Appendix 4E

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary final report

For the financial year ended 26 June 2005
Compared to the financial year ended 27 June 2004

Results for announcement to the market

				$A'000
Revenues from ordinary activities	up	11.4%	to	203,350
Profit from ordinary activities after tax attributable to members	up	26.5%	to	7,061
Net profit for the period attributable to members	up	26.5%	to	7,061

Dividends	Amount per share	Franked amount per share
Final dividend	7.0¢	100%
Interim dividend (paid 23 March 2005)	10.0¢	100%

Record date for determining entitlements to the dividend	2 September 2005
Dividend payment date	23 September 2005

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

ASX/Media Release

**THE REJECT SHOP LIMITED - FULL YEAR RESULTS (FY2005)
(ASX:TRS)**

17 August 2005

THE REJECT SHOP BREAKS $200 MILLION SALES BARRIER

Highlights:

- Strong sales growth to $203.1 million up 12.5%
- NPAT of $7.1 million up 26.5%
- Comparable store sales growth of 6.5% on strong base of 6.1% in FY2004
- Gross margin as percentage of sales up 0.6%
- Directors have declared 7 cents per share dividend, fully franked

Summary:

	FY2005 $ million	FY2004 $ million
Sales	203.1	180.6
EBITDA	14.0	11.9
EBIT	10.6	8.8
NPAT	7.1	5.6

The Chairman of The Reject Shop Limited, Mr Brian Beattie, today announced a strong trading and profit performance for the year to 26 June 2005, exceeding forecasts for the second consecutive year on all key measures.

Sales grew from $180.6 million to $203.1 million, an increase of 12.5%; net profit after tax was $7.1 million up from $5.6 million, an increase of 26.5%.

Mr. Beattie stated that the Directors have declared a fully franked final dividend of 7 cents per share for the second half to be paid 23 September 2005. This brings full year dividend distribution to 17 cents per share. The record date for payment of dividends is 2 September 2005.

He was also pleased to announce the extension of the Managing Director, Mr. Barry Saunders contract to June 2007 to ensure continuity for the introduction of the new Distribution Centre and other business initiatives.

The result was underpinned by continued strong comparable store sales growth of 6.5%, up from an already sound base of 6.1% in FY2004. As in the previous year, comparable store sales increases were higher in the second half, reflecting the continuing development of The Reject Shop's everyday business and complementing its traditional strength in peak trading periods such as Christmas and Easter.

The Reject Shop Managing Director, Mr Barry Saunders said, "We are pleased to have achieved this result, and to have surpassed sales of $200 million for the first time is a milestone of which all our staff can be proud. The strong second half comparable stores growth is particularly pleasing in a year when market conditions for many retailers were softer in the second half than in previous years.

"This result clearly demonstrates we have a resilient and scaleable business model with the early success of our Queensland stores providing significant confidence for entering new markets.

"As a result, we are well placed to continue to grow the business profitably in future. We are resolutely focused on continuous improvement across our business and believe this provides us with a major competitive advantage going forward.

"We believe the discount variety sector remains attractive for companies that concentrate on the fundamentals and we are well placed to capitalise on any rationalisation of the sector, should it occur," he added.

Gross margin, grew as a percentage of sales by 0.6% as a result of strong sales in higher priced merchandise and a strong Australian dollar. Operating costs increased slightly as a percentage of sales, reflecting the impact of measures to improve future profitability such as the relocation of the store support centre, and the planned relocation of the distribution centre.

The Company invested significantly in strengthening its buying function during the year which has yielded early benefits in item quantification and allocations resulting in improved stock turns from 4.6 in FY2004 to 5.0. This initiative provides a strong base to drive sales through FY2006 and beyond.

Eleven new stores were opened during the year and are performing well with a further 14 new stores planned for the current year.

The Company generated strong cash flows and the balance sheet reflects a net cash position for the first time. The strength of the balance sheet provides the opportunity to participate in future growth opportunities via an increased store opening program or potential acquisitions which fit our business model.

Looking forward, Mr. Beattie said that while speculation exists that the retail environment may moderate the Directors are confident The Reject Shop is well placed to continue to build on its existing strong platform to deliver profitable growth.

The Company has forecast net profit after tax for the financial year 2006 of between $7.9 million and $8.1 million under current accounting standards. However, the introduction of the International Financial Reporting Standards (IFRS) moderates the outlook to between $7.5 million and $7.7 million. For comparison purposes, the FY2005 profit restated under IFRS is $6.5 million.

Further information can be obtained from the Company's website at www.rejectshop.com.au

The Reject Shop

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Managing Director	Chief Financial Officer
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Fowlstone Communications

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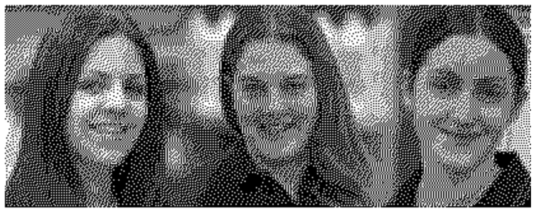
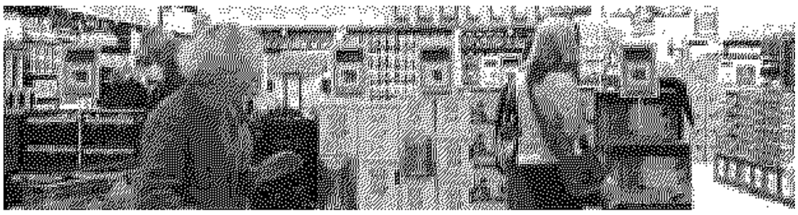
EVERYONE'S A WINNER AT

THE REJECT SHOP

2005 ANNUAL REPORT

Building on a strong foundation...





EVERYONE'S A WINNER AT THE REJECT SHOP

Contents

Notice of Annual General Meeting

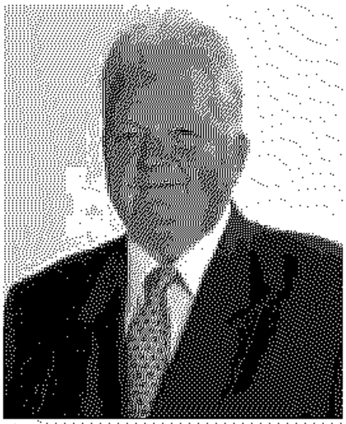
The Annual General Meeting of The Reject Shop Limited will be held at The ASX Theatrette, Ground Floor, 530 Collins Street, Melbourne Victoria at 3.30pm on Wednesday 19 October 2005.

Annual sales exceeded $200 million for the first time

Financial forecast surpassed for 2nd consecutive year with net profit up 26.5% to $7.1m

Store portfolio performing strongly with comparable sales growth of 6.5%

Chairman's Report



Continuous improvement in all operational areas

Active store rollout program with 11 new stores opening during the year

Strong board and management team

Dear shareholder,

I am pleased to report that The Reject Shop's first full year as a public company has been a successful one. It saw us pass the landmark of $200 million in sales for the first time, and earnings per share reached 28.9 cents.

Most importantly we have now met or exceeded all of the financial forecasts set in our Prospectus. As a consequence the Board has declared a final fully franked dividend of 7 cents per share, which brings total dividends paid or payable for the financial year 2005 to 17 cents per share compared to the Prospectus forecast of 14.3 cents per share.

The Company delivered another strong profit and sales result with net profit after tax increasing 26.5% to $7.1 million, on the back of sales of $203.1 million, up 12.5% on the prior year.

The result reflects a continued focus on a clearly defined and proven business model, and consistent execution of retail fundamentals by experienced and committed people.

The Company's progress has been achieved within a five year strategic plan that is reviewed annually. The strategic priorities are to:

- build on our historic buying strength;
- continue the targeted roll-out of the right size stores in locations that meet our defined standards;
- continuously improve our logistics;
- further improve the shopping experience for our customers in our stores;
- operate our stores efficiently; and
- introduce affordable technologies to help our people in all functions to complete their tasks more effectively.

Management continues to make good progress on all of these strategic priorities. The team has a wealth of experience, remains stable, and as a group is committed to both current performance and building a strong foundation for future success.

The Board has made good progress on formal management succession plans during the year. To permit a more orderly transition I am pleased to announce that at the end of his contract in June 2006 the Managing Director, Barry Saunders, has agreed to extend for a further year's service. The arrangement was agreed to ensure continuity for the introduction of the new distribution centre and other business initiatives where Barry's personal involvement is important for their success. The Board has a robust succession plan for the future leadership of the company in place.

The strategic plan has required and will continue to require capital expenditure resources for the store opening program, information technology implementation and distribution centre development. The current cash flows and balance sheet together with the business prospects adequately support the sanction of those funds.

Your Board is committed to an annual process of assessing Directors' performance to maintain high standards of corporate governance and Board practices. We believe we have sufficient experience and skills at the disposal of the Board for the current needs of the business, and keep this under constant review.

We are confident the Discount Variety sector is an attractive market segment. I believe the outlook for The Reject Shop remains strong and plans are in place to ensure profitable future growth.

I would like to thank all our shareholders for their continued support as well as my fellow Directors, our team members, suppliers and strategic partners who have helped us serve the most important people – our customers.

Brian J Beattie
Chairman

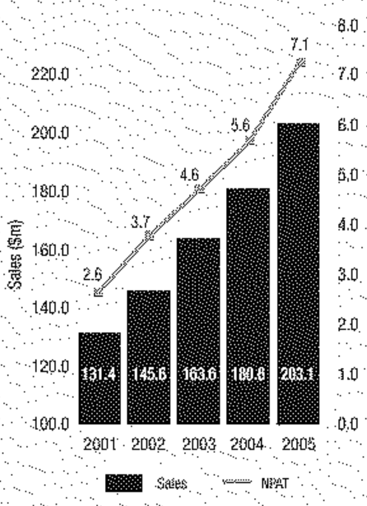
Financial Highlights

+12.5% Sales growth

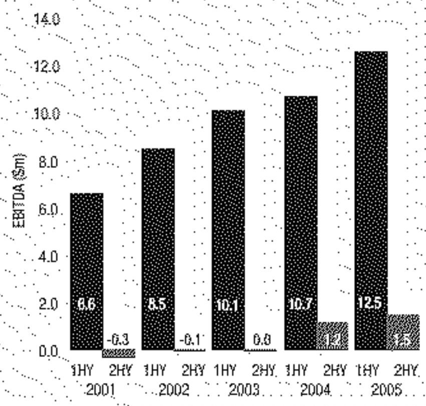
+26.5% NPAT growth

+20.9% Earnings per share growth

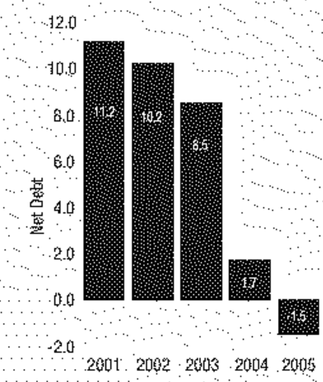
Growth in Sales and NPAT



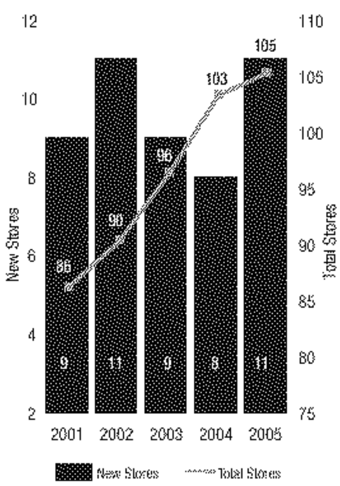
Strengthening EBITDA



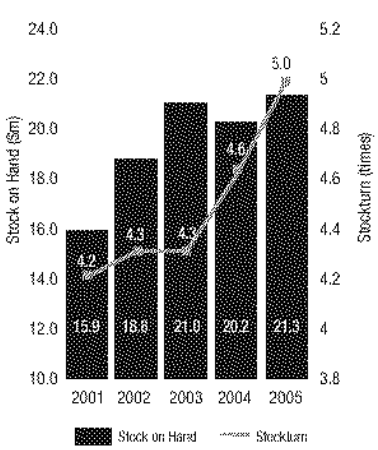
Improving Financial Position



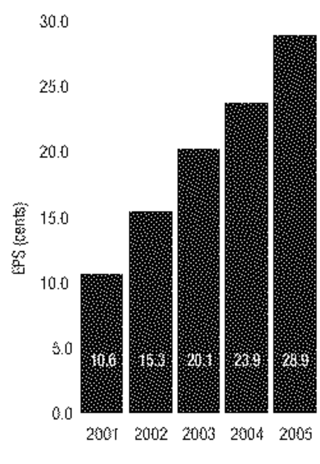
Expanding Store Portfolio



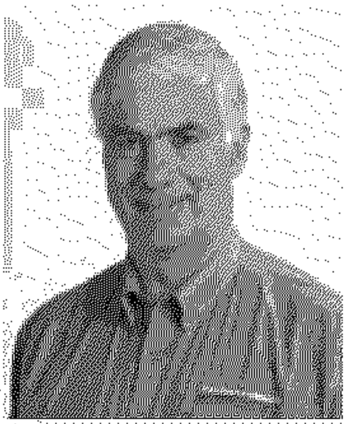
Faster Stock Turns



Increasing Shareholder Returns



Managing Director's Report



Expansion into new markets continues with one further Queensland store opening

New investments for long term sustainable growth

Committed to providing our people with the best training and opportunities

The Company has achieved sales and profit results for the year that exceeded our budgets in a trading environment widely reported as worsening through the period.

While delivering strong current results, much has been achieved to further strengthen the foundations for future profitability and growth.

Overview of Financial Performance
Sales grew from $180.6 million to $203.1 million and net profit from $5.6 million to $7.1 million, representing annual increases of 12.5% and 26.5% respectively. Comparable store sales growth of 6.5% was achieved from a strong base of 6.1% in the previous year.

Sales growth benefited from the buoyant conditions early in the year and so it was particularly pleasing that once again comparable store sales increases were higher in the second half than in the first. This reflects the continued development of our everyday business and decreasing reliance on seasonal events, although trend and seasonal merchandise remain very important parts of our offer. As a result second half earnings before interest, tax, depreciation and amortisation were higher than the previous year.

Gross margin grew as a percentage of sales by 0.6%. The additional resources allocated to our buying function have begun to impact through:

- wider coverage of overseas markets for new products;
- more detailed planning and execution of assortments;
- an expanded offer of bargain merchandise over $10; and
- leveraging the benefits of the strong Australian dollar through a mix of better prices for our customers and improved margin.

Part of the increased gross margin was necessary to offset the related logistics costs associated with greater volumes of bulkier merchandise.

Operating costs, excluding depreciation and amortisation, increased as a percentage of sales. This result was adversely impacted by costs aimed at improving future profitability including the relocation of our Store Support Centre and the planned relocation of the Distribution Centre. These costs included asset write downs of $0.9 million.

Depreciation and amortisation as a percentage of sales remained stable at 1.7% despite accelerated depreciation related to the planned closure of all remaining Everything Here $2 stores and the planned relocation of the Distribution Centre.

Excluding the impact of non-recurring costs our expense ratios improved.

Our financial position is sound with strong cash flows and balance sheet. Current cash flows are more than adequate to support our dividend policy, store operating program, continued investment in information technology, and the planned relocation of our distribution facilities to custom built premises in July 2006.

Overview of Industry Trends
The Reject Shop operates in the Discount Variety segment of the retail industry, which we believe is still a very attractive segment for companies that concentrate on the fundamentals.

While no retailer is immune to fluctuations in economic conditions we believe our business model is less impacted in a downturn, and we are confident it has ongoing potential for long term sustainable growth. We were heartened by our comparatively strong sales growth in what was reported to be a difficult second half.

Our continuous clearance action of trend and seasonal merchandise has operated to stringent standards throughout the year. In the face of general strong year end clearance action by retailers we have taken extra care to ensure that slower moving stock has been properly addressed. As a result, closing stock levels are as planned, stock turns have improved, and 'freshness' of our stock offer is of a high standard, positioning us well to meet tougher conditions should they occur.

During the year we organized two study tours to the USA to broaden the retail experience of a wider group of senior managers, to study retail trends, and to collect merchandise and presentation ideas. These tours identified a number of useful initiatives, some of which have already been implemented. We will continue to place considerable emphasis on building the retail experience base of the wider management team.

Similarly large numbers of our Store and Distribution Centre staff participated in training programs which resulted in formal recognition of their developing knowledge by external educational authorities.

Overview of Operational Performance

The five year planning horizon developed with the new board has been the principle strategic driving force for the year.

The year's major contribution to our future success was putting in place the strengthened buying resources, including an extra level of leadership, more buyers, planners and administrative specialists, more standardized systems and greater access to data. Benefits have started to flow and will have more impact over future years.

We opened 11 new stores and finished the year with a total of 105 stores. We opened 6 stores in NSW, 4 in Victoria, and 1 more in Queensland. The progress of our Queensland stores is very encouraging. We have made sufficient progress with full range The Reject Shop outlets in targeted trade areas to accelerate the exit of seven more Everything Here $2 stores.

We completed the rollout of our 'drive aisle' configuration, and upsized and/or relocated selected stores that were undersized to service their trade area.

Store operations initiatives commenced in the year included cyclical stock taking, shelf edge pricing and radio frequency to support store administrative tasks. All have substantial potential to improve customer service and help our people complete their work more effectively. Work remains to be done on some aspects, but we are confident of a favourable outcome in each.

Supporting much of the progress made to date is our constant improvement in information technology. With limited resources we strive to empower our people with appropriate technology to complete their tasks more effectively. A major advance has been made this year on portal technology, which will streamline communications throughout the company particularly in the stores. Given our growing reliance on IT we upgraded our Disaster Recovery Plan during the year.

Our people continue to be the driving force behind the progress of the business. During the year we reached an Enterprise Agreement with our store people for the first time, with the overwhelming support of the staff. This provides an improved package for our people, greater continuity of employment, and more flexible arrangements for servicing our customers.

We were also pleased with the increased opportunities made available to our store people to increase collaboration across the company as well as further their careers in a variety of positions in central functions, especially buying and area management.

The relocation of the Store Support Centre to nearby Kensington brought the central support team under the one roof for the first time in many years. This significantly contributed to improved cross-functional collaboration.

Outlook

In retail conditions that are subject to some uncertainty we will be relying on the improvement opportunities inherent in our five year plan to continue profitable growth.

Our buying initiatives have considerable scope to contribute further; and we are encouraged by the initial benefits coming through.

Our store opening program is extremely strong with 14 store sites already secured. Our strategy to serve all trade areas in which we compete with full size, full range The Reject Shop stores rather than Everything Here's $2 will be virtually completed during the year.

Store productivity will benefit from the current initiatives progressively coming on full stream, such as cyclical stocktaking, shelf edge pricing and radio frequency.

Continued investment in information technology will provide further help for people in all functions to do a better job.

We will be developing a new Distribution Centre in collaboration with Australand and CIP at Tullamarine, Victoria. We expect to be operating in that building for the first half of FY2007 with appropriately sized, upgraded, cost effective facilities to handle our growing volumes.

As a consequence we expect net profit after tax for the financial year 2006 between $7.9 million and $8.1 million; under current accounting standards. However, the introduction of the International Financial Reporting Standards (IFRS) moderates the outlook to between $7.5 million and $7.7 million. For comparison purposes, the FY2005 profit restated under IFRS is $6.5 million.

Acknowledgements

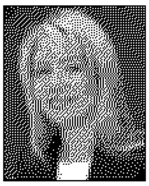
The year has provided a constantly changing variety of challenges to all functions of the business, especially those who serve our customers directly and those dealing with the physical volumes of stock generated by our growth and constantly changing ranges.

I acknowledge and appreciate the contribution of our people and thank all the team for their loyalty and dedication.

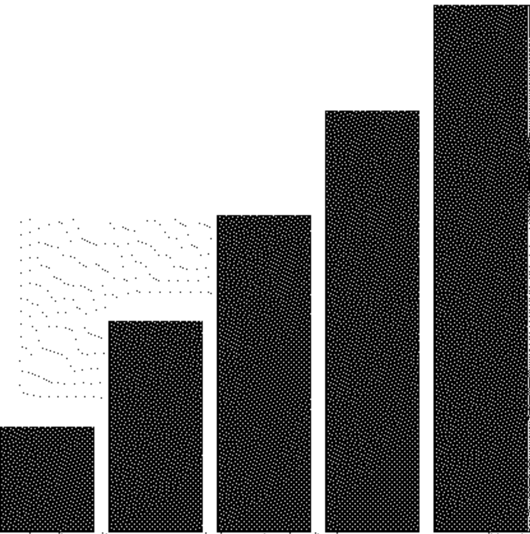
Barry Saunders
Managing Director

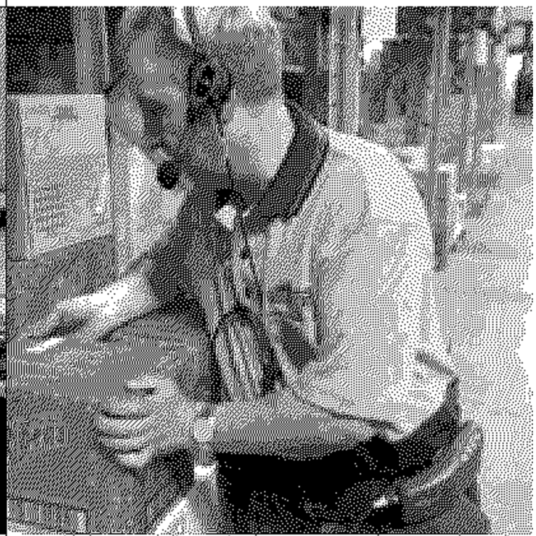







Building on a strong foundation...





Strategic Five-Year Plan

Our recent strong growth is due to our commitment to continuous improvement of our proven business model. Our strategic planning process, updated annually, ensures we focus our resources on the strategies and priorities which we believe will assist us in building our business for the future.

Experienced Buying Team

Our experienced buying team ensures we continue to offer our customers a wide variety of product choices in our stores and in appropriate volumes to suit their needs. Our team remains committed to ensuring all our products are of good quality, competitively priced, fit for purpose and compliant with Australian standards.

Upgraded Logistic Capability

Our new purpose built facility, scheduled for opening in FY2007 and combined with the introduction of material handling equipment and voice picking technology will greatly enhance the efficiency and effectiveness of the logistics function.

Clean & Efficient Stores

We invest time and effort in our stores to ensure we maintain a safe and clean environment for our customers and staff. We continue to invest in technology, such as the portal and radio frequency, to simplify communication and task execution at store level.

Committed Staff

We remain committed to our staff building their careers with us and encourage active participation in appropriate traineeship and management courses. This year 60 of our Distribution Centre team qualified for Certificate 3 Warehousing and 90 store staff qualified for Certificate 4 in Retail Management.

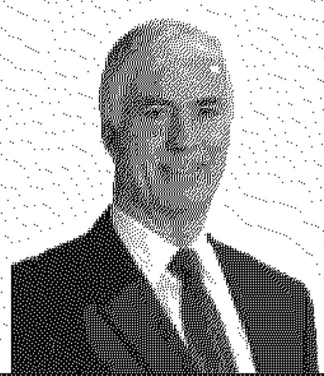
Satisfied Customers

To satisfy our customers' needs we strive to have the right stock, at the right price, in the right store, at the right time, in appropriate quantities and presented to the customer in a clean friendly environment.

Your Board Members

Brian Beattie – Non-Executive Chairman

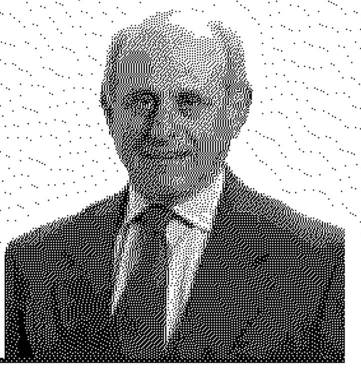
Brian has extensive management experience in the retail industry spanning more than 30 years, including eight years with Woolworths Limited and 24 years with Coles Myer Ltd including five years as Managing Director of Target and three years as Managing Director of Coles Supermarkets. He was Chief Executive Officer of the Victoria Racing Club for 8 years and since April 2003 is the Non-Executive Chairman of Austin Group Limited. 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.

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

A.C. (Craig) McMorron – 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 is currently practising as 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.

Your Management Team

Arnold Sloshberg *BSc, MBA*
General Manager - Merchandising

Arnold commenced his retail career in South Africa over 30 years ago where he held executive positions with the Edgars, Greatermans and Wooltru Groups, before relocating to Australia as CEO of the Suzanne Grae organisation where he spent six years. Arnold joined The Reject Shop in January 2000.

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.

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.

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.

Chris Bryce *BCom, ACA*
Chief Financial Officer

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

Phillip Nutbean
General Manager - Property AREI

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.

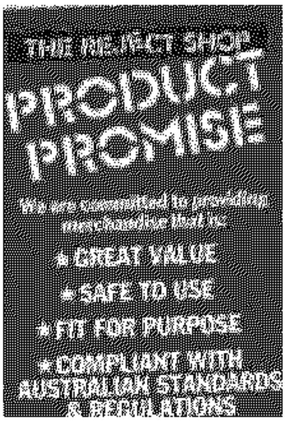
Philip Beckett
General Manager - Logistics

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.

Graham Lever *BCom, FCPA*
Company Secretary

Graham commenced his retail career over 20 years ago and has held several senior finance roles in both private and public retail/wholesale companies. Graham joined The Reject Shop in May 2000 as Financial Controller, and was appointed Company Secretary in November 2004.

Everyone's a winner...



Successful expansion demonstrates the appeal of our business model in new markets

Discount variety sector offers prospects for long term growth

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 established 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.

BJ Beattie (Chairman) and AC McMorron satisfy all criteria above and are considered independent directors. BAE Saunders as Managing Director is not considered an independent director based on the above criteria.

J Shuster is the co-founder of the Company and has been a director since 1981. He was an executive of the Company from inception until 1996 and Chairman from 1996 until 1998. Despite his prior involvement as an executive and lengthy service as a director, the Board considers him an independent director. He has not been an executive of the Company since 1996, has no material relationships with the Company and he ceased to be a substantial shareholder at the time of the Company's listing.

Details of each directors' experience as well as their attendance at Board and Committee meetings is contained in the Directors' Report and on page 8 of this Annual Report.

Corporate Governance Statement (Cont'd)

Responsibilities of the Board

The Board has delegated responsibility for the day-to-day management of the Company to the Managing Director and senior management, however it 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 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 intends to conduct an annual performance evaluation of all directors and will expand the current senior executive induction process to include new directors, as required. The annual appraisal is currently being undertaken and will be finalised by the end of August 2005.

Rotation of Directors

Under the Company's constitution at least one third of the Company's directors must retire at each annual general meeting, as well as any director who has served for more than three years since their last election, excluding the Managing Director.

Audit Committee

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

Composition of the Audit Committee

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

- AC McMorron (Chairman)
- 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. They 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

- Prevention and detection of fraud, and identification of non-compliance with policy and procedures;
- Property portfolio management, including new site or relocation evaluations;
- Occupational, health and safety systems and processes;
- Public, product and regulatory liability exposure;
- Disaster recovery and business continuity assessment and planning;
- Insurance;
- Key employees and protection of intellectual property; and
- Data integrity, management and retention.

Financial Risks

- Capital expenditure;
- Foreign exchange;
- Significant areas of expenditure; 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.

Corporate Governance Statement (Cont'd)

Continuous Disclosure Policy

The Company has implemented 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 implemented 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 and Responsibilities 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 executive remuneration is provided in the Directors' Report and on pages 43 to 48 of this Annual Report.

Financial Report

For the financial year ended
26 June 2005

Directors' Report

Your directors present their report on the Company and its controlled entity for the financial year ended 26 June 2005.

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 at that date of this report. Details of the experience and expertise of the directors and the company secretary are outlined on pages 8 and 9 of this annual report.

Retirement of Director

In accordance with the Company's Constitution, AC McMorron will retire as a director at the annual general meeting and, 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 26 June 2005 and the number of meetings attended by each director were:

Director	Director Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
BJ Beattie	12	12	XX	XX	1	1
BAE Saunders	11	12	XX	XX	XX	XX
AC McMorron	12	12	5	5	1	1
J Shuster	12	12	5	5	1	1

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 2004 of 2.5 cents per share totalling $601,878 on 24 September 2004, and an interim ordinary dividend for the financial year 2005 of 10 cents per share totalling $2,507,830 on 23 March 2005.

Since the end of the financial year the directors have declared the payment of a final ordinary dividend of 7 cents per share fully franked at a tax rate of 30% to be paid on 23 September 2005.

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 $7,061,362 (2004: $5,580,577). A detailed review of operations is provided on pages 2 to 5 of this annual report.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

(a) Increase in contributed equity of $1,328,799 (from $1,615,962 to $2,944,761) as a result of:

	$'000
• Issue of 772,547 shares at $1.52 per share on exercise of options issued under the Executive Option Plan	1,174
• Issue of 230,638 shares at $0.67 per share on exercise of options issued under the Executive Option Plan	155
Net increase in Contributed Equity	1,329

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

During or since the end of the financial year, the consolidated entity has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

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.

Directors' Report (Cont'd)

Remuneration Report

Remuneration of Directors and Executives

The Company's Remuneration Committee ensures 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 14 of this annual report.

Directors' Fees

The current aggregate limit for directors' fees is $250,000 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.

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 directors fees.

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 prescribed 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.

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.

Officers and Specified Executives

The following persons were the five executives, excluding the Managing Director, with the greatest authority for strategic direction and management of the consolidated entity ("specified executives") during the financial year:

AE Sloshberg	-	General Manager, Merchandise
RD Jones	-	General Manager, Store Operations
CJ Bryce	-	Chief Financial Officer
DJ O'Connor	-	Chief Information Officer
PG Beckett	-	General Manager, Logistics

All of the above persons were employed by The Reject Shop Limited and were specified executives for the entire year ended 26 June 2005.

Service Agreements

The following executives 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 on 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.

AE Slosberg, General Manager, Merchandise:

- Term of agreement - 3 years commencing 1 January 2003;
- Base Salary has a guaranteed increase 5.2% for the calendar year ending 31 December 2005;
- An annual incentive of 1.5% of base salary (exclusive of company superannuation contribution) is payable for each 1% EBIT is higher than 6% over the prior year; and
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, 9 months' base salary or the remainder of the term of the contract, whichever is less, with a minimum of 6 months.

Other Specified Executives

Other than noted above, all specified executives are on employment terms consistent with the remuneration framework outlined in this note.
No specified executive, other than noted above, has a defined period of notice with respect to termination.

Directors' Report (Cont'd)

Directors Remuneration

Details of the remuneration of each director of The Reject Shop Limited, including their personally-related entities, for the current and prior financial years are set out in the following tables:

2005	Primary Benefits			Post – employment	Equity			
Name	Cash Salary and Fees	Cash Bonus	Non-monetary Benefits	Super-annuation	Rights	Proportion of remuneration as equity based	Total	Proportion of remuneration as performance related
	$	$	$	$	$	%	$	%
BJ Beattie	82,568	-	-	7,431	-	-	89,999	-
BAE Saunders[2]	464,820	117,033	22,090	41,850	100,939	13.5%	746,732	29.2%
AC McMorron	59,633	-	-	5,367	-	-	65,000	-
J Shuster	54,663	-	-	10,337	-	-	65,000	-
Total	**661,684**	**117,033**	**22,090**	**64,985**	**100,939**		**966,731**	

2004	Primary Benefits			Post – employment	Equity			
Name	Cash Salary and Fees	Cash Bonus	Non-monetary Benefits	Super-annuation	Rights/ Options	Proportion of remuneration as equity based	Total	Proportion of remuneration as performance related
	$	$	$	$	$	%	$	%
BJ Beattie[1]	27,841	-	-	2,506	-	-	30,347	-
BAE Saunders[2]	430,000	92,400	28,683	38,700	19,939	3.3%	609,722	18.4%
AC McMorron[3]	11,774	-	-	1,060	-	-	12,834	-
J Shuster	18,719	-	-	447	-	-	19,166	-
Total	**488,334**	**92,400**	**28,683**	**42,713**	**19,939**		**672,069**	

1. BJ Beattie was appointed on 27 February 2004.
2. BAE Saunders is the Managing Director of the Company and amounts shown above include all remuneration during the reporting period. Amounts received as a director amounted to nil.
3. AC McMorron was appointed on 21 April 2004.

All cash bonuses with respect to the current year will be paid and no director has forfeited any cash bonus entitlement. No long term incentives either vested, lapsed or were forfeited during the current financial year. No retirement benefits were received by directors during the financial years ended 26 June 2005 and 27 June 2004 respectively. Subsequent to year end the Managing Director's employment contract was revised to include a retirement allowance as detailed under service agreements in this remuneration report.

Officers and Specified Executives Remuneration

Details of the remuneration of each of the five specified executives and the five highest paid officers of the consolidated entity, including their personally-related entities, for the current and prior financial years are set out in the following tables:

2005	Primary Benefits			Post - employment	Equity			
Name	Cash Salary and Fees	Cash Bonus	Non-monetary Benefits	Super-annuation	Rights	Proportion of remuneration as equity based	Total	Proportion of remuneration as performance related
	$	$	$	$	$	%	$	%
AE Sloshberg	287,701	53,174	-	25,893	68,654	15.8%	435,422	28.0%
RD 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%
Total	**1,068,061**	**149,258**	**10,500**	**89,462**	**268,179**		**1,585,460**	

2004	Primary Benefits			Post - employment	Equity			
Name	Cash Salary and Fees	Cash Bonus	Non-monetary Benefits	Super-annuation	Rights/ Options	Proportion of remuneration as equity based	Total	Proportion of remuneration as performance related
	$	$	$	$	$	%	$	%
AE Sloshberg	281,312	58,954	-	25,318	9,092	2.4%	374,676	18.2%
RD Jones	238,706	42,706	-	20,044	9,092	2.9%	310,548	16.7%
CJ Bryce	179,168	53,716	-	14,532	4,470	1.8%	251,886	23.1%
PG Beckett	143,184	17,400	18,000	11,000	2,861	1.5%	192,445	10.5%
DJ O'Connor	157,933	18,000	-	11,000	3,576	1.9%	190,509	11.3%
Total	**1,000,303**	**190,776**	**18,000**	**81,894**	**29,091**		**1,320,064**	

GS Lever, the Company Secretary, as an officer of the consolidated entity, received a total remuneration package of $173,029 comprising cash and salary of $132,275, cash bonus of $14,850, a non-monetary benefit of $14,000 and superannuation payments totalling $11,904.

The share-based compensation included in the directors and specified executives remuneration above has been measured using a Black-Scholes option pricing model. Details of grants made under both plans are contained in note 27 of this financial report.

All cash bonuses with respect to the current year will be paid and no specified executive has forfeited any cash bonus entitlement. No long term incentives either vested, lapsed or were forfeited during the current financial year.

No retirement benefits were received by specified executives during the financial years ended 26 June 2005 and 27 June 2004 respectively.

Directors' Report (Cont'd)

Options and Performance Rights Holdings

The number of options or rights over shares in the company held during the financial year by each director of The Reject Shop Limited and each specified executive of the consolidated entity, including their personally related entities, are set out below:

Name	Balance at the start of the year	Options exercised during the year	Rights exercised during the year	Other changes during the year	Balance at end of the year	Vested and exercisable at end of this year	Options/ Rights vested during the year	Maximum value to be received in future years* $
Directors								
BJ Beattie	-	-	-	-	-	-	-	-
BAE Saunders	586,273	(461,273)	-	-	125,000	-	-	100,939
AC McMorron	-	-	-	-	-	-	-	-
J Shuster	-	-	-	-	-	-	-	-
Specified Execuitves								
AE Sloshberg	310,637	(230,637)	-	-	80,000	-	-	59,597
RD Jones	478,889	(248,889)	-	-	230,000	150,000	-	59,597
CJ Bryce	62,500	-	-	-	62,500	-	-	46,561
DJ O'Connor	50,000	-	-	-	50,000	-	-	37,249
PG Beckett	40,000	-	-	-	40,000	-	-	29,799

* This represents the unamortised portion of the share based remuneration to be included in the total remuneration of a director or specified executive in future years should the required performance hurdles be met and each director or specified executive remains employed with the company at the pre-determined vesting dates.

No grant of options or performance rights was made during the financial year ended 26 June 2005. All performance rights that have been granted in prior years will vest from FY2006 through to FY2008 provided the required performance hurdles are achieved in each given year and the employee remains employed with the Company at the pre determined vesting dates. The minimum possible value to be received by each director or specified executive under each grant of performance rights is $Nil.

Subsequent to year end 78,125 performance rights held by specified executives, vested and were exercised on 19 July 2005. On 17 August 2005 the Board granted a further 87,000 performance rights to specified executives.

Shares Issued to Directors and Specified Executives on Exercise of Options

The number and fair value of shares issued to directors and specified executives on exercise of options during the financial year is outlined in the following table:

Name	Date Granted	Date Exercised	Number of Shares Issued	Exercise Price	Fair value of each share at exercise date	Value at exercise date
				$	$	$
Directors						
BAE Saunders	17 Septmber 2003	25 February 2005	461,273	1.52	3.24	793,390
Specified Execuitves						
AE Sloshberg	17 September 2003	21 February 2005	230,637	1.52	3.40	433,598
RD Jones	28 February 2000	25 February 2005	168,252	0.67	3.24	432,408
	17 September 2003	25 February 2005	80,637	1.52	3.24	138,696
Total			**940,799**			**1,798,092**

No other directors or specified executives exercised options or performance rights during the financial year.

Company Performance

The Managing Director and specified executives 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 on 1 June 2004:

Year	NPAT	NPAT Growth	EPS cents per share	EPS growth	Share price at listing date	Share price at end of year	Share price growth	Dividends paid or declared per share
FY2005	$7.1m	26.5%	28.9	20.9%	$2.00	$2.99	49.5%	$0.17

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 has exceeded it's Prospectus profit forecast for FY2004 (by 10.8%) and FY2005 (by 23.5%) and its Prospectus dividend forecast by 2.7 cents per share (18.9%).

Total shares under options or performance rights

Unissued shares of The Reject Shop Limited under options or performance rights as at the date of this financial report are:

Type	Date of grant	Expiry Date	Exercise Price	No. on issue	No. vested
Options	17 September 2003	17 September 2008	$1.52	150,000	150,000
Performance Rights	1 June 2004	31 May 2009	-	500,000	-
Performance Rights	17 August 2005	16 August 2010	-	153,000	-
Total				**803,000**	**150,000**

On 17 August 2005, the Board granted a further 153,000 performance rights under the PRP.

Shares Issued

The following shares of The Reject Shop Limited were issued during the year ended 26 June 2005 and to the date of this report on the exercise of options and performance rights:

Date Granted	Fair value of each share at issue date $	Number of shares issued
28 February 2000	3.24	168,252
10 September 2001	3.24	62,386
17 September 2003	3.24	541,910
17 September 2003	3.40	230,637
1 June 2004	2.89	125,000
Total		1,128,185

No further options have been exercised, however subsequent to year end 125,000 performance rights vested and were exercised on 19 July 2005. No amounts are unpaid on any of these shares.

Directors' Report (Cont'd)

Remuneration of Auditors

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
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	104,200	100,200	104,200	100,200
IFRS accounting services	41,500	-	41,500	-
	145,700	100,200	145,700	100,200
Tax Compliance and Consulting Services				
Tax compliance	15,000	15,000	15,000	15,000
Tax consulting advice	19,300	-	19,300	-
	34,300	15,000	34,300	15,000
Other Services				
Due diligence services	-	244,866	-	244,866
Other assurance services	52,690	-	52,690	-
Total remuneration	232,690	360,066	232,690	360,066

Independence of Auditors

PricewaterhouseCoopers were appointed auditors in 2002 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 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 auditors independence declaration is contained on page 25 of this annual report.

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

BJ Beattie
Chairman

BAE Saunders
Managing Director

17 August 2005

Auditors' Independence Declaration

As lead auditor for the audit of The Reject Shop Limited for the period ended 26 June 2005, 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 during the period.

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
17 August 2005

Statements of Financial Performance

For the Financial Year Ended 26 June 2005

	Note	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Revenues from ordinary activities					
Sales revenue	2	203,098	180,604	203,098	180,604
Other revenues from ordinary activities	2	252	1,969	252	1,969
		203,350	182,573	203,350	182,573
Cost of sales		103,904	93,475	103,904	93,475
Store expenses		65,909	58,870	65,909	58,870
Administrative expenses		15,567	15,241	15,567	15,241
Distribution centre expenses		7,409	6,167	7,409	6,167
		192,789	173,753	192,789	173,753
Borrowing costs	3	679	796	679	796
Profit from ordinary activities before income tax expense		**9,882**	**8,024**	**9,882**	**8,024**
Income tax expense relating to ordinary activities	4	2,821	2,443	2,821	2,443
Net Profit Attributable to Members of The Reject Shop Limited		7,061	5,581	7,061	5,581
Total changes in equity other than those resulting from transactions with owners as owners		**7,061**	**5,581**	**7,061**	**5,581**

Earnings per Share		**Cents**	**Cents**	**Cents**	**Cents**
Basic Earnings Per Share	30	28.9	23.9	28.9	23.9
Diluted Earnings Per Share	30	27.8	22.3	27.8	22.3

The above statements of financial performance should be read in conjunction with the accompanying notes.

Statements of Financial Position

As At 26 June 2005

		Consolidated Entity		Parent Entity	
	Note	2005	2004	2005	2004
		$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash assets	5	4,930	3,056	4,930	3,056
Receivables	6	47	180	47	180
Inventories	7	21,305	20,249	21,305	20,249
Other	8	615	251	615	251
TOTAL CURRENT ASSETS		26,897	23,736	26,897	23,736
NON-CURRENT ASSETS					
Other financial assets	9	-	-	1	1
Property, plant and equipment	10	17,659	15,961	17,659	15,961
Deferred tax assets	11	1,906	1,107	1,906	1,107
TOTAL NON-CURRENT ASSETS		19,565	17,068	19,566	17,069
TOTAL ASSETS		46,462	40,804	46,463	40,805
CURRENT LIABILITIES					
Payables	12	10,882	10,689	11,886	11,693
Interest bearing liabilities	13	2,390	2,351	2,390	2,351
Tax liabilities	14	1,314	1,580	1,314	1,580
Provisions	15	3,731	2,996	3,731	2,996
Other	16	3,448	2,668	3,448	2,668
TOTAL CURRENT LIABILITIES		21,765	20,284	22,769	21,288
NON-CURRENT LIABILITIES					
Interest bearing liabilities	17	1,079	2,454	1,079	2,454
Provisions	18	927	655	927	655
TOTAL NON-CURRENT LIABILITIES		2,006	3,109	2,006	3,109
TOTAL LIABILITIES		23,771	23,393	24,775	24,397
NET ASSETS		22,691	17,411	21,688	16,408
EQUITY					
Contributed equity	19	2,945	1,616	2,945	1,616
Reserves	20	739	739	739	739
Retained profits	21	19,007	15,056	18,004	14,053
TOTAL EQUITY		22,691	17,411	21,688	16,408

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

Statements of Cash Flows

For the Financial Year Ended 26 June 2005

	Note	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		223,223	198,338	223,223	198,338
Payments to suppliers and employees (inclusive of goods and services tax)		(207,773)	(180,448)	(207,773)	(180,448)
Interest received		150	64	150	64
Borrowing costs paid		(679)	(796)	(679)	(796)
Income tax paid		(3,887)	(2,811)	(3,887)	(2,811)
Net cash inflow from operating activities	24	**11,034**	**14,347**	**11,034**	**14,347**
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		102	72	102	72
Payments for property, plant and equipment		(6,145)	(3,885)	(6,145)	(3,885)
Net cash outflow from investing activities		**(6,043)**	**(3,813)**	**(6,043)**	**(3,813)**
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	19	1,329	1,549	1,329	1,549
Payments for cancellation of options	19	-	(2,458)	-	(2,458)
Payment of transaction costs arising from issue of shares	19	-	(840)	-	(840)
Proceeds from sale and leaseback		-	1,795	-	1,795
Repayment of finance leases		(1,273)	(2,014)	(1,273)	(2,014)
Repayment of borrowings		-	(500)	-	(500)
Dividends paid	21	(3,110)	(2,000)	(3,110)	(2,000)
Net cash outflow from financing activities		**(3,054)**	**(4,468)**	**(3,054)**	**(4,468)**
Net increase in cash held		**1,937**	**6,066**	**1,937**	**6,066**
Cash/(overdraft) at the beginning of the financial year		2,496	(3,570)	2,496	(3,570)
Cash at the end of the financial year	24	4,433	2,496	4,433	2,496

The above statements of financial cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Note 1: Statement of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001. It has been prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Principles of Consolidations

A controlled entity 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. Details of the controlled entity are contained in Note 33.

The consolidated financial statements incorporate all the assets and liabilities of the entity controlled by The Reject Shop Limited as at 26 June 2005 and the results for the controlled entity for the year. The Reject Shop Limited and its controlled entity 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.

(b) Income Tax

The consolidated entity adopts the liability method of tax-effect accounting whereby the income tax expense shown is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation, and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) 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, supplier rebate and discount expenses.

(d) 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 leasehold improvements and capitalised leased assets, but excluding freehold land, are depreciated on a straight line basis over their estimated useful lives to the consolidated entity commencing from the time the asset is held ready for use. The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rates
Leasehold Improvements and Office Equipment	
- At cost	8-20 %
- Leased	8-20 %
Motor vehicles	
- At cost	12-25 %
- Leased	12-25 %
Fixture and Fittings	
- At cost	7-20 %
- Leased	7-20 %
Computer Equipment	
- At cost	20-33 %
- Leased	25-33 %

Notes to the Financial Statements (Cont'd)

(e) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the entities within the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

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.

Lease incentives received under operating leases are recognised in the balance sheet as deferred income and are recognised as income over the initial term of the lease.

(f) Employee Entitlements

(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 within 12 months.

(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 gives clear evidence of the amount of the 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. Information relating to these plans is set out in note 27.

No accounting entries are made in relation to either plan until options or performance rights are exercised. The amounts disclosed for remuneration of directors and executives in the Directors' Report and note 26 include the assessed fair value of options at the date they were granted.

(g) Cash

For the purposes of the statements of cash flows, 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.

(h) 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.

(i) Foreign Currency Translation

(i) Transactions

Foreign currency transactions during the year are recorded in Australian currency at the date of the transaction. At balance date amounts receivable and payable in foreign currency are translated to Australian currency using the rate of exchange ruling at that date. Resulting exchange differences are recognised in determining profit for the year.

(ii) Specific commitments

Hedging is undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. Costs or gains arising at the time of entering hedged transactions for the purchase and sale of goods and services, and exchange differences that occur up to the date of purchase or sale are deferred and included in the measurement of the purchase or sale.

The net amounts receivable or payable under the hedging transaction are also recorded in the statement of financial position. Any gains or losses arising on the hedging transaction after the recognition of the hedged purchase or sale are included in the statement of financial performance.

When anticipated purchase or sale transactions have been hedged, actual purchases or sales which occur during the designated hedged period are accounted for as having been hedged until the amounts of those transactions in the designated period are fully allocated against the hedged amounts.

In circumstances where a hedging transaction is terminated prior to maturity because the hedged transaction is no longer expected to occur as designated, any previously deferred gains or losses are recognised in the statement of financial performance on the date of termination.

If a hedge transaction relating to a commitment for the purchase or sale of goods is redesignated as a hedge of another specific commitment and the original transaction is still expected to occur as designated, the gains or losses that arise on the hedge prior to its redesignation continue to be deferred and included in the measurement of the original purchase or sale when it takes place. If the hedge is redesignated as a hedge of another commitment because the original purchase or sale transaction is no longer expected to occur as designated, the gains or losses that arise on the hedge prior to its redesignation are recognised in the statement of financial performance at the date of the redesignation.

(j) 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.

(k) Borrowing costs

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

(l) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. Where the written-down amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, the recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amount of non-current assets are not discounted to their present values using a market determined risk-adjusted discount rate.

Notes to the Financial Statements (Cont'd)

(m) 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.

(n) Interest bearing liabilities

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other payables.

(o) 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.

(p) 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.

(q) 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 of an asset, in which they are capitalised and amortised over the period of expected benefit.

(r) Restoration Costs

Upon the finalisation of a lease period and prior to return of the premises to a landlord, a store may require expenditure to return the store 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.

(s) Store Opening Costs

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

(t) Comparative Period

Comparative period used in this report is the 52 week financial year ending 27 June 2004.

(u) 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.

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000

Note 2: Revenue

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Revenue from operating activities				
Retail Sales	203,098	180,604	203,098	180,604
Revenue from outside the operating activities				
Interest	150	64	150	64
Sale of non-current assets	102	1,866	102	1,866
Sundry	-	39	-	39
	252	1,969	252	1,969
	203,350	182,573	203,350	182,573

Note 3: Profit From Ordinary Activities

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Profit from ordinary activities before income tax expense includes the following expenses:				
Interest and finance charges paid/payable	679	796	679	796
Depreciation and amortisation	3,478	3,041	3,478	3,041
Net loss on disposal of property, plant and equipment	867	343	867	343
Write down of inventories to net realisable value	-	-	-	-
Rental expenses relating to operating leases				
Base rentals	25,222	22,171	25,222	22,171
Rent paid on percentage of sales basis	305	205	305	205
Foreign exchange losses	172	193	172	193

Note 4: Income Tax

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:				
Profit from ordinary activities before income tax expense	9,882	8,024	9,882	8,024
Income tax calculated @ 30%	2,965	2,407	2,965	2,407
Tax effect of permanent differences	(51)	36	(51)	36
Income tax adjusted for permanent differences	2,914	2,443	2,914	2,443
Over provision in previous year	(93)	-	(93)	-
Income tax expense	2,821	2,443	2,821	2,443

Notes to the Financial Statements (Cont'd)

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 statement of financial performance or financial position.

	Note	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Note 5: Current Assets - Cash Assets					
Cash on hand	24	283	263	283	263
Cash at bank	24	4,647	2,793	4,647	2,793
		4,930	3,056	4,930	3,056
Note 6: Current Assets - Receivables					
Other debtors		47	180	47	180
Note 7: Current Assets - Inventories					
Inventory at cost		21,086	20,013	21,086	20,013
Inventory at net realisable value		219	236	219	236
		21,305	20,249	21,305	20,249
Note 8: Current Assets - Other					
Prepayments		449	220	449	220
Other current assets		166	31	166	31
		615	251	615	251
Note 9: Non-Current Assets - Other Financial Assets					
Shares in controlled entities - at cost		-	-	1	1

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000

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

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Leasehold improvements				
At cost	7,710	6,915	7,710	6,915
Less accumulated depreciation	(4,392)	(4,042)	(4,392)	(4,042)
	3,318	2,873	3,318	2,873
Under finance lease and hire purchase	1,559	1,606	1,559	1,606
Less accumulated amortisation	(325)	(182)	(325)	(182)
	1,234	1,424	1,234	1,424
Plant & equipment*				
At cost	20,118	16,559	20,118	16,559
Less accumulated depreciation	(11,112)	(10,126)	(11,112)	(10,126)
	9,006	6,433	9,006	6,433
Under finance lease and hire purchase	9,054	9,318	9,054	9,318
Less accumulated amortisation	(4,953)	(4,087)	(4,953)	(4,087)
	4,101	5,231	4,101	5,231
Total Property, Plant & Equipment	17,659	15,961	17,659	15,961

* Plant & equipment includes fixtures, fittings and motor vehicles.

Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year are as follows:

	Leasehold improvements		Plant & equipment	
	At Cost $'000	Leased $'000	At Cost $'000	Leased $'000
Balance at the beginning of the year	2,873	1,424	6,433	5,231
Additions	1,189	-	4,651	305
Disposals	(218)	(34)	(435)	(282)
Depreciation/amortisation expense	(526)	(156)	(1,643)	(1,153)
Carrying amount at end of the year	3,318	1,234	9,006	4,101

	Total $'000
Balance at the beginning of the year	15,961
Additions	6,145
Disposals	(969)
Depreciation/amortisation expense	(3,478)
Carrying amount at the end of the year	17,659

Notes to the Financial Statements (Cont'd)

	Note	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Note 11: Non-Current Assets - Deferred Tax Assets					
Future Income Tax Benefit		1,906	1,107	1,906	1,107

No part of the future income tax benefit is attributable to tax losses.

Note 12: Current Liabilities – Payables

	Note	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Unsecured liabilities					
Trade creditors		9,348	9,145	9,348	9,145
Sundry creditors and accruals		1,534	1,544	1,534	1,544
Amounts owing to controlled entities		-	-	1,004	1,004
		10,882	10,689	11,886	11,693

Note 13: Current Liabilities - Interest Bearing Liabilities

	Note	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Secured liabilities					
Bank overdrafts	24	497	560	497	560
Finance lease liability	22	358	498	358	498
Hire purchase liability	22	1,535	1,293	1,535	1,293
		2,390	2,351	2,390	2,351

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 14: Current Liabilities - Tax Liabilities

	Note	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Income tax		1,314	1,580	1,314	1,580

Note 15: Current Liabilities – Provisions

	Note	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Employment entitlements	27	3,731	2,996	3,731	2,996

	Note	Consolidated Entity		Parent Entity	
		2005	2004	2005	2004
		$'000	$'000	$'000	$'000

Note 16: Current Liabilities - Other

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Accrued expenses		2,930	2,264	2,930	2,264
Deferred income		518	404	518	404
		3,448	2,668	3,448	2,668

Note 17: Non-Current Liabilities - Interest Bearing Liabilities

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Secured liabilities					
Finance lease liability	22	181	472	181	472
Hire purchase liability	22	898	1,982	898	1,982
		1,079	2,454	1,079	2,454

Note 18: Non-Current Liabilities – Provisions

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Employment entitlements	27	927	655	927	655

Note 19: Equity - Contributed Equity

	2005 $'000	2004 $'000
Issued and paid up capital		
Ordinary shares fully paid	2,945	1,616
Movement in contributed equity		
Balance at the beginning of the year	1,616	3,365
Shares issued on exercise of options (i)	1,329	298
Shares issued on listing (iii)	-	1,251
Payment of transaction costs on listing (iv)	-	(840)
Cancellation of options (v)	-	(2,458)
Balance at the end of the year	2,945	1,616

Movement in Shares on issue	No. of Shares	No. of Shares
Balance at the beginning of the year	24,075,110	6,084
Shares issued on exercise of options (i)	1,003,185	118
	25,078,295	6,202
Share split (ii)	-	23,443,126
Shares issued on listing (iii)	-	625,782
Balance at the end of the year	25,078,295	24,075,110

Notes to the Financial Statements (Cont'd)

(i) The following were issued pursuant to the exercise of options:

- 118 shares issued at $2,528.09 (on a post share split basis – 446,150 shares issued at $0.6686 per share) on 16 September 2003;
- 230,637 shares issued at $1.52 per share on 21 February 2005;
- 230,638 shares issued at $0.67 per share on 25 February 2005;
- 541,910 shares issued at $1.52 per share on 25 February 2005;

(ii) Share split on a 3,780.93 for 1 basis, increasing the number of shares on issue from 6,202 to 23,449,328 on 28 May 2004;

(iii) 625,782 shares issued at $1.9989 per share pursuant to the Initial Public Offer on 1 June 2004;

(iv) Payment of $839,991 for costs associated with the Initial Public Offer; and

(v) Payment on cancellation of 1,758,132 existing vested options totalling $2,458,397 on 31 May 2004.

The voting rights of ordinary shares are that each share shall have one vote.

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Note 20: Equity – Capital Profits Reserve				
Capital profits reserve	739	739	739	739
There have been no movements in the Capital Profits Reserve during the financial year.				
Note 21: Equity – Retained Profits				
Retained profits at the beginning of the financial period	15,056	11,475	14,053	10,472
Net profit attributable to members of the consolidated entity	7,061	5,581	7,061	5,581
Dividends provided for or paid	(3,110)	(2,000)	(3,110)	(2,000)
Retained profits at reporting date	19,007	15,056	18,004	14,053

Dividends were paid on 24 September 2004 of 2.5 cents per share totalling $601,878 and on 23 March 2005 of 10.0 cents per share totalling $2,507,830.

	Note	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Note 22: Capital And Leasing Commitments					
Finance Leasing Commitments					
Payable					
not later than one year		401	577	401	577
later than one year and not later than five years		196	511	196	511
Minimum lease payments		597	1,088	597	1,088
Less future finance charges		(58)	(118)	(58)	(118)
Total lease liability		539	970	539	970
Represented by:					
Current liability	13	358	498	358	498
Non-current liability	17	181	472	181	472
		539	970	539	970
Finance leases are 3 year lease terms for the purchase of motor vehicles and computer equipment.					
Hire purchase commitments					
Payable					
Not later than one year		1,764	1,640	1,764	1,640
later than one year and not later than five years		973	2,196	973	2,196
Minimum hire purchase payments		2,737	3,836	2,737	3,836
Less future finance charges		(304)	(561)	(304)	(561)
Total hire purchase liability		2,433	3,275	2,433	3,275
Hire purchase contracts are 3 year agreements for the purchase of new store fixtures and fittings.					
Represented by:					
Current liability	13	1,535	1,293	1,535	1,293
Non-current liability	17	898	1,982	898	1,982
		2,433	3,275	2,433	3,275
Operating Lease Commitments					
Non-cancellable operating leases contracted for but not capitalised in the financial statements:					
Payable					
not later than one year		24,306	22,521	24,306	22,521
later than one year and not later than five years		51,591	40,605	51,591	40,605
later than five years		2,952	1,275	2,952	1,275
		78,849	64,401	78,849	64,401

Notes to the Financial Statements (Cont'd)

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Note 23: Contingent Liabilities				
Estimates of the maximum amounts of contingent liabilities that may become payable:				
Letters of credit established for acquisition of goods for resale	211	244	211	244
ANZ Bank indemnity guarantee to landlords	1,073	955	1,073	955
	1,284	1,199	1,284	1,199
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 statements of financial position as follows:				
Cash on hand	283	263	283	263
Cash at bank	4,647	2,793	4,647	2,793
Bank overdrafts	(497)	(560)	(497)	(560)
	4,433	2,496	4,433	2,496
Reconciliation of Cash Flow from operations with profit from ordinary activities				
Profit from ordinary activities after Income Tax	7,061	5,581	7,061	5,581
Non-cash flows in profit from ordinary activities				
Amortisation of leased assets	487	816	487	816
Depreciation	2,991	2,225	2,991	2,225
Loss on sale of property, plant and equipment	867	343	867	343
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries				
(Increase) / Decrease in receivables and other assets	(231)	560	(231)	560
(Increase) / Decrease in inventories	(1,056)	777	(1,056)	777
Increase in trade and other creditors and other provisions	1,980	4,411	1,980	4,411
Increase / (Decrease) in income tax payable	(266)	286	(266)	286
(Increase) in deferred taxes	(799)	(652)	(799)	(652)
Net cash provided by operations	11,034	14,347	11,034	14,347
Non-cash financing and investing activities				
Acquisition of plant & equipment by means of finance lease	305	2,119	305	2,119

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:

	2005		2004	
	Limit $'000	Utilised $'000	Limit $'000	Utilised $'000
Interchangeable Working Capital Facility	11,000	971	11,000	(1,366)
Interchangeable Asset Finance Facility	5,000	2,949	5,000	3,940
Foreign Currency Settlement	2,000	867	3,400	-
Other Facilities	4,992	1,073	4,992	955
Total Facility	22,992	5,860	24,392	3,529

A seasonal facility of $12,000,000 was utilised from 1 July 2004 and repaid in full by 26 December 2004.

Note 25: Financial Instruments

Derivative Financial Instruments

Derivative financial instruments are used by the consolidated entity to hedge exposure to exchange rate risk associated with foreign currency transactions which impact on the borrowings of the consolidated entity. The derivative financial instruments used by the consolidated entity are not recognised in the financial statements. Transactions for hedging purposes are undertaken without the use of collateral as only reputable institutions with sound financial positions are dealt with.

The consolidated entity enters into forward exchange contracts to buy and sell specified amounts of foreign currency in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the consolidated entity against unfavourable exchange rate movements for both the contracted and anticipated future sales and purchases undertaken in foreign currencies.

The accounting policy in regard to forward exchange contracts is detailed in note 1(i)

At balance date, the details of outstanding forward exchange contracts to be settled within 6 months are:

		2005	2004	2005	2004
		$'000	$'000	$	$
Sell	**Buy**			**Average Exchange Rate**	
Australian Dollars	United States Dollars				
		14,907	3,512	0.77	0.71
Australian Dollars	Euro				
		1,160	-	0.60	-
Australian Dollars	Pounds Sterling				
		1,087	244	0.41	0.41

Deferred gains on forward exchange contracts totalling $104,445 has been included in the statement of financial position as of 26 June 2005 as a current asset and a current liability.

Notes to the Financial Statements (Cont'd)

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	
	2005	2004	2005	2004	2005	2004
	%	%	$'000	$'000	$'000	$'000
Financial Assets						
Cash	3.83	3.50	4,930	3,056	-	-
Financial Liabilities						
Bank loans and overdrafts	5.55	5.25	-	-	497	560
Hire purchase liabilities	6.88	6.85	-	-	1,535	1,293
Lease liabilities	8.50	7.25	-	-	358	498
Total Financial Liabilities			-	-	2,390	2,351

	Fixed Interest Rate Maturing 1 to 5 years		Fixed Interest Rate Maturing Over 5 Years	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Financial Assets	-	-	-	-
Financial Liabilities				
Hire purchase liabilities	898	1,982	-	-
Lease liabilities	181	472	-	-
Total Financial Liabilities	1,079	2,454	-	-

	Non-interest Bearing		Total	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Financial Assets				
Cash	-	-	4,930	3,056
Receivables and other debtors	47	106	47	106
Total Financial Assets	47	106	4,977	3,162
Financial Liabilities				
Bank loans and overdrafts		-	497	560
Trade, sundry, and other creditors	14,330	13,357	14,330	13,357
Hire purchase liabilities		-	2,433	3,275
Lease liabilities		-	539	970
Total Financial Liabilities	14,330	13,357	17,799	18,162

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 statement of financial position 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 statement of financial position and in the notes to the financial statements.

Note 26: Directors and Executives Disclosures

Directors

BJ Beattie – Chairman

BAE Saunders – Managing Director

AC McMorron – Non-executive director

J Shuster – Non-executive director

All of the above persons were directors of The Reject Shop Limited for the entire year ended 26 June 2005.

Specified Executives

The following persons were the five executives, excluding the Managing Director, with the greatest authority for strategic direction and management of the consolidated entity ("specified executives") during the financial year:

AE Sloshberg – General Manager, Merchandise

RD Jones – General Manager, Store Operations

CJ Bryce – Chief Financial Officer

DJ O'Connor – Chief Information Officer

PG Beckett – General Manager, Logistics

All of the above persons were employed by The Reject Shop Limited and were specified executives for the entire year ended 26 June 2005.

Remuneration of Directors and Executives

The Company's Remuneration Committee ensures 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 14 of this annual report.

Notes to the Financial Statements (Cont'd)

Directors' Fees

The current aggregate limit for directors' fees is $250,000 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.

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 directors fees.

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.

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.

Service Agreements

The following executives 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 on 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.

AE Slosberg, General Manager, Merchandise:

- Term of agreement – 3 years commencing 1 January 2003;
- Base Salary has a guaranteed increase 5.2% for the calendar year ending 31 December 2005;
- An annual incentive of 1.5% of base salary (exclusive of company superannuation contribution) is payable for each 1% EBIT is higher than 6% over the prior year; and
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, 9 months' base salary or the remainder of the term of the contract, whichever is less, with a minimum of 6 months.

Other Specified Executives

Other than noted above, all specified executives are on employment terms consistent with the remuneration framework outlined in this note. No specified executive, other than noted above, has a defined period of notice with respect to termination.

Notes to the Financial Statements (Cont'd)

Directors Remuneration

Details of the remuneration of each director of The Reject Shop Limited, including their personally-related entities, for the current and prior financial years are set out in the following tables:

2005	Primary Benefits			Post - employment	Equity			
Name	Cash Salary and Fees	Cash Bonus	Non-monetary Benefits	Super-annuation	Rights	Proportion of remuneration as equity based	Total	Proportion of remuneration as performance related
	$	$	$	$	$	%	$	%
BJ Beattie	82,568	-	-	7,431	-	-	89,999	-
BAE Saunders[2]	464,820	117,033	22,090	41,850	100,939	13.5%	746,732	29.2%
AC McMorron	59,633	-	-	5,367	-	-	65,000	-
J Shuster	54,663	-	-	10,337	-	-	65,000	-
Total	**661,684**	**117,033**	**22,090**	**64,985**	**100,939**		**966,731**	

2004	Primary Benefits			Post - employment	Equity			
Name	Cash Salary and Fees	Cash Bonus	Non-monetary Benefits	Super-annuation	Rights/ Options	Proportion of remuneration as equity based	Total	Proportion of remuneration as performance related
	$	$	$	$	$	%	$	%
BJ Beattie[1]	27,841	-	-	2,506	-	-	30,347	-
BAE Saunders[2]	430,000	92,400	28,683	38,700	19,939	3.3%	609,722	18.4%
AC McMorron[3]	11,774	-	-	1,060	-	-	12,834	-
J Shuster	18,719	-	-	447	-	-	19,166	-
Total	**488,334**	**92,400**	**28,683**	**42,713**	**19,939**		**672,069**	

1. BJ Beattie was appointed on 27 February 2004.
2. BAE Saunders is the Managing Director of the Company and amounts shown above include all remuneration during the reporting period. Amounts received as a director amounted to nil.
3. AC McMorron was appointed on 21 April 2004.

All cash bonuses with respect to the current year will be paid and no specified executive forfeited any cash bonus entitlement. No long term incentives either vested, lapsed or were forfeited during the current financial year.

No retirement benefits were received by specified executives during the financial years ended 26 June 2005 and 27 June 2004 respectively. Subsequent to year end the Managing Director's employment contract was revised to include a retirement allowance as detailed under service agreements in the remuneration report.

Specified Executives Remuneration

Details of the remuneration of each of the five specified executives of the consolidated entity, including their personally-related entities, for the current and prior financial years are set out in the following tables:

2005	Primary Benefits			Post - employment	Equity			
Name	Cash Salary and Fees	Cash Bonus	Non-monetary Benefits	Super-annuation	Rights	Proportion of remuneration as equity based	Total	Proportion of remuneration as performance related
	$	$	$	$	$	%	$	%
AE Sloshberg	287,701	53,174	-	25,893	68,654	15.8%	435,422	28.0%
RD 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%
Total	**1,068,061**	**149,258**	**10,500**	**89,462**	**268,179**		**1,585,460**	

2004	Primary Benefits			Post - employment	Equity			
Name	Cash Salary and Fees	Cash Bonus	Non-monetary Benefits	Super-annuation	Rights/ Options	Proportion of remuneration as equity based	Total	Proportion of remuneration as performance related
	$	$	$	$	$	%	$	%
AE Sloshberg	281,312	58,954	-	25,318	9,092	2.4%	374,676	18.2%
RD Jones	238,706	42,706	-	20,044	9,092	2.9%	310,548	16.7%
CJ Bryce	179,168	53,716	-	14,532	4,470	1.8%	251,886	23.1%
PG Beckett	143,184	17,400	18,000	11,000	2,861	1.5%	192,445	10.5%
DJ O'Connor	157,933	18,000	-	11,000	3,576	1.9%	190,509	11.3%
Total	**1,000,303**	**190,776**	**18,000**	**81,894**	**29,091**		**1,320,064**	

The share-based compensation included in the directors and specified executives remuneration above has been measured using a Black-Scholes option pricing model. Details of grants made under both plans are contained in note 27 of this financial report.

All cash bonuses with respect to the current year will be paid and no specified executive forfeited any cash bonus entitlement. No long term incentives either vested, lapsed or were forfeited during the current financial year.

No retirement benefits were received by specified executives during the financial years ended 26 June 2005 and 27 June 2004 respectively.

Notes to the Financial Statements (Cont'd)

Options and Performance Rights Holdings

The number of options or rights over shares in the company held during the financial year by each director of The Reject Shop Limited and each specified executive of the consolidated entity, including their personally related entities, are set out below:

Name	Balance at the start of the year	Options exercised during the yea	Rights exercised during the year	Other changes during the year	Balance at end of the year	Vested and exercisable at end of this year	Options/ Rights vested during the year
Directors							
BJ Beattie	-	-	-	-	-	-	-
BAE Saunders	586,273	(461,273)	-	-	125,000	-	-
AC McMorron	-	-	-	-	-	-	-
J Shuster	-	-	-	-	-	-	-
Specified Execuitves							
AE Sloshberg	310,637	(230,637)	-	-	80,000	-	-
RD 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	-	-

No grant of options or performance rights was made during the financial year ended 26 June 2005. Subsequent to year end 87,000 performance rights have been granted to specified executives, and 78,125 performance rights have vested and been exercised by specified executives.

Share Holdings

The number of shares in the company held during the financial year by each director of The Reject Shop Limited and each specified executive of the consolidated entity, including their personally-related entities, are set out below:

Name	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
Directors				
BJ Beattie	-	-	-	-
BAE Saunders	521,706	461,273	-	982,979
AC McMorron	70,000	-	70,000	140,000
J Shuster	575,000	-	-	575,000
Specified Executives				
AE Sloshberg	168,252	230,637	-	398,889
RD 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

Subsequent to the end of the financial year and up to the date of this report there has been no change to director share holdings as outlined above.

Loans to directors or specified executives

No loans were made to or from directors of The Reject Shop Limited or to or from the five specified executives of the consolidated entity, including their personally-related entities or are outstanding as of 26 June 2005 ($Nil – 2004).

Other transactions with directors or specified executives

Personally related entities of J Shuster provided legal and property advice to the Company and received fees totalling $Nil for the financial year ($48,650 for 2004).

Note 27: Employee Benefits

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Employee benefits and related on-costs liabilities				
Included in sundry creditors - current (note 12)	1,050	868	1,050	868
Provision for employee benefits – current (note 15)	3,731	2,996	3,731	2,996
Provision for employee benefits – non-current (note 18)	927	655	927	655
Aggregate employee benefits and related on-costs liabilities	5,708	4,519	5,708	4,519

	Number		Number	
Employee numbers				
Average number of employees during the financial year	2,030	1,920	2,030	1,920

Performance Rights Plan (PRP) and Executive Option Plan

Performance Rights Plan

The PRP is the basis of The Reject Shop's long term incentive scheme for selected senior employees. In summary, eligible executives 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.

An initial grant of 625,000 performance rights in aggregate was made on 1 June 2004 divided into several tranches. The details of all grants as at 26 June 2005 are detailed in the table below:

Tranche	Grant date	Expiry Date	No. of rights issued	Earnings Per Share (EPS) Hurdle	Date Exercisable	Value per right at date of grant
Participants excluding the Managing Director						
Tranche A	1 June 2004	31 May 2009	125,000	$0.21 in FY2004	27 June 2005	$1.85
Tranche B	1 June 2004	31 May 2009	125,000	$0.23 in FY2005	26 June 2006	$1.73
Tranche C	1 June 2004	31 May 2009	125,000	$0.25 in FY2006	2 July 2007	$1.61
Tranche D	1 June 2004	31 May 2009	125,000	$0.28 in FY2007	30 June 2008	$1.50
Managing Director						
Tranche X	1 June 2004	31 May 2009	75,000	$0.23 in FY2005	2 July 2006	$1.73
Tranche Y	1 June 2004	31 May 2009	50,000	$0.25 in FY2006	2 July 2006	$1.61

For all tranches the right is only exercisable if the EPS hurdle is met each year and the participant remains employed until 1 day after the end of the following year, with the exception of tranche Y which is exercisable on achievement of the EPS hurdle specified. In instances where an EPS hurdle is not met, the rights granted for that year convert to and are added to the following year's tranche. 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 rights exercised on that day.

The values per tranche of Performance Rights granted during the year have been based on a Black-Scholes option pricing model.

No vested performance rights were exercised or lapsed during the financial year. Performance rights do not carry voting or dividend entitlements.

Subsequent to year end, the Board granted a further 153,000 performance rights under the PRP.

Notes to the Financial Statements (Cont'd)

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 the year:

Grant Date	Expiry Date	Exercise Price	Balance at start of year	Issued during the year	Exercised during the year	Lapsed/ Cancelled during the year	Balance at end of year
28 February 2000	28 February 2005	$0.67	168,252	-	(168,252)	-	-
10 September 2001	10 September 2006	$0.67	62,386	-	(62,386)	-	-
17 September 2003	17 September 2008	$1.52	922,547	-	(772,547)	-	150,000
Total			**1,153,185**	**-**	**(1,003,185)**	**-**	**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.

Total shares under options or performance rights

Unissued shares of The Reject Shop Limited under options or performance rights as the date of this financial report are:

Type	Date of grant	Expiry Date	Exercise Price	No. on issue	No. vested
Options	17 September 2003	17 September 2008	$1.52	150,000	150,000
Performance Rights	1 June 2004	31 May 2009	-	500,000	-
Performance Rights	17 August 2005	16 August 2010	-	153,000	-
Total				**803,000**	**150,000**

Shares issued on the exercise of options

The following shares of The Reject Shop Limited were issued during the year ended 26 June 2005 on the exercise of options granted under the Executive Option Plan:

Date of Exercise	Number of shares issued	Fair value of each share at issue date	Fair value of shares issued on exercise of options	Exercise Price	Aggregate proceeds received on exercise of options and recognised in contributed equity
		$	$	$	$
21 February 2005	230,637	$3.40	$784,166	$1.52	$350,568
25 February 2005	230,638	$3.24	$747,267	$0.67	$154,527
25 February 2005	541,910	$3.24	$1,755,788	$1.52	$823,703

No further options have been exercised subsequent to year end, however 125,000 performance rights vested and were exercised on 19 July 2005. No amounts are unpaid on any of these shares.

Note 28: Remuneration of Auditors

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
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	104,200	100,200	104,200	100,200
IFRS accounting services	41,500	-	41,500	-
	145,700	100,200	145,700	100,200
Tax Compliance and Consulting Services				
Tax compliance	15,000	15,000	15,000	15,000
Tax consulting advice	19,300	-	19,300	-
	34,300	15,000	34,300	15,000
Other Services				
Due diligence services	-	244,866	-	244,866
Other assurance services	52,690	-	52,690	-
Total remuneration	232,690	360,066	232,690	360,066

Note 29: Dividends

Since year end the directors have declared the payment of a fully franked final dividend of 7 cents per share. The amount of the proposed dividend to be paid on 23 September 2005 out of retained profits, but not recognised as a liability at year end, is	1,764	602	1,764	602
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%	11,438	9,150	11,438	9,150

Notes to the Financial Statements (Cont'd)

Note 30: Earnings per share

	Consolidated	
	2005	2004
	Cents	Cents
Basic earnings per share	28.9	23.9
Diluted earnings per share	27.8	22.3
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	24,410,200	23,396,118
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	25,427,925	25,009,968

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 are set out in note 27.

Note 31: Net Tangible Assets

	Consolidated	
	2005	2004
	Cents	Cents
Net tangible asset backing per ordinary share	90.5	72.3

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: Controlled Entities

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 controlled entity during the year ($Nil in 2004).

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: Impacts of adopting Australian equivalents to International Financial Reporting Standards (AIFRS)

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half year ending 26 December 2005 and the year ending 25 June 2006.

The consolidated entity has established a project team to manage the transitions to AIFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team reports to the Audit Committee and is currently on schedule for managing the transition.

The known impacts on the financial report for the year ended 26 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are shown for each line item in the statements of financial performance and statements of financial position, with descriptions of the differences. No material impacts are expected in relation to the statements of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

Impact of AIFRS on statements of financial performance

	Note	Consolidated Entity			Parent Entity		
		Existing GAAP	Effect of Change	AIFRS	Existing GAAP	Effect of Change	AIFRS
		$'000	$'000	$'000	$'000	$'000	$'000
Revenues from ordinary activities							
Sales revenue		203,098		203,098	203,098		203,098
Other revenues from ordinary activities		252	(102)	150	252	(102)	150
		203,350		203,248	203,350		203,248
Cost of sales		103,904		103,904	103,904		103,904
Store expenses		65,909	(40)	65,869	65,909	(40)	65,869
Administrative expenses		15,567	402	15,969	15,567	402	15,969
Distribution centre expenses		7,409		7,409	7,409		7,409
		192,789		193,151	192,789		193,151
Borrowing costs		679		679	679		679
Profit from ordinary activities before income tax expense		9,882		9,418	9,882		9,418
Income tax expense relating to ordinary activities		2,821	70	2,891	2,821	70	2,891
Net Profit Attributable to Members of The Reject Shop Limited		7,061		6,527	7,061		6,527
Total changes in equity other than those resulting from transactions with owners as owners		7,061		6,527	7,061		6,527
Earnings per Share		**Cents**		**Cents**	**Cents**		**Cents**
Basic Earnings Per Share		28.9		26.7	28.9		26.7
Diluted Earnings Per Share		27.8		25.7	27.8		25.7

Notes to the Financial Statements (Cont'd)

Impact of AIFRS on statements of financial position

		Consolidated Entity			Parent Entity		
	Note	Existing GAAP	Effect of Change	AIFRS	Existing GAAP	Effect of Change	AIFRS
		$'000	$'000	$'000	$'000	$'000	$'000
CURRENT ASSETS							
Cash assets		4,930		4,930	4,930		4,930
Receivables		47		47	47		47
Inventories		21,305		21,305	21,305		21,305
Other		615		615	615		615
TOTAL CURRENT ASSETS		26,897		26,897	26,897		26,897
NON-CURRENT ASSETS							
Other financial assets		-		-	1		1
Property, plant and equipment		17,659		17,659	17,659		17,659
Deferred tax assets		1,906	305	2,211	1,906	305	2,211
TOTAL NON-CURRENT ASSETS		19,565		19,870	19,566		19,871
TOTAL ASSETS		46,462		46,767	46,463		46,768
CURRENT LIABILITIES							
Payables		10,882		10,882	11,886		11,886
Interest bearing liabilities		2,390		2,390	2,390		2,390
Tax liabilities		1,314		1,314	1,314		1,314
Provisions		3,731	(130)	3,601	3,731	(130)	3,601
Other		3,448	1,233	4,681	3,448	1,233	4,681
TOTAL CURRENT LIABILITIES		21,765		22,868	22,769		23,872
NON-CURRENT LIABILITIES							
Interest bearing liabilities		1,079		1,079	1,079		1,079
Provisions		927		927	927		927
TOTAL NON-CURRENT LIABILITIES		2,006		2,006	2,006		2,006
TOTAL LIABILITIES		23,771		24,874	24,775		25,878
NET ASSETS		22,691		21,893	21,688		20,890
EQUITY							
Contributed equity		2,945	101	3,046	2,945	101	3,046
Share based payments reserve		-	588	588	-	588	588
Capital profits reserve		739		739	739		739
Retained profits		19,007	(1,487)	17,520	18,004	(1,487)	16,517
TOTAL EQUITY		22,691		21,893	21,688		20,890

Explanatory notes on the impacts on the statements of financial performance and position.

Leases

AASB 117 - Leases requires lease payments under an operating lease to be recognised as an expense on a straight-line basis over the lease term. Leases containing fixed escalation clauses will require the escalation amounts 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.

This will result in a change in the current accounting policy, under which the expense is recognised equal to the amount currently due.

If the policy required by AAS 117 had been applied during the year ended 26 June 2005, the consolidated and parent entity retained profits as of 26 June 2005 would have been $1,233,006 lower, with a corresponding provision for future lease payments. The consolidated and parent entity rental expense recorded for the year ended 26 June 2005 would have been $46,256 higher.

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.

This will result in a change of the current accounting policy in which no expense is recognised for equity based compensation.

If the policy required by AASB 2 had been applied during the year ended 26 June 2005, the consolidated and parent entity retained profits as of 26 June 2005 would have been $587,673 lower, with a corresponding increase in share-based payment reserve. For the year ended 26 June 2005, the consolidated and parent entity employee benefits expense would have been $530,023 higher.

Employee Benefits

AASB 119 - Employee Benefits requires liabilities for employee annual leave to be discounted.

This will result in a change from the current accounting policy which does not require discounting.

If the policy required by AASB 119 had been applied during the year ended 26 June 2005, the consolidated and parent entity retained profits as of 26 June 2005 would have been $129,936 higher, with a corresponding decrease to the current employee entitlements provision. For the year ended 26 June 2005, the consolidated and parent entity employee benefits expense would have been $25,521 lower.

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 statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

If the policy required by AASB 112 had been applied during the year ended 26 June 2005 the consolidated and parent entity retained profits as of 26 June 2005 would have been $305,083 higher, with a corresponding increase to deferred tax assets. For year ended 26 June 2005, the consolidated and parent entity tax expense would have been $19,618 higher.

In addition to the above, AASB 112 requires the tax effect of transaction costs related to the Initial Public Offering would have been recognised directly in equity, resulting in as of 26 June 2005, an increase to the consolidated and parent entity contributed equity of $100,942 and a corresponding decrease in retained profits. For year ended 26 June 2005, the consolidated and parent entity income tax expense would have been $50,471 higher.

Notes to the Financial Statements (Cont'd)

Impairment of Assets

AASB136 - 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 to be made for each store, as a defined cash generating unit.

This will result in a change to the current accounting policy, under which the company assesses recoverable amount on a non-discounted basis at the aggregate level of store assets.

If the policy required by AASB 136 had been applied during the year ended 26 June 2005, the consolidated and parent entity store expenses would have been $86,129 lower.

Revenue

Under AIFRS, the revenue recognised in relation to the sale of non-current assets is the net gain on sale.

This will result in a change to the current accounting policy, under which gross proceeds from the sale are recognised as revenue and the carrying amount of the assets sold is recognised as an expense.

If the policy required under AIFRS had been applied during the year ended 26 June 2005, the consolidated and parent entity revenue would have been $101,789 lower with a corresponding decrease in expenses. The net impact on the profit or loss and retained earnings of the consolidated and parent entity is nil.

Financial Instruments

The consolidated and parent entity will be taking 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 1 July 2005. This allows the consolidated and parent entity to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 25 June 2006 financial report.

Under AASB132, the current classification of financial instruments issued by the consolidated and parent entity would not change.

Directors' Declaration

In the directors' opinion:

(a) The financial statements and notes set out on pages 26 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 26 June 2005 and of their performance, as represented by the results of their operations 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.

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 17th day of August 2005

Independent Audit Report

Independent audit report to the members of The Reject Shop Limited

Audit opinion

In our opinion, the financial report on pages 26 to 57 of The Reject Shop Limited:

- give 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 Group (defined below) as at 26 June 2005, and of their performance for the period 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*.

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

Scope

The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both The Reject Shop Limited (the Company) and The Reject Shop Group (the consolidated entity) for the period ended 26 June 2005. The consolidated entity comprises both the company and the entities it controlled during that period.

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.

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. 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 and cash flows.

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
- 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
17 August 2005

Liability is limited by the Accountant's Scheme under the Professional Standards Act 1994 (NSW)

Shareholders' Information

The shareholder information set out below was applicable as at 31 July 2005.

(a) **The distribution of shareholding was as follows:**

Size of Shareholding	Shareholders
1 - 1,000	436
1,001 - 5,000	884
5,001 - 10,000	191
10,001 - 100,000	122
100,001 and over	27

(b) **18 shareholders hold less than a marketable parcel of shares, being a market value of less than $500**

(c) **Substantial shareholders were:**

Shareholder	Number	% Held
K2 Asset Management	2,263,126	9.02%
AMP Limited	2,077,235	8.28%
Acorn Capital Limited	2,004,064	7.99%
Grahger Capital Investment P/L	2,000,000	7.98%
Perpetual Trustees Australia Ltd	1,639,563	6.54%
HSBC Asset Management	1,541,180	6.15%

(d) **The fully paid issued capital of the Company consisted of 25,203,295 shares held by 1,660 shareholders. Each share entitles the holder to one vote.**

(e) **Unquoted Equity Securities**

	Number on Issue	Number of holders
Options issued under The Reject Shop Executive Option Plan	150,000	1
Performance Rights issued under The Reject Shop Performance Rights Plan	500,000	11

(f) Twenty largest shareholders

Shareholder	Number	% Held
National Nominees Limited	4,150,432	16.47%
RBC Global Services Australia	2,102,064	8.34%
Grahger Capital Investment P/L	2,000,000	7.94%
Westpac Custodian Nominees	1,715,923	6.81%
AMP Life Ltd	1,045,281	4.15%
Highmont Heights P/L	975,479	3.87%
Invia Custodian P/L	734,811	2.92%
Cogent Nominees Pty Limited SMP Account	585,136	2.32%
Charlie McShanag	573,312	2.27%
HSBC Custody Nominees (Australia) Ltd	486,869	1.93%
Kembla No 20 P/L	415,902	1.65%
Sloshberg Superfund P/L	398,889	1.58%
JP Morgan Nominees Australia Ltd	320,500	1.27%
Bond Street Custodians Ltd	292,012	1.16%
HSBC Custody Nominees (Australia) Ltd HSMA Account	244,050	0.97%
Perpetual Trustees Consolidated Ltd	237,275	0.94%
Health Super P/L	222,064	0.88%
Cogent Nominees P/L	198,919	0.79%
Anthony Young	175,000	0.69%
Ron and Cathy Jones	168,252	0.67%
Total Top 20	**17,042,170**	**67.62%**

The twenty members holding the largest number of shares together held a total of 67.62% of the issued capital.

(g) Restricted Shares

	Number on Issue	Number of Holders
Escrow Shares (1)	1,257,458	3
Escrow Shares (2)	557,687	1
Escrow Shares (3)	772,547	3

1 Voluntary escrow until the company has reported its audited financial results for the financial year ended 26th June 2005.

2 As above, except that up to 60% is available to be sold, subject to certain conditions.

3 Options exercised on 21 February 2005 and 25 February 2005, within 12 months of listing, these shares are to be held in escrow until 21 February 2006 and 25 February 2006 respectively.

Corporate Directory

Directors	**BJ Beattie** Chairman **BAE Saunders** Managing Director **AC McMorron** Non-executive Director **J Shuster** Non-executive Director
Company Secretary	GS Lever
Principal Registered Office	245 Racecourse Road Kensington Vic 3031 Ph: (03) 9371 5555
Share Registry	ASX Perpetual Registrars Ltd Level 8, 580 George St Sydney NSW 2000
Auditors	PricewaterhouseCoopers Freshwater Place 2 Southbank Boulevard Southbank Vic 3006
Lawyers	Mallesons Stephen Jaques 600 Bourke Street Melbourne Vic 3000
Stock Exchange Listing	The Reject Shop Limited shares are listed on the Australian Stock Exchange.
Website	www.rejectshop.com.au

EVERYONE'S A WINNER AT

THE REJECT SHOP

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