	**27,925**	26,046
Sundry creditors and accruals	**8,324**	2,987
	36,249	29,033

Note 14: Current Liabilities – Borrowings

Secured Liabilities		
Bank overdraft	**157**	203
Commercial bills	**10,400**	39,000
Hire purchase liability	**105**	764
	10,662	39,967

Note 15: Current Liabilities – Provisions

Employee entitlements	**8,455**	**7,366**

Note 16: Current Liabilities – Other

Accrued expenses	**8,443**	6,040
Deferred income	**1,361**	1,113
	9,804	7,153

Note 17: Non-Current Liabilities – Borrowings

Secured liabilities		
Commercial bills	**6,000**	4,400

Note 18: Non- Current Liabilities – Provisions

Employee entitlements	**2,109**	1,909
Provision for rent escalation	**7,757**	7,569
	9,866	9,478

Note 19: Non-Current Liabilities – Other

Deferred income	**1,075**	**1,150**

Note 20: Equity – Contributed Equity

Movements in ordinary share capital

Date	Details	No. of shares	Issue Price per share $	Contributed Equity $'000
27 June 2010	**Closing balance**	**25,973,070**		**3,366**
6 July 2010	Exercise of performance rights	60,500	-	-
26 June 2011	**Closing balance**	**26,033,570**		**3,366**
15 July 2011	Exercise of performance rights	37,600	-	-
25 December 2011	**Closing balance**	**26,071,170**		**3,366**

	25 December 2011 $'000	26 June 2011 $'000
Note 21: Equity – Reserves		
Capital profits reserve	**739**	739
Share based payments reserve	**4,085**	3,731
Hedging reserve – cash flow hedges	**468**	(1,368)
	5,292	3,102
Note 22: Equity – Retained Profits		
Retained profits at the beginning of the financial period	**46,582**	43,688
Net profit attributable to members of the consolidated entity	**16,553**	16,171
Dividends provided for or paid	**(2,086)**	(13,277)
Retained profits at reporting date	**61,049**	46,582
Note 23: Contingent Liabilities		
Estimates of the maximum amounts of contingent liabilities that may become payable:		
Letters of credit established for acquisition of goods for resale	**-**	76
ANZ Bank indemnity guarantee to landlords	**1,298**	1,298
	1,298	1,374

Note 24: Cash Flow Information

Reconciliation of Cash

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

	Half Year	
	2011	2010
	$'000	$'000
Reconciliation of cash flow from operations with profit from ordinary activities		
Profit from ordinary activities after income tax	**16,553**	15,914
Non-cash flows in profit from ordinary activities:		
Depreciation	**5,679**	5,665
(Profit) on sale of property, plant and equipment	**(10)**	(33)
Non-cash share based expense	**350**	400
Tax credited directly to equity	**4**	177
Changes in operating assets and liabilities, net of effects of purchase and disposal of subsidiaries		
(Increase) / decrease in receivables and other assets	**3,262**	(766)
(Increase) in inventories	**(321)**	(13,777)
Increase in trade and other creditors and other provisions	**10,482**	10,678
Increase in income tax payable	**6,590**	1,529
(Increase) in deferred taxes	**(1,337)**	(1,078)
Net cash provided by operations	**41,252**	18,709

Reconciliation of Cash

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

Cash on hand	**1,076**	860
Cash at bank	**6,812**	2,173
Bank overdrafts	**(157)**	(120)
	7,731	2,913

	Half Year	
	2011	2010
Note 25: Earnings per share	**Cents**	Cents
Basic earnings per share	**63.5**	61.1
Diluted earnings per share	**62.8**	60.5
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**26,070,137**	26,032,240
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**26,356,597**	26,282,780

Note 26: Net Tangible Assets Per Share	**25 December 2011 Cents**	26 June 2011 Cents
Net tangible asset backing per ordinary share	**267.4**	203.8
Total shares outstanding as at end of period	**26,071,170**	26,033,570

	Half Year	
	2011 $'000	2010 $'000
Note 27: Dividends		
Fully franked final dividend paid on 10 October 2011 (2010: 11 October 2010)	**2,086**	7,289
Balance of franking account at half year adjusted for franking credits arising from payment of income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years	**33,873**	27,972

Note 28: Segment Information

The Reject Shop operates within the one reportable segment (retailing of discount variety merchandise). Total revenues of $292,794,745 all relate to the sale of discount variety merchandise in the Company's country of domicile (Australia), in this single reportable segment. The Company is not reliant on any single customer.

Note 29: Dividend Reinvestment Plan

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

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

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

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 19 are in accordance with the *Corporations Act 2001,* including:
   - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   - (ii) giving a true and fair view of the consolidated entity's financial position as at 25 December 2011 and of it's performance, as represented by the results of it's operations and it's cash flows, for the half year ended on that date; and

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

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

WJ Stevens
Chairman

CJ Bryce
Managing Director

Melbourne
15 February 2012

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of The Reject Shop Limited, which comprises the consolidated statement of financial position as at 25 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for The Reject Shop Limited (the consolidated entity). The consolidated entity comprises both The Reject Shop Limited and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 25 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of The Reject Shop Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Independence

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 25 December 2011 and of its performance for the half-year ended on that date; and

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

PricewaterhouseCoopers

Daniel Rosenberg
Partner

Melbourne
15 February 2012