APPENDIX 4E
THE REJECT SHOP LIMITED

ABN 33 006 122 676

Consolidated preliminary final report

For the 52 week financial period ended 30 June 2013
Compared to the 53 week financial period ended 1 July 2012

Results for announcement to the market

				A$'000
Sales revenue from continuing operations	up	11.3%	to	617,960
Profit from continuing operations after tax attributable to members	down	11.3%	to	19,451
Net profit for the period attributable to members	down	11.3%	to	19,451

Dividends	Amount per share	Franked amount per share
Interim dividend (paid 15 April 2013)	24 cents	100%
Final dividend	13 cents	100%

Record date for determining entitlements to final dividend	27 September 2013
Dividend payment date	14 October 2013

Commentary on the Company's trading results is included in the media release and on pages 5 to 8 of the annual report enclosed.

This report is based on accounts which have been audited. The audited financial report is attached.

ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED
30 JUNE 2013

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BOARD OF DIRECTORS

    

Bill Stevens ***FCA***
Non-Executive Chairman

Bill is a Fellow of the Institute of Chartered Accountants in Australia with an extensive career with KPMG (and Touche Ross) for 37 years. During his career with KPMG he was the client service partner for major clients including BHP Billiton, Santos, Pacific Dunlop/Ansell and Pacific Brands. More recently he was CEO of the Pacific Edge Group. He is also a director of National Golf Holdings Ltd, the Dennis Family Group and the Pacific Edge Group. Bill joined the Board in August 2008 and was appointed Chairman on 14 July 2010.

Chris Bryce ***BCom, CA***
Managing Director

Prior to joining The Reject Shop Limited, Chris spent over 10 years with PricewaterhouseCoopers in Australia and the United States. Chris was CFO and then General Manager of a computer and internet company, before joining The Reject Shop Limited as Chief Financial Officer in February 2003. Chris also was Company Secretary from April 2006 to August 2008. Chris remained Chief Financial Officer until his appointment as Managing Director on 14 September 2009 and became a Director on 15 October 2009.

Melinda Conrad
Non-Executive Director

Melinda has significant experience in business strategy and marketing to consumer facing organisations in a range of sectors including retail, FMCG, healthcare and government. In her career she was founder and CEO of a retail store chain, Conrads Warehouse. Melinda's professional qualifications include an MBA from the Harvard Business School. She is currently a Non-Executive Director of APN News and Media Ltd, the NSW Government's Clinical Excellence Commission and Agency for Clinical Innovation, the Garvan Medical Research Institute Foundation, Australian Brandenburg Orchestra and David Jones Limited. Melinda joined the Board of The Reject Shop Limited on 19 August 2011.

Denis Westhorpe
Non-Executive Director

Denis has significant experience in senior executive retail roles including 14 years as an Executive Director of Target Australia Pty Ltd. During this time Denis occupied the roles of Store Operations Director, Buying Director & 2 years as Managing Director of Target Specialty Stores. Denis has previously been Chairman of Charles Parsons (Holdings) Pty Ltd where he was a Director for 8 years. Denis joined the Board of The Reject Shop Limited on 19 August 2010.

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

Kevin is currently Managing Director of EKM Legal, a specialist law firm, providing specialised intellectual propery and commercial advice to Australians and overseas clients. He has had a 29 year career as a corporate lawyer and company secretary in some of Australia's leading public companies including Coles Myer. He was previously a Director for Austin Group Limited and is currently a member and regular lecturer at the Australian Institute of Chartered Secretaries. Kevin joined the Board of The Reject Shop in February 2008.

THE MANAGEMENT TEAM

Ray Frawley
General Manager - Operations

Mike Shields
General Manager - Merchandise

Darren Briggs
Chief Financial Officer & Company Secretary

Dani Aquilina
General Manager - Distribution

Sam Blakeney
General Manager - Merchandise

Phillip Nutbean
General Manager - Property

Josie Pileio
General Manager - Human Resources

Darren O'Connor
Chief Information Officer

Allan Penrose
General Manager - Marketing

Geoff Pearce
General Manager - Business Process Transformation

Ray Frawley
General Manager - Operations

Ray has over 25 years of senior management experience, most recently as Managing Director of McDonald's Korea. Ray has also held positions at McDonald's as Global Change Manager, Vice-President Information Services and Chief Financial Officer and the Chief Executive Officer of Ronald McDonald House Charities. Ray joined The Reject Shop in January 2011.

Mike Shields
General Manager - Merchandise Buying
Mike is an extremely experienced retail professional with an extensive background in retailing across a number of disciplines, including buying, planning, operations and distribution, with his early career experience within the Coles Myer Group, predominately with Target Australia. Mike spent 12 years with ExxonMobil both locally and overseas, with overall responsibility for the management of Global Convenience Store Supply Chain, Global Category Management for assigned categories and European Category Management. On returning to Australia Mike spent time running a management consulting business prior to joining The Reject Shop in April 2012.

Darren Briggs BCom, *CA, ACIS*
Chief Financial Officer & Company Secretary
Darren spent over ten years working with Deloitte in Australia and the United States. Darren then spent the next thirteen years working in senior finance roles at large corporations, most recently ten years at Skilled Group Limited. Darren joined The Reject Shop and was appointed Company Secretary in May 2008 and was promoted to Chief Financial Officer in October 2009.

Dani Aquilina MBus *(LogMgt)*
General Manager - Distribution
Dani has more than 13 years experience in retail including 8 years with K-Mart. Since joining The Reject Shop in 2007, Dani played a key role in the development of the Ipswich Distribution Centre and managing the National Logistics operation. Dani has a Masters of Business in Supply Chain and Logistics Management. Dani was appointed General Manager - Distribution in January 2013.

Sam Blakeney
General Manager - Merchandise Planning
Sam has 18 years of retail experience in the UK and Australia. He commenced in the UK with BHS before moving to Debenhams. Sam moved to Australia in 2002, joining The Reject Shop in March 2003 progressing from analyst to planning manager and merchandise controller. Sam was appointed as General Manager - Merchandise Planning in August 2011.

Phillip Nutbean *AREI*
General Manager - Property
Phillip has worked in commercial and retail real estate for over 30 years including four years with Coles Myer Ltd. Phillip joined The Reject Shop, first as a consultant in 1995 and then as Property Manager from May 2001.

Josie Pileio
General Manager - Human Resources
Josie is MBA qualified and an experienced senior HR professional with over 25 years in retail. Josie has extensive knowledge and experience across several fields including Organisational Development, Learning and Development, Employer Relations, Recruitment and Change Management. She has worked for some large retail organizations, such as Daimaru; Myer Stores Ltd; Borders Asia Pacific and most recently at Target Australia. Josie joined The Reject Shop in July 2012.

Darren O'Connor *BApp Sc*
Chief Information Officer
Darren has had over 25 years experience in IT development, analysis, support and management in both Australia and the United Kingdom specialising in managing information systems in branch model organisations such as retailers, rural suppliers and gaming companies. Darren joined The Reject Shop in July 2001.

Allan Penrose
General Manager - Marketing
Allan has over 20 years experience in advertising and marketing roles within the retail industry and retail services, with his most recent roles being at Target Australia and before that Solomon Partnership. Allan joined The Reject Shop in August 2010.

Geoff Pearce BBus *(InfoSys)*
General Manager - Business Process Transformation
Geoff has over 18 years of retail experience including consulting and IT management. He has previously worked with a diverse range of retailers to design and implement processes and systems supporting all aspects of retail planning and operations. Geoff joined The Reject Shop in December 2002 and was appointed to General Manager - Business Process Transformation in January 2012.

DIRECTORS' REPORT

Your directors present their report on the Company and its subsidiaries ("the Company") for the financial period ended 30 June 2013.

Directors

The directors of The Reject Shop Limited during the whole of the financial period and up to the date of this report were:

William J Stevens
Non-executive Director

Chairman of the Board, Member of the Remuneration Committee and Member of the Audit Committee.

Chris J Bryce
Managing Director

Kevin J Elkington
Non-executive Director

Chairman of the Audit Committee and Member of the Remuneration Committee.

Denis R Westhorpe
Non-executive Director

Member of the Audit Committee and Member of the Remuneration Committee.

Melinda B Conrad
Non-executive Director

Chairman of the Remuneration Committee and Member of the Audit Committee.

Details of the experience and expertise of the directors and the Company Secretary are outlined on pages 1 and 2 of this annual report.

Retirement of Directors

In accordance with the Company's Constitution, WJ Stevens and M Conrad will retire as directors at the Annual General Meeting and being eligible, will offer themselves for re-election.

Meetings of Directors

The number of meetings of the Board of directors and Committees held during the period ended 30 June 2013 and the number of meetings attended by each director were:

	Director Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
Director	A	B	A	B	A	B
WJ Stevens	15	16	4	4	1	2
CJ Bryce	16	16	XX	XX	XX	XX
KJ Elkington	16	16	4	4	2	2
DR Westhorpe	15	16	4	4	2	2
MB Conrad	16	16	4	4	2	2

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the period

XX - Not a member of relevant Committee

DIRECTORS' REPORT

Principal Activities

The principal activities of the Company during the financial period were the retailing of discount variety merchandise and no significant change in the nature of these activities occurred during the period.

Operating and Financial Review

The Operating and Financial Review, which forms part of the Directors' Report, is presented separately on pages 5 to 8 of this annual report.

Significant Changes in the State of Affairs

There has been no material change in the state of affairs of the Company other than those referred to in the Operating and Financial Review.

Matters Subsequent to the End of the Financial Period

No matters or circumstances have arisen since the end of the financial period which significantly affect or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods, except to the extent, previously disclosed, in relation to the new store opening program.

Likely Developments and Expected Results of Operations

Likely developments in the operations of the Company and the expected results of those operations in future financial periods are contained in the Operating and Financial Review on pages 5 to 8 of this annual report.

Environmental Regulation

The Company is not involved in any activities that have a marked influence on the environment within its area of operation. As such, the directors are not aware of any material issues affecting the Company or its compliance with the relevant environmental agencies or regulatory authorities.

Dividends – The Reject Shop Limited

Dividends paid to members during the financial period were:

A final ordinary dividend for the financial year ended 1 July 2012 of 9.5 cents per share totalling $2,478,761 together with a special dividend of 8.5 cents per share totalling $2,217,839, both paid on 15 October 2012.

An interim ordinary dividend for the financial period ended 30 June 2013 of 24.0 cents per share totalling $6,262,133 was paid on the 15 April 2013.

Since the end of the financial period the directors have declared the payment of a final ordinary dividend of 13.0 cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on 14 October 2013.

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

Insurance of Officers

The Company has paid premiums to insure all directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

During the financial period, the Company paid a premium of $23,954 to insure the directors and officers of the Company.

Proceedings on Behalf of the Company

No proceedings have been brought or intervened in on behalf of the company with leave of the court under section 237 of the *Corporations Act 2001*.

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 specified cases, to the nearest dollar.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

OVERVIEW OF OPERATIONS

The Company operates in the discount variety retail sector in Australia serving a broad range of value-conscious consumers who are attracted to low price points, convenient shopping locations and the opportunity to save money.

The Company offers a wide variety of general consumer merchandise, with particular focus on: everyday needs - such as toiletries, cosmetics, homewares, personal care products, hardware, basic furniture, household cleaning products, kitchenware, confectionery and snack food; and lifestyle and seasonal merchandise - such as seasonal gifts, cards and wrapping, toys, leisure items and home decorations.

The Company has a well-defined target market of consumers who are conscious of value and wanting or needing to save money. The Company continually changes its offer of new products, to create a sense of discovery for customers.

Customers are attracted to the Company's convenient shopping locations and its mix of quality, low price basic everyday items and new product offerings. This is reflected in the Company's extremely strong brand awareness in all States across Australia.

The Company seeks growth organically as measured in comparable store sales and through a consistent program of new store openings. Store locations are chosen to ensure we provide a convenient shopping experience to our customers and can be located in shopping centre or standalone sites in metropolitan areas, major regional centres and smaller country towns.

The Company continually seeks opportunities to open new stores in markets in which we currently do not operate. This allows us to service new customers with our low priced offerings and provides localised employment opportunities for these communities. The Company opened a record 41 new stores during the year, with its National store footprint totalling 276 stores by the end of the year.

Overview of Financial Performance

$ Amounts are in '000 / %'s are to Sales	FY13 52 Weeks	FY12 53 Weeks
Sales	617,960	555,298
Gross Profit(i)	45.0%	44.9%
Cost of Doing Business(i)	38.5%	37.4%
EBITDA	43,428	46,554
Depreciation and Amortisation	14,061	12,385
EBIT	29,367	34,169
Net Interest Expense	1,908	2,976
Profit Before Tax	27,459	31,193
Income Tax Expense	8,008	9,270
Net Profit After Tax	19,451	21,923

Reconciliation of EBIT	FY13 52 Weeks	FY12 53 Weeks
EBIT as above	29,367	34,169
Excl. Ipswich DC Insurance Claim	(2,874)	(5,400)(ii)
Excl. New Store Costs	3,475	1,345
Excl. Impact of 53rd Week	-	(2,500)(ii)
Adjusted EBIT	29,968	27,614

(i) Non IFRS Measure

(ii) Unaudited

Comparability of FY2013 and FY2012 Financial Results

The comparability of the financial results between the periods is particularly challenging as a result of:

- Insurance proceeds received in both years as a result of the Ipswich flood in January 2011;
- The significant costs in support of opening stores in FY2013 and FY2014; and
- FY2012 representing a 53 week period against a 52 week period in FY2013.

DIRECTORS' REPORT

The financial statements require amounts recovered under insurance be treated as other income and to leave additional costs of working and gross profit recoveries as either operating costs or cost of sales. The quantum, timing and accounting for these proceeds and the period to which they belong distorts analysis of the results in both years. Costs incurred to support new stores, particularly the number and timing of new stores in the second half of FY2013, reduces the underlying profitability of the business for the year.

After adjusting both years for the above mentioned, underlying Earnings before Interest & Tax (EBIT) increased by 8.5%, as shown in the reconciliation in the above table.

Sales Performance

Overall sales increased in FY2013 by 11.3% against the 53 week period last year or 13.3% against the comparable 52 weeks sales of last year. This reflects the sales from both new stores opened during FY2012 and FY2013 as well as comparable stores sales growth for the year of 1.8% (First half: 2.1%; Second Half: 1.4%).

The Company has delivered positive comparable store sales in each quarter (after adjusting for the impact of Easter sales in both the 3rd and 4th quarters in FY2013) since reopening its Ipswich Distribution Centre in October 2011.

Gross Profit

Gross profit (sales, less cost of sales adjusted for the impact of insurance recoveries - Note 4), as a percentage of sales, was slightly above the prior year as a result of further improvements made this year to our overall stockflow and DC efficiency. Whilst the AUD exchange rate has declined in recent months the exchange rates applied to purchases in FY2013 were broadly consistent with the prior year.

Cost of Doing Business (CODB)

CODB (consisting of store and administrative expenses, but excluding depreciation and amortisation, and adjusted for insurance cost recoveries - See Note 4) as a percent to sales increased mainly as result of an increase in Store Operating Costs. Store wages increased as the Company absorbed the annual increases under the Company's Enterprise Agreement. In addition, higher wages costs were incurred in new stores when compared to existing stores as it takes time for new teams to increase productivity and roster staff appropriately to reflect the trading patterns of the new stores.

Occupancy costs were consistent to last year as a % to sales, despite base occupancy costs reducing on store leases renewed. Other store operating costs were higher as a % of sales as the Company absorbed higher costs in power and EFTPOS charges relative to the prior year.

Direct new store opening costs totalled $3.5m for FY2013 (FY2012 $1.3m).

Earnings

The Company EBIT of $29.4m is down 14% on the prior year. However, the comparability between the two periods was impacted by the 53rd trading week in the prior year and the material insurance proceeds received in both periods relating to the flooding of the Company's Ipswich Distribution Centre in January 2011. In addition, the Company incurred significantly more costs in opening new stores in FY2013 compared to the prior year (FY2013 - $3.5m ;FY2012 - $1.3m) as a result of opening a record 41 new stores . It should be noted that a record 24 of these new store openings were in the second half of the year and whilst trading to expectations, they did not recover the costs associated with opening the stores. As a result this reduced the second half and therefore full year profit.

After adjusting for the above, the business recorded an underlying EBIT increase of approximately 8.5%.

Dividends

Total dividends declared for the financial period to 30 June 2013 of 37.0 cents per share represents a payout ratio of just over 50% of the full year earnings per share. An interim ordinary dividend of 24.0 cents per share has been paid and a final dividend of 13.0 cents per share will be paid on 14 October 2013. All dividends are fully franked.

The Board intends to maintain a dividend payout ratio of approximately 50% of Net Profit After Tax as it continues to grow through its accelerated new store roll-out program and selected infrastructure projects to support store growth. Consideration of the appropriate payout ratio is assessed each half based on the underlying profitability and financial needs of the business going forward.

Financial Position and Capital Investment

In April 2014 the Company raised $44m additional Equity via an Institutional and Share Placement Plan ($42.9m net of transactional costs) to support primarily the significant capital expenditure and working capital requirements associated with the accelerated new store roll-out program during FY2013 and FY2014. The capital raising resulted in a 10.5% increase in the number of issued shares in the Company.

The Equity raising has enabled the company to reduce Net Debt significantly with Net Debt at year end of $0.1m ($22.4m in FY2012). This provides significant capacity within existing debt funding facilities and the Company is operating well within existing debt covenants. This is despite the business having spent $27.4m on capital expenditure during FY2013, including a record $17.5m on new stores, and also investing $15.1m in working capital (primarily inventory), required to service both existing and future new store openings.

In addition, the capital raising helped net interest expense reduce by $1.1m on FY2012, as did both the recovery of insurance claims and improved control over inventory investment early in the year.

DIRECTORS' REPORT

Investments for Future Growth

The Company has a long stated aim to operate 400 stores nationally. Historically, it has invested early to support planned growth with distribution and IT capacity in place to support 400 stores, and an organisational structure in place to support the increasing business.

The Company will continue to significantly increase its store portfolio, and anticipates by the end of FY2014 to have opened in excess of 80 stores in less than two years, and have:

- Employed over 1,000 new employees in all areas of the business;
- Introduced our product offer to over 3 million more customers;
- Become the largest Discount Variety operator in all states of Australia; and
- Expanded our store base beyond 300 stores.

Financially the Company will have:

- Invested in excess of $40m in Capital Expenditure in store fixturing, IT and Distribution infrastructure;
- Invested $20m in initial inventory to present our offer; and
- Expensed more than $7m in support of opening the stores and pre and post opening support for these stores.

The substantial store rollout program represents an opportunity to solidify the Company's standing in the Discount Variety market in Australia but also provides much needed capacity to drive the business forward.

During the year in support of the new stores, the Company upgraded its Ipswich Distribution Centre to full capacity and commenced the development of a satellite Distribution Centre in Western Australia which is anticipated to be operational by June 2014.

The Company believes the substantial commitment in funds and resources in the new stores provides a strong ability to:

- Leverage off existing operational infrastructure; and
- Capitalise on a rebound in consumer spending once this occurs.

The current new store rollout program and the number of future store opportunities we have identified, represents a significant opportunity for the future.

In addition to the investment in new stores, the Company continues to invest in areas of strategic importance to support future growth, namely:

- Enhancing its merchandise planning processes and systems;
- Investing in marketing initiatives as well as its social media and digital platforms to support brand awareness; and
- Reviewing its overseas sourcing practices to improve visibility in supply and flow to its Distribution Centres.

The Company anticipates having the merchandise planning tool fully implemented by the end of this year.

The Company will also commence planning for the upgrade to its Distribution capability in Melbourne, in preparation for the lease expiry on its current premises in FY2017.

Overview of retail industry trends

The Discount Variety sector remains a competitive market, with many regionally based chains as well as single owner-operator businesses. The sector has undergone significant change over the past 12 months including a major competitor entering into Voluntary Administration which has enabled the Company to secure additional new stores. Further rationalisation of the sector may occur in the coming year.

As has been the case for the past few years the retail environment remains subdued and we expect this to be similar in FY2014. Many factors are still influencing consumer confidence and therefore overall retail dollars spent. We believe our trading performance over the course of the past 12 months has been ahead of our competitors and compares favourably to the broader retail market.

OUTLOOK

Underlying Trading

The Company has had a solid start to FY2014 with the first few weeks of the year yielding positive comparable sales growth consistent with last year. However we remain cautious in estimating forward sales in light of current economic conditions.

The Company expects further improvement to our overall stockflow and DC efficiency again this year. The recent drop in the Australian dollar will require significant focus on our merchandise mix and pricing strategies during the year which will likely influence our margin to sales ratios particularly in the second half.

The Company anticipates overall improvement in our operating costs to sales as we leverage a higher sales base, as well as target productivity gains in stores and occupancy costs on renewal. Refining our promotional spend to geographic segments, coupled with our increased store presence, should also reduce our marketing spend to sales.

The Company expects solid underlying profit growth for the current year, underpinned by the extensive store opening program in FY2013 and first half FY2014 new stores, tempered by the number of second half store openings.

The Company expects the expanded business to deliver strong profit growth in FY2015.

DIRECTORS' REPORT

New Stores

The Company has identified and secured opening dates for another 43 stores for FY2014. In the year to date it has opened 14 stores (approximately 2 per week) and expects to have opened in excess of 30 stores by December 2013. It has also scheduled a number of major refurbishments to existing stores.

The Company also has a significant number of potential new sites currently in various stages of negotiation and there is a strong likelihood of further new stores to open this financial year.

Managing the significant number of new stores is challenging and requires resources, and therefore costs above what the Company would normally require in any year. The Company, in support of the new store growth, has established a project management function which includes resources dedicated to the fit-out and merchandising of these stores. In addition, strong support is being provided from all areas of the business. The direct costs of opening the new stores will approximate $3.5m in FY2014.

The Company has 56 store leases for renewal this financial year and is targeting net reductions to the base occupancy costs of these stores. Given the Company's resolve to maintain an appropriate cost structure for the business, if acceptable terms can not be achieved, there is a likelihood that some of these stores could close during the year. Whilst all stores to be renewed are profitable stores, the Company believes the current and/or prospective occupancy costs on certain stores are not appropriate to sustain their profitability over future years.

Business Risks

There are a number of factors, both specific to the Company and of a general nature, which may threaten both the future operating and financial performance of the Company and the outcome of an investment in the Company. There can be no guarantee that the Company will achieve its stated objectives, that it will meet trading performance expectations, or that any forward looking statements contained in this report will be realised or otherwise eventuate. The operating and financial performance of the Company is influenced by a variety of general economic and business conditions, including levels of consumer spending, inflation, interest and exchange rates, access to debt and capital markets and government fiscal, monetary and regulatory policies. A prolonged deterioration in general economic conditions, including increases in interest rates or a decrease in consumer and business demand, may have an adverse effect on the Company's business or financial position.

The specific material business risks faced by the Company, and how the Company manages these risks, are set out below.

- **Competition** – The Company operates a retail model where price and value are critical to the customers it serves. The Company closely monitors price and quality against a range of retailers to ensure it maintains its competitive stance.
- **Consumer Discretionary Spending** – The Company is exposed to consumer spending patterns but operates an everyday low price proposition and positions itself in convenient locations to maximise sales potential at all times.
- **Increased Cost of Doing Business** – The Company has established Enterprise Agreements for its store and distribution centre staff and also has lease agreements – all of which have inbuilt annual cost escalations. The Company's increasing scale as well as improving operating efficiencies and strong lease negotiations can to some extent offset some of these cost increases.
- **Property Portfolio Management** –The Company's stores are leased and therefore subject to negotiation at the end of each lease term. The Company actively manages its portfolio against established financial and operational criteria which must be met for both new and existing stores. There is no guarantee any store will be renewed at the end of each lease on terms acceptable to the Company. However the potential impact of a single store closure is mitigated by the number of stores the Company now operates.
- **Exchange Rates** – The Company relies significantly on imported products (either directly purchased by the Company or indirectly through local or overseas wholesalers) and as a result, the cost of product and retail sales price can be subject to movements in Exchange Rates. The Company mitigates against movements in exchange rates through the use of forward cover.
- **Product Liability Exposure** – The Company purchases and sells over 7,000 different products on an annual basis, all of which must be fit for purpose and in compliance with Australian Consumer Legislation. The Company has a National Product Compliance function that has the responsibility of ensuring all products sold by the Company adhere to legal requirements. The Company is subject to an external review of its Compliance function by an independent Compliance firm on an annual basis, with any recommendations noted and implemented as soon as possible.
- **Occupational Health & Safety (OH&S)** – The Company has has over 5,000 employees across its stores and distribution centre network, as well as its customers who visit its stores nationwide. The Company has a National OH&S function, supported by OH&S representatives in appropriate geographic locations including in both Distribution Centres, to oversee the application of OH&S policies and worksafe procedures across the Company.

DIRECTORS' REPORT

Remuneration Report

The remuneration report is set out in the following sections and includes remuneration information for The Reject Shop Limited's non-executive directors, executive directors and key management personnel:

A – Principles used to determine the nature and amount of remuneration

B – Details of remuneration

C – Service agreements

D – Share-based compensation

E – Additional information

The information provided in this remuneration report has been audited as required by section 308 (3C) of the *Corporations Act 2001*.

A – Principles used to determine the nature and amount of remuneration

The objective of the Company's Remuneration Committee is to ensure that directors and executives are remunerated fairly and within accepted market and industry rates.

Directors' fees

The current aggregate limit for directors' fees is $600,000 per annum with a base fee payable (including superannuation) to the Chairman of $178,890 p.a. (FY2012: $173,680) and to a non-executive director currently $99,395 p.a. (FY2012: $96,500). The Chairman's remuneration is inclusive of Committee fees while non-executive directors who take on additional responsibilities receive additional fees (Chairman of Audit Committee $6,427 (FY2012: $6,240)). The Managing Director does not receive directors' fees.

Directors' fees are reviewed annually, with external remuneration consultants providing advice, as the need arises, to ensure fees reflect market rates. There are no guaranteed annual increases in any director's fees. Any increase in the aggregate limit for directors' fees is approved at the company's Annual General Meeting.

Non-executive directors do not participate in the short or long term incentive schemes.

Officers and Executive salaries

The executive salary and reward framework has four components:

- Base pay and benefits;
- Cash incentives;
- Long-term incentives via participation in the Company's Performance Rights Plan; and
- Other remuneration such as superannuation payments.

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

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 payment, either monetary or in the form of equity, is on the basis of reward for performance and is appropriate for the results delivered. The Board ensures the Company follows appropriate corporate governance in establishing executive remuneration including reference to external remuneration consultants and/or available market information.

Base pay and benefits

Executive salaries are structured as a total employment 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 report. 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(STI)

The Remuneration Committee had previously established earnings before interest and tax (EBIT) as the appropriate financial performance target to trigger payment of cash incentives for each period. As part of the Remuneration Committee Charter, the Board continually seeks independent advice to ensure the total remuneration (inclusive of incentives) is consistent with market practice. As a result of an independent review the Board has determined that having one sole performance target is no longer considered best practice. Effective since 2012, the Board has therefore adopted a more balanced approach whereby budgeted EBIT achievement, in conjunction with individual key performance indicators set annually, form the basis for any STI paid. Short term cash incentives payable upon achievement of all criteria would result in additional payments of between 22% - 30% of base salary. The audited financial report remains the basis for measuring achievement against the financial performance targets. Additionally, elements of the short term remuneration are assessed against individual and collective key performance.

Further cash incentives may also be paid at the discretion of the Remuneration Committee to individual executives as recognition of exceptional achievement in any given period.

Long Term Incentive Plans

Performance Rights Plan

The Company implemented the Performance Rights Plan on 27 April 2004, to form the basis of The Reject Shop's ongoing long-term incentive scheme for selected senior employees. The Board had chosen Earnings Per Share (EPS) as the appropriate financial performance target for the periods up to 27 June 2010.

As a result of an independent review the Board has determined that having one sole performance target is no longer considered best practice and has therefore adopted a more balanced criterion of both financial and non-financial targets for all outstanding and future grants. This includes measurements for achieving established milestones in line with its long term strategy. These elements, while including a relevant weighting towards financial elements including EPS growth, are also significantly weighted towards the growth of the business, employee and customer safety, and employee and customer satisfaction. For performance rights granted after July 2011 the Board, in its discretion, has determined that the balanced criteria noted above should form the basis for determining the vesting criteria for performance rights issued.

The number of performance rights issued if hurdles are met is based on a percentage of base salary divided by the weighted average share price for the period 30 days before and after the end of the financial period. For financial reporting purposes the value of each right granted at grant date is measured using a Black-Scholes option pricing model. The audited financial report is the basis for measuring achievement against the financial performance target.

Performance rights, which are an entitlement to a share, vest one year after the performance target has been achieved if the employee remains employed at that date.

Given the financial impact of Queensland floods in 2011, and the sustained performance to re-establish the Company's operating capability, 50% of the performance rights granted prior to the flood (the periods between 2008 and October 2010), have been vested at the Board's discretion, despite the original EPS hurdles not being met.

Use of Remuneration Consultants

No remuneration consultants were engaged during 2013 period.

B – Details of remuneration

The following persons along with the directors, as detailed on page 3 of the Directors' report, were the key management personnel with the authority and responsibility for planning, directing and controlling the activities of the Company and consolidated entity, directly or indirectly, during the financial period.

Ray J Frawley	– General Manager, Store Operations
Michael J Shields	– General Manager, Merchandise Buying
Darren J O'Connor	– Chief Information Officer
Darren R Briggs	– Chief Financial Officer and Company Secretary
Phillip Nutbean	– General Manager, Property
Sam Blakeney	– General Manager, Merchandise Planning
Geoff W Pearce	– General Manager, Business Transformation
Allan J Penrose	– General Manager, Marketing
Josie Pileio	– General Manager, Human Resources (appointed on 2 July 2012)
Dani Aquilina	– General Manager, Distribution (appointed on 1 January 2013)
Philip G Beckett	– General Manager, Logistics (retired on 31 December 2012)

DIRECTORS' REPORT

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 30 June 2013 and the period ended 1 July 2012 unless otherwise stated.

Details of the remuneration of the directors and other key management personnel of The Reject Shop Limited and the consolidated entity, including related parties, for the current and prior financial periods are set out in the following tables:

2013	Short-term benefits			Post-employment benefits		Share-based payments			
Name	Cash salary and fees	Cash Bonus	Non-monetary benefits	Super-annuation	Retirement Benefits	Performance Rights	Proportion of Remuneration as equity related	Total	Proportion of Remuneration as performance related
	$	$	$	$	$	$	%	$	%
Non-executive Directors									
WJ Stevens	163,323	-	-	14,699	-	-	-	178,022	-
KJ Elkington	96,613	-	-	8,695	-	-	-	105,308	-
DR Westhorpe	90,745	-	-	8,167	-	-	-	98,912	-
MB Conrad	90,745	-	-	8,167	-	-	-	98,912	-
Total Non-executive Directors	**441,426**	**-**	**-**	**39,728**	**-**	**-**	**-**	**481,154**	**-**
Executive Directors									
CJ Bryce	598,469	72,140	28,026	16,470	-	209,436	22.7%	924,541	30.5%
Total Executive Directors	**598,469**	**72,140**	**28,026**	**16,470**	**-**	**209,436**	**-**	**924,541**	**-**
Other Key Management Personnel									
RJ Frawley	381,729	27,080	26,722	16,470	-	38,381	7.8%	490,382	13.3%
MJ Shields	365,031	32,853	1,020	16,470	-	21,872	5.0%	437,246	12.5%
DJ O'Connor	287,893	26,192	1,289	16,470	-	48,516	12.8%	380,360	19.6%
DR Briggs	263,814	23,896	747	16,470	-	43,988	12.6%	348,915	19.5%
P Nutbean	216,828	27,337	31,226	16,470	-	34,215	10.5%	326,076	18.9%
S Blakeney	242,779	21,927	3,661	16,470	-	28,659	9.1%	313,496	16.1%
GW Pearce	227,127	22,086	-	16,470	-	27,676	9.4%	293,359	17.0%
AJ Penrose	188,839	19,466	3,840	16,301	-	27,996	10.9%	256,442	18.5%
J Pileio (i)	203,530	21,981	867	16,470	-	12,729	5.0%	255,577	13.6%
D Aquilina (i)	87,500	19,688	1,032	7,875	-	6,578	5.4%	122,673	21.4%
PG Beckett (ii)	140,527	-	806	4,926	-	(24,567)	(20.2%)	121,692	(20.2%)
Total Other Key Management Personnel	**2,605,597**	**242,506**	**71,210**	**160,862**	**-**	**266,043**	**-**	**3,346,218**	**-**
Total	**3,645,492**	**314,646**	**99,236**	**217,060**	**-**	**475,479**	**-**	**4,751,913**	**-**

The remuneration in the table above only reflects the amounts paid to the individuals for the time they were key management personnel.

(i) J Pileio was appointed General Manager, Human Resources on 2 July 2012. D Aquilina was appointed General Manager, Distribution on 1 January 2013.

(ii) PG Beckett was General Manager, Logistics until his retirement on 31 December 2012. PG Beckett's cash, salary and fees includes $80,483 of annual leave and long-service leave entitlements paid out upon his resignation.

DIRECTORS' REPORT

2012	Short-term benefits			Post-employment benefits		Share-based payments			
Name	Cash salary and fees $	Cash Bonus $	Non-monetary benefits $	Super-annuation $	Retirement Benefits $	Performance Rights $	Proportion of Remuneration as equity related %	Total $	Proportion of Remuneration as performance related %
Non-executive Directors									
WJ Stevens	158,318	-	-	14,249	-	-	-	172,567	-
KJ Elkington	93,532	-	-	8,418	-	-	-	101,950	-
DR Westhorpe	87,844	-	-	7,906	-	-	-	95,750	-
MB Conrad (i)	76,841	-	-	6,916	-	-	-	83,757	-
Total Non-executive Directors	**416,535**	**-**	**-**	**37,489**	**-**	**-**	**-**	**454,024**	**-**
Executive Directors									
CJ Bryce	575,550	171,042	23,263	15,775	-	145,859	15.7%	931,489	34.0%
Total Executive Directors	**575,550**	**171,042**	**23,263**	**15,775**	**-**	**145,859**	**-**	**931,489**	**-**
Other Key Management Personnel									
RJ Frawley	365,856	52,057	26,207	15,775	-	12,052	2.6%	471,947	13.6%
DJ O'Connor	310,028	68,757	1,266	15,775	-	21,760	5.2%	417,586	21.7%
DR Briggs	254,273	67,447	785	15,775	-	21,790	6.1%	360,070	24.8%
PG Beckett	237,368	61,275	3,259	15,775	-	19,276	5.7%	336,953	23.9%
AM McShanag (ii)	404,238	-	3,184	11,831	-	(110,126)	(35.6%)	309,127	(35.6)%
P Nutbean	192,491	43,946	21,904	15,775	-	14,154	4.9%	288,270	20.2%
S Blakeney (iv)	212,407	43,865	3,814	15,775	-	8,889	3.1%	284,750	18.5%
AJ Penrose	170,643	38,642	2,640	15,358	-	15,167	6.3%	242,450	22.2%
GW Pearce (iv)	105,505	27,695	-	9,495	-	5,072	3.4%	147,767	22.2%
J Bell (iii)	185,768	-	2,952	15,819	-	(59,465)	(41.0)%	145,074	(41.0)%
MJ Shields (iv)	73,140	-	-	6,583	-	-	-	79,723	-
Total Other Key Management Personnel	**2,511,717**	**403,684**	**66,011**	**153,736**	**-**	**(51,431)**	**-**	**3,083,717**	**-**
Total	**3,503,802**	**574,726**	**89,274**	**207,000**	**-**	**94,428**	**-**	**4,469,230**	**-**

* Includes amounts re FY2012 and discretionary amounts re FY2011.

(i) MB Conrad was appointed Non-Executive Director on 19 August 2011.

(ii) AM McShanag was General Manager, Merchandise Buying until his resignation on 30 March 2012. AM McShanag's cash, salary and fees includes $135,252 of annual leave and long-service leave entitlements paid out upon his retirement.

(iii) J Bell was General Manager, Human Resources until his retirement on 30 March 2012.

(iv) S Blakeney was appointed General Manager, Merchandise Planning on 1 August 2011. GW Pearce was appointed General Manager, Business Transformation on 15 January 2012. MJ Shields was appointed General Manager, Merchandise Buying on 16 April 2012.

For Remuneration report purposes, the amount reported as "Share Based Payments" represents the amount derived under the following basis:

– 25% of the fair value of the Performance Rights granted in a particular year for each of the four years in the vesting period to the extent that such Performance Rights remain available for vesting; less

– Any value previously reflected as remuneration in regard to Performance Rights, where those Performance Rights have lapsed or have been forfeited and will not vest with the employee.

The 'fair value' is determined using a Black Scholes model and will generally be different to the "volume weighted average market price (VWAP)" which is used to determine the number of rights that are granted. No adjustment to the reported remuneration amounts is made in the event that actual market price of shares on the vesting of Performance Rights exceeds the fair value of those Performance Rights on their grant date. Similarly, no reduction is made to remuneration where the market price of shares on the vesting of Performance Rights is lower than the market price of shares on the date that performance Rights are granted.

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

C - Service agreements

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

CJ Bryce, Managing Director:

- In the event of redundancy as a result of the business being sold or a change in ownership, the Company will at its absolute discretion grant all or part of the 50,000 Performance Rights shares due to vest in August 2015.

All key management personnel are on employment terms consistent with the remuneration framework outlined in this note.

In addition, all key management personnel have service agreements which provide that a period of notice of 3 months is required by the Company or the senior executive to terminate employment.

D – Share-based compensation

The number of performance rights over shares in the Company granted to executive directors and other key management personnel during the current financial period, together with prior period grants which vested during the period is set out below:

2013	Grant Date	Number of Rights Granted during the period	Date Exercisable	Expiry Date	Total fair value of Performance Rights at Grant Date $	Number of Performance Rights granted in prior periods vested during the period
Executive Directors						
CJ Bryce	18 Oct 2012	35,600	1 Jul 2016	18 Oct 2017	435,744	3,000
Other Key Management Personnel						
RJ Frawley	18 Oct 2012	16,700	1 Jul 2016	18 Oct 2017	204,408	-
MJ Shields	18 Oct 2012	16,400	1 Jul 2016	18 Oct 2017	200,736	-
DJ O'Connor	18 Oct 2012	12,800	1 Jul 2016	18 Oct 2017	156,672	2,400
DR Briggs	18 Oct 2012	12,000	1 Jul 2016	18 Oct 2017	146,880	1,400
P Nutbean	18 Oct 2012	10,000	1 Jul 2016	18 Oct 2017	122,400	1,700
S Blakeney	18 Oct 2012	11,000	1 Jul 2016	18 Oct 2017	134,640	1,050
GW Pearce	18 Oct 2012	9,900	1 Jul 2016	18 Oct 2017	121,176	950
AJ Penrose	18 Oct 2012	8,100	1 Jul 2016	18 Oct 2017	99,144	-
J Pileio	18 Oct 2012	9,500	1 Jul 2016	18 Oct 2017	116,280	-
D Aquilina	10 Jan 2013	6,000	1 Jul 2016	10 Jan 2018	84,240	-
PG Beckett	-	-	-	-	-	2,050
Total		**148,000**			**1,822,320**	**12,550**

The fair value of performance rights granted on 18 October 2012 (grant date) with an expiry date of 18 October 2017 was $12.24.

The fair value of performance rights granted on 10 January 2013 (grant date) with an expiry date of 10 January 2018 was $14.04.

DIRECTORS' REPORT

2012	Grant Date	Number of Rights Granted during the period	Date Exercisable	Expiry Date	Total fair value of Performance Rights at Grant Date $	Number of Performance Rights granted in prior periods vested during the period
Executive Directors						
CJ Bryce	18 Oct 2011	27,900	1 Jul 2015	18 Oct 2016	248,868	4,400
Other Key Management Personnel						
RJ Frawley	18 Oct 2011	13,800	1 Jul 2015	18 Oct 2016	123,096	-
DJ O'Connor	18 Oct 2011	10,400	1 Jul 2015	18 Oct 2016	92,768	3,800
DR Briggs	18 Oct 2011	9,800	1 Jul 2015	18 Oct 2016	87,416	-
PG Beckett	18 Oct 2011	9,200	1 Jul 2015	18 Oct 2016	82,064	3,300
AM McShanag (i)	18 Oct 2011	13,900	1 Jul 2015	18 Oct 2016	123,988	2,700
P Nutbean	18 Oct 2011	6,800	1 Jul 2015	18 Oct 2016	60,656	2,600
S Blakeney	18 Oct 2011	2,500	1 Jul 2015	18 Oct 2016	22,300	1,400
AJ Penrose	18 Oct 2011	6,600	1 Jul 2015	18 Oct 2016	58,872	-
GW Pearce	18 Oct 2011	2,600	1 Jul 2015	18 Oct 2016	23,192	1,500
J Bell (i)	18 Oct 2011	7,200	1 Jul 2015	18 Oct 2016	64,224	2,600
M J Shields	-	-	-	-	-	-
Total		**110,700**			**987,444**	**22,300**

(i) These grants had lapsed as at 1 July 2012.

The fair value of performance rights granted on 18 October 2011 at grant date with an expiry date of 18 October 2016 was $8.92.

All performance rights granted during the current period will vest on the exercise dates above provided the required performance hurdles are achieved and the employee remains employed with the Company at the vesting date. In the event an employee leaves the company prior to the vesting date the performance rights will lapse. The total payable on the exercise of one or more performance rights on a particular day is $1.00 regardless of the number exercised on that day. The minimum possible value to be received by executive directors or other key management personnel under each grant of performance rights is $Nil.

Subsequent to period end there has been no grant of performance rights to key management personnel. 10,700 performance rights granted to key management personnel in prior years vested subsequent to period end, of which 10,700 have been exercised.

These performance rights were vested at the Board's discretion notwithstanding the EPS hurdle in the vesting period, being the financial year ended 30 June 2012, was not met. Nevertheless, the Board considered it appropriate to vest 50% of the available performance rights on the basis that the key management personnel were instrumental in re-establishing the business post the Ipswich Distribution Centre flood. In addition the key management personnel have during that time made significant progress toward furthering the long-term strategies of the business. Hence the Board considered it appropriate to recognise these efforts. The remaining 50% of performance rights issued in that tranche were forfeited during the FY2012 year.

DIRECTORS' REPORT

Shares Issued to Directors and Other Key Management Personnel on Exercise of Options or Performance Rights

The number of shares issued to directors and other key management personnel on exercise of options or performance rights during the current and prior financial period are outlined in the following tables:

2013	Type	Date Granted	Date Exercised	Number of Shares Issued	Exercise Price $
Executive Directors					
CJ Bryce	Rights	19 Aug 2008	1 Aug 2012	3,000	-
Other Key Management Personnel					
RJ Frawley	-	-	-	-	-
MJ Shields	-	-	-	-	-
DJ O'Connor	Rights	19 Aug 2008	1 Aug 2012	2,400	-
DR Briggs	Rights	19 Aug 2008	1 Aug 2012	1,400	-
P Nutbean	Rights	19 Aug 2008	1 Aug 2012	1,700	-
S Blakeney	Rights	19 Aug 2008	1 Aug 2012	1,050	-
GW Pearce	Rights	19 Aug 2008	1 Aug 2012	950	-
AJ Penrose	-	-	-	-	-
J Pileio	-	-	-	-	-
D Aquilina	-	-	-	-	-
PG Beckett	Rights	19 Aug 2008	1 Aug 2012	2,050	-
Total				**12,550**	**-**

2012	Type	Date Granted	Date Exercised	Number of Shares Issued	Exercise Price $
Executive Directors					
CJ Bryce	Rights	15 Aug 2007	15 Jul 2011	4,100	-
CJ Bryce	Rights	19 Aug 2008	15 Jul 2011	300	-
Other Key Management Personnel	-	-	-	-	-
RJ Frawley	-	-	-	-	-
DJ O'Connor	Rights	15 Aug 2007	15 Jul 2011	3,600	-
DJ O'Connor	Rights	19 Aug 2008	15 Jul 2011	200	-
DR Briggs	-	-	-	-	-
PG Beckett	Rights	15 Aug 2007	15 Jul 2011	3,100	-
PG Beckett	Rights	19 Aug 2008	15 Jul 2011	200	-
AM McShanag	Rights	15 Aug 2007	15 Jul 2011	2,500	-
AM McShanag	Rights	19 Aug 2008	15 Jul 2011	200	-
P Nutbean	Rights	15 Aug 2007	15 Jul 2011	2,400	
P Nutbean	Rights	19 Aug 2008	15 Jul 2011	200	
S Blakeney	Rights	15 Aug 2007	15 Jul 2011	1,300	-
S Blakeney	Rights	19 Aug 2008	15 Jul 2011	100	-
AJ Penrose	-	-	-	-	-
GW Pearce	Rights	15 Aug 2007	15 Jul 2011	1,400	-
GW Pearce	Rights	19 Aug 2008	15 Jul 2011	100	-
J Bell	Rights	15 Aug 2007	15 Jul 2011	2,400	-
J Bell	Rights	19 Aug 2008	15 Jul 2011	200	-
M J Shields	-	-	-	-	-
Total				**22,300**	**-**

No shares were issued to non-executive directors as a result of an exercise of options or performance rights in the current or prior period.

E – Additional information

Cash Incentives and Performance Rights

For each grant of performance rights included in the table below, the percentage of the grant that vested, in the financial period, and the percentage that was forfeited because the performance criteria were not achieved or the person did not meet the service criteria is as listed. The performance rights vest over several years provided the vesting conditions are met. No performance rights will vest if the conditions are not satisfied, hence the minimum value of each performance right yet to vest is $Nil. The maximum value of performance rights yet to vest has been determined as the total number of performance rights still to vest multiplied by the fair value of each performance right at grant date. The fair value for accounting purposes is determined using the Black-Scholes option pricing model.

	Performance Rights					
	Date Granted	Vested %	Forfeited %	Financial periods in which rights may vest	Maximum total number of rights yet to vest	Maximum total value of grants yet to vest $
Executive Directors						
CJ Bryce	FY2013	0	0	FY2017	35,600	435,744
	FY2012	0	0	FY2016	27,900	248,868
	FY2011	0	0	FY2015	19,000	294,310
	FY2010	0	0	FY2016	50,000	483,500
	FY2010	0	50	FY2014	2,500	29,125
Other Key Management Personnel						
RJ Frawley	FY2013	0	0	FY2017	16,700	204,408
	FY2012	0	0	FY2016	13,800	123,096
M J Shields	FY2013	0	0	FY2017	16,400	200,736
DJ O'Connor	FY2013	0	0	FY2017	12,800	156,672
	FY2012	0	0	FY2016	10,400	92,768
	FY2011	0	0	FY2015	6,800	103,836
	FY2010	0	50	FY2014	2,050	23,883
DR Briggs	FY2013	0	0	FY2017	12,000	146,880
	FY2012	0	0	FY2016	9,800	87,416
	FY2011	0	0	FY2015	6,700	102,309
	FY2010	0	50	FY2014	1,100	12,815
P Nutbean	FY2013	0	0	FY2017	10,000	122,400
	FY2012	0	0	FY2016	6,800	60,656
	FY2011	0	0	FY2015	4,300	65,661
	FY2010	0	50	FY2014	1,450	16,893
S Blakeney	FY2013	0	0	FY2017	11,000	134,640
	FY2012	0	0	FY2016	2,500	22,300
	FY2011	0	0	FY2015	1,700	25,966
	FY2010	0	50	FY2014	900	10,485
GW Pearce	FY2013	0	0	FY2017	9,900	121,176
	FY2012	0	0	FY2016	2,600	23,192
	FY2011	0	0	FY2015	1,800	27,493
	FY2010	0	50	FY2014	850	9,903
AJ Penrose	FY2013	0	0	FY2017	8,100	99,144
	FY2012	0	0	FY2016	6,600	58,872
	FY2011	0	0	FY2015	4,800	73,296
J Pileio	FY2013	0	0	FY2017	9,500	116,280
D Aquilina	FY2013	0	0	FY2017	6,000	84,240
PG Beckett	FY2012	0	100	FY2016	-	-
	FY2011	0	100	FY2015	-	-
	FY2010	0	50	FY2014	1,850	21,553

DIRECTORS' REPORT

Company Performance

The Managing Director and other key management personnel have an at risk component of their remuneration based on a number of performance rights criteria including the Company's overall financial performance and shareholder returns.

The following table outlines the Company's earnings and share performance since its listing on 1 June 2004:

Period	NPAT	NPAT Growth	EPS cents per share	EPS Growth	Share price at start of period	Share price at end of period	Share price growth	Ordinary and special dividends paid or declared per share
FY2005	$6.5m	21.4%	26.7	16.2%	$2.00	$2.99	49.5%	$0.17
FY2006(i)	$9.1m	38.7%	35.9	34.5%	$2.99	$5.95	99.0%	$0.31
FY2007	$12.3m	35.8%	48.1	34.0%	$5.95	$12.80	115.1%	$0.31
FY2008(ii)	$16.7m	35.6%	64.9	34.9%	$12.80	$9.37	(26.8)%	$0.48
FY2009	$19.0m	13.9%	73.6	13.4%	$9.37	$11.62	24.0%	$0.55
FY2010	$23.4m	22.9%	90.0	22.3%	$11.62	$16.42	41.3%	$0.67
FY2011	$16.2m	(30.8%)	62.1	(31.0%)	$16.42	$11.66	(29.0%)	$0.31
FY2012(ii)(iii)	$21.9m	35.6%	84.1	35.4%	$11.66	$9.15	(21.5%)	$0.42
FY2013	$19.5m	(11.0%)	73.4	(12.7%)	$9.15	$17.19	87.9%	$0.37

(i) In FY2006 a special dividend of 7.5 cents was also paid.

(ii) 53 week period.

(iii) In FY2012 a special dividend of 8.5 cents was also declared.

A detailed review of performance and operations can be found in the Operating and Financial review on pages 5 to 8 of this annual report.

Shares under performance rights

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

Date of Grant	Expiry Date	Date Exercisable	Value at Grant Date $	Exercise Price $	Number on Issue
13 Oct 2009	15 Aug 2016	15 Aug 2015	9.67	-	50,000
15 Sep 2010	15 Sep 2015	1 Jul 2014	15.27	-	38,000
20 Oct 2010	20 Oct 2015	1 Jul 2014	15.49	-	19,000
18 Oct 2011	18 Oct 2016	1 Jul 2015	8.92	-	98,100
18 Oct 2012	18 Oct 2017	1 Jul 2016	12.24	-	162,800
10 Jan 2013	10 Jan 2018	1 Jul 2016	14.04	-	6,000

Subsequent to period end, the Board has not granted any further performance rights under the Performance Rights Plan.

Shares issued and the exercise of options and performance rights

The following shares of the Company were issued during the period ended 30 June 2013 and to the date of this report on the exercise of options and performance rights:

Date Granted	Issue price of shares $	Number of shares issued
19 August 2008	-	21,050
18 August 2009	-	18,000
Total	-	39,050

No amounts are unpaid on any of these shares.

DIRECTORS' REPORT

Remuneration of Auditors

During the period the following fees for services were paid or payable to PricewaterhouseCoopers and its related parties as the auditor:

Audit and Assurance Related Services		
Audit and review work	**236,730**	216,300
Other assurance services	**32,451**	32,500
	269,181	248,800
Tax Compliance and Consulting Services		
Tax compliance	**46,000**	25,000
Tax consulting advice	**30,000**	40,187
	76,000	65,187
Total remuneration	**345,181**	313,987

Independence of Auditors

PricewaterhouseCoopers was appointed auditor in FY2002 and whilst their main role is to provide audit services to the Company, the Company does employ their specialist advice where appropriate. In each instance, the Board has considered the nature of the advice sought in the context of the audit relationship and in accordance with the advice received from the Audit Committee, does not consider these services compromises the auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- No non-audit services provided to the Company and reviewed by the Board were considered to impact upon the impartiality and objectivity of the auditor; and
- None of the services undermined the general principles relating to auditor independence as set out in APES 110
  - Code of Ethics for Professional Accountants, including not reviewing or auditing the auditor's own work, not acting in a management or a decision making capacity for the Company, not acting as advocate for the Company or not jointly sharing economic risk or rewards.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is contained on page 19 of this annual report.

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

....

WJ Stevens
Chairman

....

CJ Bryce
Managing Director

21 August 2013

AUDITOR'S INDEPENDENCE DECLARATION

pwc

Auditor's Independence Declaration

As lead auditor for the audit of The Reject Shop Limited for the period ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Daniel Rosenberg
Partner
PricewaterhouseCoopers

21 August 2013
Melbourne

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 Week Period Ended 30 June 2013

		Consolidated Entity	
	Note	**2013 $'000**	**2012 $'000**
Revenues from continuing operations			
Sales revenue	2a	**617,960**	555,298
Other revenue	2a	**69**	51
		618,029	555,349
Other income	2b	**4,116**	7,590
Expenses			
Cost of sales		**342,344**	310,446
Store expenses		**213,157**	185,596
Administrative expenses		**37,208**	32,677
		592,709	528,719
Finance costs	3	**1,977**	3,027
Profit before income tax		**27,459**	31,193
Income tax expense	5	**8,008**	9,270
Profit for the period attributable to members of The Reject Shop Limited		**19,451**	21,923
Other comprehensive income			
Items that may be reclassified to Profit or Loss			
Changes in the fair value of cash flow hedges		**6,457**	2,350
Income tax relating to components of other comprehensive income		**(1,937)**	(705)
Other comprehensive income for the period, net of tax		**4,520**	1,645
Total Comprehensive Income Attributable to Members of The Reject Shop Limited		**23,971**	23,568

Earnings per Share		**Cents**	Cents
Basic earnings per share	30	**73.4**	84.1
Diluted earnings per share	30	**71.4**	83.2

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

CONSOLIDATED BALANCE SHEET

As at 30 June 2013

		Consolidated Entity	
	Note	2013 $'000	2012 $'000
CURRENT ASSETS			
Cash	6	**8,274**	9,043
Receivables	7	**847**	5,604
Inventories	8	**85,071**	62,222
Derivative financial instruments	25	**6,853**	396
Other	9	**624**	1,831
TOTAL CURRENT ASSETS		**101,669**	79,096
NON CURRENT ASSETS			
Property, plant and equipment	10	**86,738**	74,319
Deferred tax assets	11	**5,745**	5,621
TOTAL NON CURRENT ASSETS		**92,483**	79,940
TOTAL ASSETS		**194,152**	159,036
CURRENT LIABILITIES			
Payables	12	**26,726**	26,464
Borrowings	13	**8,389**	19,400
Tax liabilities		**3,074**	2,897
Provisions	14	**8,911**	9,332
Other	15	**9,488**	8,381
TOTAL CURRENT LIABILITIES		**56,588**	66,474
NON CURRENT LIABILITIES			
Borrowings	16	**-**	12,000
Provisions	17	**11,147**	10,380
Other	18	**1,350**	1,667
TOTAL NON CURRENT LIABILITIES		**12,497**	24,047
TOTAL LIABILITIES		**69,085**	90,521
NET ASSETS		**125,067**	68,515
EQUITY			
Contributed equity	19	**46,277**	3,366
Reserves	20	**10,136**	4,987
Retained profits	21	**68,654**	60,162
TOTAL EQUITY		**125,067**	68,515

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 52 Week Period Ended 30 June 2013

Consolidated Entity 2013	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balance as at 1 July 2012	3,366	739	3,971	277	60,162	68,515
Profit for the period	-	-	-	-	19,451	19,451
Other comprehensive income	-	-	-	4,520	-	4,520
Transaction with owners in their capacity as owners:						
Proceeds from share issue	44,000	-	-	-	-	44,000
Cost of capital raising	(1,089)	-	-	-	-	(1,089)
Dividends Paid	-	-	-	-	(10,959)	(10,959)
Share based remuneration	-	-	619	-	-	619
Current tax – credited directly to equity	-	-	10	-	-	10
Balances as at 30 June 2013	**46,277**	**739**	**4,600**	**4,797**	**68,654**	**125,067**

2012	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balance as at 26 June 2011	**3,366**	**739**	**3,731**	**(1,368)**	**46,582**	**53,050**
Profit for the period	-	-	-	-	21,923	21,923
Other comprehensive income			-	1,645	-	1,645
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(8,343)	(8,343)
Share based remuneration	-	-	236	-	-	236
Current tax – credited directly to equity	-	-	4	-	-	4
Balances as at 1 July 2012	**3,366**	**739**	**3,971**	**277**	**60,162**	**68,515**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 Week Period Ended 30 June 2013

	Note	Consolidated Entity 2013 $'000	2012 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		**678,829**	609,800
Payments to suppliers and employees (inclusive of goods and services tax)		**(659,331)**	(568,702)
Insurance claims received		**8,828**	7,800
Interest received		**69**	51
Borrowing costs paid		**(1,554)**	(2,945)
Income tax paid		**(9,864)**	(5,756)
Net cash inflow from operating activities	24	**16,977**	40,248
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**706**	581
Payments for property, plant and equipment		**(27,393)**	(15,573)
Net cash outflow from investing activities		**(26,687)**	(14,992)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment net of finance leases / hire purchases		**-**	(764)
Proceeds from share issue		**44,000**	-
Costs associated with share issue		**(1,089)**	-
Proceeds from borrowings		**174,300**	245,000
Repayment of borrowings		**(198,700)**	(257,000)
Dividends paid	**21**	**(10,959)**	(8,343)
Net cash inflow / (outflow) from financing activities		**7,552**	(21,107)
Net (decrease) / increase in cash held		**(2,158)**	4,149
Cash at the beginning of the financial period		**9,043**	4,894
Cash at the end of the period	24	**6,885**	9,043

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

NOTES TO FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity, consisting of The Reject Shop Limited and its subsidiaries.

Accounting Period

The FY2013 accounting period respresents the 52 week period ending 30 June 2013. The FY2012 accounting period represents the 53 week period ending the 1 July 2012.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. The Reject Shop Limited is a for-profit entity for the purpose of preparing financial statements.

Compliance with IFRS

The financial report of The Reject Shop Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

New and amended standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial period beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 Presentation of Financial Statements effective 1 July 2012 now require the statement of comprehensive income to show items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed further in note 1(ab).

(b) Principles of Consolidations

(i) Subsidiaries

A subsidiary is an entity where The Reject Shop Limited has the capacity to control the decision-making in relation to the financial and operating policies of the entity so that it operates with The Reject Shop Limited to achieve the objectives of The Reject Shop Limited. The Reject Shop Limited has a 100% owned non-operating subsidiary, TRS Trading Group Pty Ltd, which has not traded since 2003.

The consolidated financial statements incorporate all the assets and liabilities of the subsidiary of The Reject Shop Limited as at 30 June 2013 and the results for the subsidiary for the period. The Reject Shop Limited and its subsidiary are referred to in this financial report as the consolidated entity. All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

(ii) Employee Share Trust

The Reject Shop Limited has formed a trust to administer the Company's Performance Rights Plan. This trust is consolidated, as it is controlled by the group.

(c) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the senior management personnel. The Reject Shop Limited has only one operating business segment. Refer to note 33 for information.

(d) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets and liabilities are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO FINANCIAL STATEMENTS

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The financial effect of the tax consolidation legislation has been recognised in these financial statements, with no material impact on the consolidated income statement or balance sheet.

The head entity, The Reject Shop Limited, and the controlled entity in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone tax payer in its own right.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a moving average basis and include an appropriate proportion of freight inwards, logistics, discounts and supplier rebates.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(f) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

The depreciable amount of all fixed assets including capitalised leased assets, is depreciated on a straight line basis over their estimated useful lives. The useful life for each class of asset is:

Class of fixed asset	Useful Life
- Leasehold Improvements and Office Equipment	5 – 12 years
- Fixtures and Fittings	5 – 12 years
- Motor vehicles	3 – 5 years
- Computer Equipment	3 – 5 years

(g) Leases

Leases of property, plant and equipment where the consolidated entity has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in long term borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the lease term and the asset's useful life.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Leases containing fixed escalation clauses require the escalation amounts to be determined on lease inception and expensed evenly over the lease term, generally between 3 and 8 years.

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

(h) Employee Benefits

(i) *Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, annual leave and vested sick leave are recognised in respect of employees' services up to the reporting date, and are measured at the amounts expected to be settled, with payments expected beyond 12 months discounted, using the interest rates on national government bonds.

(ii) *Long service leave*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) *Superannuation*

Contributions are made by the consolidated entity to employee personal superannuation funds and are charged as expenses when incurred. The consolidated entity does not have any Defined Benefit Fund obligations.

(iv) *Bonus plans*

A liability for employee benefits in the form of bonus plans is recognised when there is a contractual or constructive liability and at least one of the following conditions are met:

- There are formal terms in the plan for determining the amount of the benefit;
- The amounts to be paid are determined before the time of completion of the financial report; or
- Past practice has created a constructive obligation.

NOTES TO FINANCIAL STATEMENTS

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 Performance Rights Plan.

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares, adjusted for the fair value of any rights which do not ultimately vest.

The fair value at grant date is determined using a Black-Scholes options pricing model that takes into account:

- the exercise price;
- the term of the Performance Rights;
- the vesting and performance criteria;
- the impact of dilution;
- the non-tradeable nature of the Performance Rights;
- the share price at grant date and expected price volatility of the underlying share;
- the expected dividend yield; and
- the risk-free interest rate for the term of the Performance Rights.

The fair value of the Performance Rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of Performance Rights that are expected to become exercisable, net of any Performance Rights that have lapsed throughout the period. The employee benefit expense recognised each period takes into account the most recent estimate.

(i) Cash

For presentation of statement 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. Bank overdrafts are shown with borrowings in current liabilities on the balance sheet.

(j) Revenue Recognition

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.

(k) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The entity designates derivatives as hedges of the cash flows of highly probable forecast transactions (cash flow hedges).

The consolidated entity documents at the inception of the transaction the relationship between the hedging instrument and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are transferred out of equity and included in the cost of the hedged item when the forecast purchase that is hedged takes place.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(l) Foreign Currency Translation

(i) Functional and presentation currency

Items included in the financial statements of the consolidated entity are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Australian dollars, which is The Reject Shop Limited’s functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

(m) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

NOTES TO FINANCIAL STATEMENTS

(n) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs incurred for the construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

(o) Impairment of Assets

Assets that are subject to amortisation are reviewed for impairment at each reporting date when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

The Company has defined each individual store as a cash generating unit and accordingly the assessment of the carrying value of the Company's assets is on an individual store basis.

(p) 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.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate.

(r) Contributed Equity

Ordinary shares are classified as equity.

(s) Earnings per Share

(i) *Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during 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 (including performance rights) and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(t) 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.

(u) Software Costs

Costs in relation to software development, including website costs, are charged as expenses in the period in which they are incurred unless they relate to the acquisition or development of an asset, in which case they are capitalised and amortised over the period of expected benefit.

(v) Restoration Costs

An expense is provided for in the period in which the legal or constructive obligation arises, usually on lease inception. The provision is measured at the present value of management's best estimate of make-good costs with a corresponding asset added to the cost of the fitout.

(w) Store Opening Costs

Non-capital costs associated in the setup of a new store are expensed in the period in which they are incurred.

(x) Training Subsidies

Government subsidies for employees undertaking external traineeships are treated as income in the period they are received and all costs to which they relate have been incurred.

(y) Cost of Sales

The Company includes the full amount of its warehousing and logistics costs as part of its "Cost of Sales" line in the Consolidated Statement of Comprehensive Income.

The Company considers that all costs associated with getting stock to stores ready for sale is a cost attributable to the sale of such inventory.

(z) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

NOTES TO FINANCIAL STATEMENTS

(aa) 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.

(ab) Critical Accounting Estimates and Judgements

For the 30 June 2013 reporting period certain accounting estimates and judgements were made in relation to provisioning for shrinkage expense. This is the only critical accounting estimate and is explained below.

(i) Provisioning for shrinkage expense

The Company provides for shrinkage expense for the period since a store last completed a stock take. Management estimates this provision based on the actual stock take results recorded during the period. The assumptions made in relation to the current period are consistent with those in the prior year. Factors that could impact the estimated provision include the length of the time period since a store last completed a stock take or an improvement in the actual stocktake results ultimately recognised. As at 30 June 2013 this particular provision had a carrying amount of $3,240,078 (FY2012 - $1,839,053).

(ac) New Accounting Standards and UIG Interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for the 30 June 2013 reporting period. The Company's assessment of the impact of these new standards and interpretations is set out below:

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group will adopt the new standard from its operative date, which means that it will be applied in the annual reporting period ending 30 June 2014.

There are no other new accounting standards or interpretations expected to have a material impact on the Company's financial report.

NOTES TO FINANCIAL STATEMENTS

	Note	Consolidated Entity 2013 $'000	2012 $'000
Note 2: Revenue from Continuing Operations and Other Income			
(a) Revenue from continuing operations			
Sales of goods		**617,960**	555,298
Interest		**69**	51
		618,029	555,349
(b) Other Income			
Income from insurance claims	4	**4,116**	7,590
Note 3: Expenses			
Profit before income tax expense includes the following expenses:			
Interest and finance charges paid / payable		**1,977**	3,027
Depreciation & amortisation expenses include:			
Cost of sales		**2,186**	1,912
Store expenses		**8,659**	7,725
Administrative expenses		**3,216**	2,748
		14,061	12,385
Foreign exchange loss/ (gain)		**71**	(10)
Net loss on disposal of property, plant and equipment		**207**	230
Rental expenses relating to operating leases:			
Minimum lease payments		**84,463**	75,274
Provision for rent escalation		**151**	703
Rent paid on percentage of sales basis		**390**	344
Employee benefits expense		**131,360**	116,127
New store opening costs		**3,475**	1,345

Note 4: Accounting for Insurance Claims

The company had a number of insured losses during the financial year. The most material of these claims related to the floods at the Company's Ipswich Distribution Centre in Queensland in January 2011.

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

	Note	2013 $'000	2012 $'000
Cost of sales		**172**	2,774
Store expenses		**410**	-
Administrative expenses		**-**	392
Total insured expenses		**582**	3,166
Recoveries from insurance claims relate to:[i]			
Loss of gross profits		**3,319**	4,424
Inventory write-offs		**274**	-
Property, plant and equipment write-offs		**363**	236
Expenses		**160**	2,930
	2b	**4,116**	7,590

(i) Of the income above, $2,874,000 relates to the finalisation of Ipswich Distribution Centre insurance claim.

NOTES TO FINANCIAL STATEMENTS

	Note	Consolidated Entity 2013 $'000	2012 $'000
Note 5: Income Tax Expense			
(a) Income tax expense			
Current tax		**10,069**	10,081
Deferred tax		**(2,061)**	(723)
(Over) provided in prior periods		**-**	(88)
		8,008	9,270
Deferred income tax expense included in income tax expense comprises: (Increase) in net deferred tax assets	11	**(2,061)**	(723)
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit before income tax expense		**27,459**	31,193
Tax at the Australian tax rate of 30% (2012 – 30%)		**8,237**	9,358
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Research and Development		**(229)**	-
		8,008	9,358
(Over) provided in prior periods		**-**	(88)
Income tax expense		**8,008**	9,270
(c) Amounts recognised directly in equity			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited in equity			
Current tax – credited directly to equity		**10**	4
(d) Tax income relating to items of other comprehensive income			
Cash flow hedges		**(1,937)**	(705)
Note 6: Current Assets - Cash			
Cash on hand	24	**1,235**	1,024
Cash at bank	24	**7,039**	8,019
		8,274	9,043
Note 7: Current Assets - Receivables			
Other debtors		**228**	308
Insurance receivable		**619**	5,296
		847	5,604
Note 8: Current Assets - Inventories			
Inventory at cost		**84,423**	61,867
Inventory at net realisable value		**648**	355
		85,071	62,222
Note 9: Current Assets - Other			
Prepayments		**427**	1,172
Other current assets		**197**	659
		624	1,831

NOTES TO FINANCIAL STATEMENTS

	Note	Consolidated Entity 2013 $'000	2012 $'000
Note 10: Non-Current Assets - Property, plant and equipment			
Leasehold improvements			
At cost		**44,162**	33,243
Less accumulated depreciation		**(16,583)**	(12,837)
		27,579	20,406
Plant and equipment*			
At cost		**107,305**	92,571
Less accumulated depreciation		**(48,146)**	(38,658)
		59,159	53,913
Total Property, Plant and Equipment		**86,738**	74,319

* Plant & equipment includes fixtures, fittings and motor vehicles as well as $4,069,993 (FY2012: $276,863) of work in progress costs. The 30 June 2013 work in progress costs relate to new stores $2,892,598, implementation of SAP planning for retail $1,158,395 and WA Distribution Centre project $19,000. (Prior year work in progress costs all relate to new stores.)

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 period are as follows:

	Leasehold improvements At Cost $'000	Leasehold improvements Leased $'000	Plant and equipment At Cost $'000	Plant and equipment Leased $'000	Total $'000
Balance at 1 July 2012	**20,406**	**-**	**53,913**	**-**	**74,319**
Additions	**11,318**	**-**	**16,075**	**-**	**27,393**
Transfers	**-**	**-**	**-**	**-**	**-**
Disposals	**(246)**	**-**	**(667)**	**-**	**(913)**
Depreciation/ amortisation expense	**(3,899)**	**-**	**(10,162)**	**-**	**(14,061)**
Balance at 30 June 2013	**27,579**	**-**	**59,159**	**-**	**86,738**
Balance at 26 June 2011	18,444	1,399	49,892	2,207	71,942
Additions	4,200	-	11,373	-	15,573
Transfers	1,369	(1,374)	2,126	(2,121)	-
Disposals	(342)	-	(452)	(17)	(811)
Depreciation/amortisation expense	(3,265)	(25)	(9,026)	(69)	(12,385)
Balance at 1 July 2012	20,406	-	53,913	-	74,319

NOTES TO FINANCIAL STATEMENTS

	Consolidated Entity 2013 $'000	Consolidated Entity 2012 $'000
Note 11: Non-Current Assets – Deferred tax assets		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Employee benefits	**3,111**	2,715
Lease escalation	**2,527**	2,482
Inventories	**1,029**	998
Lease incentives	**838**	709
Sundry items	**465**	375
Employee share trust	**416**	289
Equity raising costs	**261**	-
Other	**122**	577
	8,769	8,145
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:		
Depreciation	**(782)**	(813)
Sundry items	**-**	(3)
Insurance receivable	**(186)**	(1,589)
Hedging reserve	**(2,056)**	(119)
Research and development	**-**	-
Net deferred tax assets	**5,745**	5,621
Deferred tax assets expected to be recovered within 12 months	**2,401**	2,507
Deferred tax assets expected to be recovered after 12 months	**3,344**	3,114
	5,745	5,621

Movements – Consolidated	**Employee Benefits $'000**	**Inventories $'000**	**Hedging Reserve $'000**	**Other $'000**	**Total $'000**
At 26 June 2011	**2,535**	**829**	**586**	**1,653**	**5,603**
(Charged) / credited					
- to profit or loss	180	169	-	374	723
- to other comprehensive income	-	-	(705)	-	(705)
At 1 July 2012	**2,715**	**998**	**(119)**	**2,027**	**5,621**
(Charged) / credited					
- to profit or loss	396	31	-	1,634	2,061
- to other comprehensive income	-	-	(1,937)	-	(1,937)
At 30 June 2013	**3,111**	**1,029**	**(2,056)**	**3,661**	**5,745**

NOTES TO FINANCIAL STATEMENTS

	Consolidated Entity	
	2013 $'000	2012 $'000
Note 12: Current Liabilities – Payables		
Unsecured liabilities		
Trade payables	**21,569**	21,563
Sundry payables and accruals	**5,157**	4,901
	26,726	26,464
Note 13: Current Liabilities – Borrowings		
Secured liabilities(i)		
Bank overdraft	**1,389**	-
Commercial bills(ii)	**7,000**	19,400
	8,389	19,400

(i) Information about the security relating to each of the secured liabilities is provided in Note 16.

(ii) Commercial bills will be settled within six months. A fixed interest rate of 3.9% is applied to the commercial bills.

Note 14: Current Liabilities – Provisions		
Employment entitlements	**8,911**	9,332

Amounts not expected to be settled within the next 12 months

The current provision for employee entitlements includes accrued annual leave, long service leave and bonus accruals. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision for annual leave is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. The provision for long-service leave has both a current and non-current portion of which the appropriate amount is recognised in Note 17. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

Leave obligations expected to be settled after 12 months	**2,265**	1,443
Note 15: Current Liabilities - Other		
Accrued expenses	**7,501**	6,686
Deferred income	**1,987**	1,695
	9,488	8,381
Note 16: Non-Current Liabilities – Borrowings		
Secured liabilities		
Commercial bills	**-**	12,000

All secured liabilities listed within note 13, 16 and 24 including Bank overdraft and bank loans, finance purchases and hire purchase agreements are secured by a Cross Guarantee and Indemnity between The Reject Shop Limited and TRS Trading Group Pty Ltd supported by:

NOTES TO FINANCIAL STATEMENTS

First Registered Company Charge (Mortgage Debenture) over all the assets and undertakings of The Reject Shop Limited   this is a fixed and floating charge over all present and future assets, undertakings (including goodwill); and unpaid/uncalled capital of the Company.

First Registered Company Charge (Mortgage Debenture) over all the assets and undertakings of TRS Trading Group Pty Ltd   this is a fixed and floating charge over all present and future assets, undertakings (including goodwill); and unpaid/uncalled capital of the Company.

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

	Consolidated Entity	
	2013 $'000	**2012 $'000**
Note 17: Non-Current Liabilities – Provisions		
Employment entitlements	**2,724**	2,108
Provision for rent escalation	**8,423**	8,272
	11,147	10,380

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

	$'000
Balance at beginning of period	**8,272**
Transfer to profit and loss	**(1,822)**
Additional provision recognised	**1,973**
Balance at end of period	**8,423**

The provision attributable to each lease expires over the life of the lease.

Note 18: Non-Current Liabilities – Other

	2013	2012
Deferred Income	**1,350**	1,667

Note 19: Contributed Equity

Movements in ordinary share capital:

Date	Details	Number of issued shares	Issue price per share $	Contributed Equity $'000
26 June 2011	**Balance**	**26,033,570**		**3,366**
15 July 2011	Exercise of performance rights	37,600	-	-
1 July 2012	**Balance**	**26,071,170**		**3,366**
9 July 2012	Exercise of performance rights	21,050	-	-
24 April 2013	Capital raising	1,851,852	16.20	30,000
29 May 2013	Capital raising	864,176	16.20	14,000
29 May 2013	Capital raising costs	-	-	(1,089)
30 June 2013	**Balance**	**28,808,248**		**46,277**

All shares carry one vote per share and rank equally in terms of dividends and on winding up. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

	Consolidated Entity	
	2013 $'000	2012 $'000
Note 20: Equity – Reserves		
Capital profits reserve	**739**	739
Share based payments reserve	**4,600**	3,971
Hedging reserve – cash flow hedges	**4,797**	277
	10,136	4,987
Movements:		
Share based payments reserve		
Balance at beginning of period	**3,971**	3,731
Performance Rights expense	**619**	236
Employee Share Trust	**10**	4
Balance at end of period	**4,600**	3,971
Hedging reserve – cash flow hedges		
Balance at beginning of period	**277**	(1,368)
Transfer to inventory	**(277)**	1,368
Revaluation of cash flow hedges	**4,797**	277
Balance at end of period	**4,797**	277

Nature and purpose of reserves

(i) Hedging reserve – cash flow hedges

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

(ii) Share-based payments reserve

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

Note 21: Equity – Retained Profits		
Retained profits at the beginning of the financial period	**60,162**	46,582
Net profit attributable to members of the consolidated entity	**19,451**	21,923
Dividends provided for or paid	**(10,959)**	(8,343)
Retained profits at reporting date	**68,654**	60,162

Since the end of the financial period the directors have declared the payment of a final ordinary dividend of 13.0 cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on 14 October 2013.

Note 22: Commitments

Operating Lease Commitments

Non cancellable operating leases contracted for but not capitalised in the financial statements payable:		
Not later than one year	**85,716**	74,124
Later than one year and not later than five years	**200,284**	178,532
Later than five years	**36,056**	20,989
	322,056	273,645

Operating leases primarily relate to retail stores over a two to eight year time period and contain varying terms and escalation clauses.

This does not include any rental payments payable as a percentage of sales contingent on achieving sales thresholds contained within existing operating leases ('percentage rent') as these amounts cannot be reliably measured for future periods. The amount expensed during the current period for percentage rent was $389,651 (FY2012: $344,343).

NOTES TO FINANCIAL STATEMENTS

Capital Commitments

The consolidated entity has capital commitments totalling $3,938,000 (FY2012: $Nil), all payable within one year.

	Consolidated Entity	
	2013 $'000	2012 $'000
Note 23: Contingent Liabilities		
Estimates of the maximum amount of contingent liabilities that may become payable:		
Letters of credit established for acquisition of goods for resale	**22**	55

Note 24: Statement of Cash Flow Information

Reconciliation of Cash Flow from operating activities with profit after income tax from ordinary activities

	2013 $'000	2012 $'000
Profit from ordinary activities after Income Tax	**19,451**	21,923
Non cash items in profit from ordinary activities		
Depreciation	**14,061**	12,385
Loss on sale of property, plant and equipment	**207**	230
Non cash share based expense	**619**	236
Current tax credited directly to equity	**10**	4
Changes in assets and liabilities, net of effects of purchase and disposal of subsidiaries		
Decrease / (Increase) in receivables and other assets	**5,964**	(361)
Decrease / (Increase) in inventories	**(22,849)**	277
Increase / (Decrease) in trade, other creditors and other provisions	**(539)**	1,339
Increase in income tax payable	**177**	4,233
(Increase) in deferred tax assets	**(124)**	(18)
Net cash provided by operations	**16,977**	40,248

Reconciliation of cash

Cash at the end of the financial period as shown in the statements of cash flows is reconciled to the related items in the balance sheets as follows:

	2013 $'000	2012 $'000
Cash on hand	**1,235**	1,024
Cash at bank	**7,039**	8,019
	8,274	9,043
Less: Bank overdraft	**(1,389)**	-
	6,885	9,043

NOTES TO FINANCIAL STATEMENTS

Credit standby arrangement and loan facilities

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

	2013		2012	
	Limit $'000	Utilised $'000	Limit $'000	Utilised $'000
Interchangeable Working Capital Facility	**30,500**	**7,000**	33,600	15,000
Interchangeable Asset Finance Facility	**-**	**-**	1,000	-
Foreign Currency Settlement	**1,500**	**1,389**	250	-
Interchangeable Long Term Facility	**-**	**-**	16,400	16,400
Other Facilities	**22,655**	**1,275**	23,115	1,493
Total Facilities	**54,655**	**9,664**	74,365	32,893

A seasonal facility of $17,000,000 was utilised from 1 October 2012 and repaid in full by 31 December 2012. A further seasonal facility of $10,000,000 was utilised from 1 April 2013 and repaid in full by 30 June 2013. Other facilities include an ANZ Bank indemnity guarantee of $1,800,000 of which $1,253,639 was utilised in relation to property leases at 30 June 2013.

Note 25: Financial Instruments and Financial Risk Management

Derivative Financial Instruments	Consolidated Entity	
	2013 $'000	2012 $'000
Current assets and (liabilities)		
Forward foreign exchange contracts – cash flow hedges	**6,853**	396

Financial Risk Management
Forward exchange contracts – cash flow hedges

The consolidated entity imports product from overseas. In order to protect against exchange rate movements, the consolidated entity enters into forward exchange contracts to purchase foreign currency for all overseas purchases. These contracts are hedging contracted or highly probable forecasted purchases for the ensuing financial period. The contracts are timed to mature when payments for shipments of products are scheduled to be made.

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

				Average Exchange Rate	
Sell	**Buy**	2013 $'000	2012 $'000	2013 $	2012 $
Australian Dollars	United States Dollars	**64,925**	55,238	**1.02**	1.02
Australian Dollars	Euro	**2,572**	2,306	**0.78**	0.78
Australian Dollars	Pounds Sterling	**2,425**	1,550	**0.66**	0.64

NOTES TO FINANCIAL STATEMENTS

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

At the balance date the restatement of these contracts to fair value resulted in an asset of $6,853,334 (FY2012 – asset of $396,400).

During the period $277,480 (FY2012 – $1,367,487) was removed from equity and included in the acquisition cost of goods and a net gain of $Nil (FY2012 – net $Nil) was transferred to the profit and loss.

Forward exchange contracts – Balance Date Sensitivity Analysis

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

	Consolidated Entity	
Sensitivity Analysis – foreign exchange AUD/USD	**2013 $'000**	**2012 $'000**
For every 1c increase in AUD:USD rate, total exposures decrease by		
Income Statement	**51**	1
Equity	**-**	-
For every 1c decrease in AUD:USD rate, total exposures (increase) by Income Statement	**(51)**	(1)
Equity	**-**	-

Interest Rate Risk

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

2013	**Weighted Average Effective Interest Rate**	**Floating Interest Rate $'000**	**Fixed Interest Rate Maturing within 1 Year $'000**	**Fixed Interest Rate Maturing 1 to 5 Years $'000**	**Non-Interest Bearing $'000**	**Total $'000**
Financial Assets						
Cash	**1.75**	**8,274**	**-**	**-**	**-**	**8,274**
Receivables and other debtors	**-**	**-**	**-**	**-**	**847**	**847**
Total Financial Assets		**8,274**	**-**	**-**	**847**	**9,121**
Financial Liabilities						
Bank loans and overdrafts	**4.24**	**-**	**8,389**	**-**	**-**	**8,389**
Trade, sundry and other creditors	**-**	**-**	**-**	**-**	**34,728**	**34,728**
Total Financial Liabilities		**-**	**8,389**	**-**	**34,728**	**43,117**

NOTES TO FINANCIAL STATEMENTS

2012	Weighted Average Effective Interest Rate	Floating Interest Rate $'000	Fixed Interest Rate Maturing within 1 Year $'000	Fixed Interest Rate Maturing 1 to 5 Years $'000	Non-Interest Bearing $'000	Total $'000
Financial Assets						
Cash	2.80	9,043	-	-	-	9,043
Receivables and other debtors	-	-	-	-	5,604	5,604
Total Financial Assets		9,043	-	-	5,604	14,647
Financial Liabilities						
Bank loans and overdrafts	5.50	-	19,400	12,000	-	31,400
Trade, sundry and other creditors	-	-	-	-	34,147	34,147
Total Financial Liabilities		-	19,400	12,000	34,147	65,547

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

	Consolidated Entity	
Sensitivity Analysis – Interest Rates	**2013 $'000**	**2012 $'000**
For every 100 basis points increase in interest rates		
Income Statement	**(365)**	(404)
Equity	**-**	-
For every 100 basis points decrease in interest rates		
Income Statement	**365**	404
Equity	**-**	-

Credit Risk

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

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

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

Capital Risk Management

The consolidated entity's objectives when managing capital are to safeguard the ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTES TO FINANCIAL STATEMENTS

Liquidity Risk

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

The tables below analyse the consolidated entity's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The consolidated and parent entity has no financial liabilities maturing in greater than five years.

Consolidated – At 30 June 2013	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Total contractual cash flows $'000	Carrying Amount (assets) / liabilities $'000
Non-derivatives						
Non-interest bearing	**34,728**	**-**	**-**	**-**	**34,728**	**34,728**
Variable rates	**-**	**-**	**-**	**-**	**-**	**-**
Fixed rate	**8,389**	**-**	**-**	**-**	**8,389**	**8,389**
Total non-derivatives	**43,117**	**-**	**-**	**-**	**43,117**	**43,117**
Derivatives						
Net settled	**-**	**-**	**-**	**-**	**-**	**-**
Gross settled						
- (inflow)	**(76,775)**	**-**	**-**	**-**	**(76,775)**	**(76,775)**
- outflow	**69,922**	**-**	**-**	**-**	**69,922**	**69,922**
Total derivatives	**(6,853)**	**-**	**-**	**-**	**(6,853)**	**(6,853)**

Consolidated – At 1 July 2012						
Non-derivatives						
Non-interest bearing	34,147	-	-	-	34,147	34,147
Variable rates	-	-	-	-	-	-
Fixed rate	19,400	-	12,000	-	31,400	31,400
Total non-derivatives	53,547	-	12,000	-	65,547	65,547
Derivatives						
Net settled	-	-	-	-	-	-
Gross settled						
- (inflow)	(59,491)	-	-	-	(59,491)	(59,491)
- outflow	59,095	-	-	-	59,095	59,095
Total derivatives	(396)	-	-	-	(396)	(396)

NOTES TO FINANCIAL STATEMENTS

Net Fair Values

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

Fair Value Measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

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 following table presents the entity's assets and liabilities measured and recognised at fair value at 30 June 2013.

	Consolidated Entity	
	2013 $'000 Level 2	**2012 $'000 Level 2**
Derivatives used for hedging	**6,853**	396

Note 26: Key Management Personnel Disclosures

Non Executive Directors

William J Stevens – Chairman
Kevin J Elkington
Denis R Westhorpe
Melinda B Conrad

Executive Directors

Chris J Bryce – Managing Director

All of the above persons were directors of The Reject Shop Limited for the entire period ended 30 June 2013, unless otherwise stated.

Other Key Management Personnel

The following persons had authority and responsibility for planning, directing, and controlling the activities of the consolidated entity directly or indirectly during the financial period:

Ray J Frawley – General Manager, Store Operations
Michael J Shields – General Manager, Merchandise Buying
Darren J O'Connor – Chief Information Officer
Darren R Briggs – Chief Financial Officer and Company Secretary
Phillip Nutbean – General Manager, Property
Sam Blakeney – General Manager, Merchandise Planning
Geoff W Pearce – General Manager, Business Transformation
Allan J Penrose – General Manager, Marketing
Josie Pileio – General Manager, Human Resources (Appointed on 2 July 2012)
Dani Aquilina – General Manager, Distribution (Appointed on 1 January 2013)
Philip G Beckett – General Manager, Logistics (Retired on 31 December 2012)

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 30 June 2013 unless otherwise stated.

NOTES TO FINANCIAL STATEMENTS

Remuneration of Directors and Key Management Personnel

	Consolidated Entity	
	2013 $	2012 $
Short-term employee benefits	**4,059,374**	4,167,802
Post-employment benefits	**217,060**	207,000
Share-based payments	**475,479**	94,428
	4,751,913	4,469,230

No other long term or termination benefits were paid or payable with respect to the current or prior period.

The Company has taken advantage of the relief provided by ASIC class order 06/50 and has transferred the detailed remuneration disclosures to the director's report. The relevant information can be found on pages 3 to 18.

Performance Rights Holdings

Details of options and performance rights provided as remuneration and shares issued on the exercise of such performance rights, together with fair values and terms and conditions of the options and performance rights, can be found in the remuneration report on pages 9 to 18 of this annual report.

The number of options and performance rights over shares in the Company held during the current and prior financial period by each director and other key management personnel of The Reject Shop Limited and the consolidated entity, including related parties, are set out below:

2013	Performance rights granted during the period	Balance at the start of the period	Performance rights vested & exercised during the period	Other changes during the period	Balance at end of the period
Directors					
WJ Stevens	-	-	-	-	-
KJ Elkington	-	-	-	-	-
DR Westhorpe	-	-	-	-	-
MB Conrad	-	-	-	-	-
Executive Director					
CJ Bryce	104,900	35,600	(3,000)	(2,500)	135,000
Other Key Management Personnel					
RJ Frawley	13,800	16,700	-	-	30,500
MJ Shields	-	16,400	-	-	16,400
DJ O'Connor	23,700	12,800	(2,400)	(2,050)	32,050
DR Briggs	20,100	12,000	(1,400)	(1,100)	29,600
P Nutbean	15,700	10,000	(1,700)	(1,450)	22,550
S Blakeney	7,050	11,000	(1,050)	(900)	16,100
GW Pearce	7,050	9,900	(950)	(850)	15,150
AJ Penrose	11,400	8,100	-	-	19,500
J Pileio	-	9,500	-	-	9,500
D Aquilina	-	6,000	-	-	6,000
PG Beckett (i)	21,050	-	(2,050)	(17,150)	1,850
Total	224,750	148,000	(12,550)	(26,000)	334,200

(i) PG Beckett retired during the year and all non-vested performance rights other than those vesting on 1 July 2013, were lapsed prior to June 2013.

NOTES TO FINANCIAL STATEMENTS

2012	Performance rights granted during the period	Balance at the start of the period	Performance rights vested & exercised during the period	Other changes during the period	Balance at end of the period
Directors					
WJ Stevens	-	-	-	-	-
KJ Elkington	-	-	-	-	-
DR Westhorpe	-	-	-	-	-
MB Conrad	-	-	-	-	-
Executive Director					
CJ Bryce	84,400	27,900	(4,400)	(3,000)	104,900
Other Key Management Personnel					
RJ Frawley	-	13,800	-	-	13,800
DJ O'Connor	19,500	10,400	(3,800)	(2,400)	23,700
DR Briggs	11,700	9,800	-	(1,400)	20,100
PG Beckett	17,200	9,200	(3,300)	(2,050)	21,050
AM McShanag(i)	21,200	13,900	(2,700)	(32,400)	-
P Nutbean	13,200	6,800	(2,600)	(1,700)	15,700
S Blakeney	7,000	2,500	(1,400)	(1,050)	7,050
AJ Penrose	4,800	6,600	-	-	11,400
GW Pearce	6,900	2,600	(1,500)	(950)	7,050
J Bell(i)	13,100	7,200	(2,600)	(17,700)	-
Total	199,000	110,700	(22,300)	(62,650)	224,750

(i) AM McShanag and J Bell resigned during the year and all non-vested performance rights were lapsed prior to June 2012.

Non-executive directors do not participate in long term incentives and have not been granted performance rights in any period.

Subsequent to period end there have been no performance rights granted to key management personnel. 10,700 performance rights granted to key management personnel in prior years have vested, of which 10,700 have been exercised.

Share Holdings

The number of shares in the Company held during the current and prior financial period by each director and other key management personnel of The Reject Shop Limited and the consolidated entity, including related parties, is set out below:

2013	Balance at the start of the period	Received during the period on the exercise of performance rights or options	Other changes during the period	Balance at end of the period
Non-executive Directors				
WJ Stevens	3,000	-	350	3,350
KJ Elkington	3,000	-	615	3,615
DR Westhorpe	-	-	-	-
MB Conrad	-	-	-	-

NOTES TO FINANCIAL STATEMENTS

Key Management Personnel				
Executive Directors				
CJ Bryce	119,187	3,000	925	123,112
Other Key Management Personnel				
RJ Frawley	6,000	-	5,925	11,925
MJ Shields	-	-	-	-
DJ O'Connor	-	2,400	(2,400)	-
DR Briggs	-	1,400	(1,400)	-
P Nutbean	7,110	1,700	(5,000)	3,810
S Blakeney	4,400	1,050	(5,450)	-
GW Pearce	6,350	950	(6,013)	1,287
AJ Penrose	-	-	666	666
J Pileio	-	-	-	-
D Aquilina	-	-	-	-
PG Beckett (i)	-	2,050	(2,050)	-
Total	**149,047**	**12,550**	**(13,832)**	**147,765**

(i) PG Beckett's share holdings have been shown as nil at the end of the period as he is no longer key management personnel of the Company.

2012	Balance at the start of the period	Received during the period on the exercise of performance rights or options	Other changes during the period	Balance at end of the period
Non-executive Directors				
WJ Stevens	3,000	-	-	3,000
KJ Elkington	3,000	-	-	3,000
DR Westhorpe	-	-	-	-
MB Conrad	-	-	-	-
Key Management Personnel				
Executive Directors				
CJ Bryce	114,787	4,400	-	119,187
Other Key Management Personnel				
RJ Frawley	6,000	-	-	6,000
DJ O'Connor	-	3,800	(3,800)	-
DR Briggs	-	-	-	-
PG Beckett	5,900	3,300	(9,200)	-
AM McShanag(i)	46,759	2,700	(49,459)	-
P Nutbean	9,410	2,600	(4,900)	7,110
S Blakeney	-	1,400	3,000	4,400
AJ Penrose	-	-	-	-
GW Pearce	-	1,500	4,850	6,350
J Bell(i)	7,000	2,600	(9,600)	-
MJ Shields	-	-	-	-
Total	**195,856**	**22,300**	**(69,109)**	**149,047**

(i) AM McShanag's and J Bell's share holdings have been shown as nil at the end of the period as they are no longer key management personnel of the Company.

NOTES TO FINANCIAL STATEMENTS

Loans to or other transactions with Key Management Personnel

No loans were made to or from directors of The Reject Shop Limited or to or from other key management personnel of the consolidated entity, including related parties or are outstanding as of 30 June 2013 (FY2012 - $Nil).

No other transactions were undertaken with directors or other key management personnel, including related parties during the period (FY2012 - $Nil).

Note 27: Share-based payments

Performance Rights Plan (PRP)

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

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

Date of grant	Expiry Date	Date Exercisable	Fair Value at Grant Date $	Balance at start of period	Granted during the period	Exercised during the period	Lapsed during the period	Balance at end of the period	Vested and exercisable at the end of the period
2013									
19 Aug 2008	19 Aug 2013	2 Jul 2012	8.15	21,050	-	(21,050)	-	-	-
19 Aug 2009	17 Aug 2014	1 Jul 2013	11.65	36,000	-	-	(18,000)	18,000	-
13 Oct 2009	12 Oct 2016	16 Aug 2015	9.67	50,000	-	-	-	50,000	-
15 Sep 2010	15 Sep 2015	1 Jul 2014	15.27	44,100	-	-	(6,100)	38,000	-
20 Oct 2010	20 Oct 2015	1 Jul 2014	15.49	19,000	-	-	-	19,000	-
18 Oct 2011[(i)]	18 Oct 2016	1 Jul 2015	8.92	107,300	-	-	(9,200)	98,100	-
18 Oct 2012[(ii)]	18 Oct 2017	1 Jul 2016	12.24	-	162,800	-	-	162,800	-
10 Jan 2013[(iii)]	10 Jan 2018	1 Jul 2016	14.04	-	6,000	-	-	6,000	-
Total				**277,450**	**168,800**	**(21,050)**	**(33,300)**	**391,900**	**-**

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

Date of grant	Expiry Date	Date Exercisable	Fair Value at Grant Date $	Balance at start of period	Granted during the period	Exercised during the period	Lapsed during the period	Balance at end of the period	Vested and exercisable at the end of the period
2012									
15 Aug 2007	15 Aug 2012	1 Jul 2011	11.06	35,000	-	(35,000)	-	-	-
19 Aug 2008	19 Aug 2012	1 Jul 2011	8.56	2,600	-	(2,600)	-	-	-
19 Aug 2008	19 Aug 2013	2 Jul 2012	8.15	53,200	-	-	(32,150)	21,050	-
19 Aug 2009	17 Aug 2014	1 Jul 2013	11.65	48,200	-	-	(12,200)	36,000	-
13 Oct 2009	12 Oct 2016	16 Aug 2015	9.67	50,000	-	-	-	50,000	-
15 Sep 2010	15 Sep 2015	1 Jul 2014	15.27	61,000	-	-	(16,900)	44,100	-
20 Oct 2010	20 Oct 2015	1 Jul 2014	15.49	19,000	-	-	-	19,000	-
18 Oct 2011	18 Oct 2016	1 Jul 2015	8.92	-	133,200	-	(25,900)	107,300	-
Total				**269,000**	**133,200**	**(37,600)**	**(87,150)**	**277,450**	**-**

(i) The performance rights that will vest if targeted criteria are met will be 60,500. The additional 37,600 performance rights will only be issued to key management personnel if targeted criteria are over achieved.

(ii) The performance rights that will vest if targeted criteria are met will be 92,000. The additional 70,800 performance rights will only be issued to key management personnel if targeted criteria are over achieved.

(iii) The performance rights that will vest if targeted criteria are met will be 3,000. The additional 3,000 performance rights will only be issued to key management personnel if targeted criteria are over achieved.

NOTES TO FINANCIAL STATEMENTS

The Company has, effective from 2 July 2011, changed the vesting conditions for all performance rights grants that had not expired. The proportion of performance rights grants that ultimately vest will be determined by a combination of financial hurdles and a balanced scorecard of strategic objective criteria. In addition the performance rights exercisable from 2 July 2012 were issued at the Board's discretion notwithstanding that the EPS hurdle in the vesting period, being the financial year ended 26 June 2011, was not met. However, the Board determined it appropriate to vest 50% of the available performance rights on the basis that the key management personnel were instrumental in re-establishing the business post the Ipswich Distribution Centre flood. In addition the key management personnel have during that time made significant progress toward furthering the long-term strategies of the business and hence the Board determined it appropriate to recognise these efforts.

For all grants, the performance rights are only exercisable if the participant remains employed 12 months and one day after the end of the measurement period. The total exercise price payable on the exercise of one or more performance rights on a particular day is $1.00, regardless of the number of performance rights exercised on that day.

The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the annual allocation amount is included in remuneration.

For the grants made on 18 October 2012 the fair value was determined using Black-Scholes option pricing model taking into account the following inputs:

(a) Performance rights are granted for no consideration, all grants are exercisable provided the relevant EPS hurdle rate is met and the executive remains employed on the exercise date

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

(c) share price at grant date: $13.71

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

(e) expected dividend yield: 3.06%

(f) risk-free interest rate: 3.00%

For the grants made on 10 January 2013 the fair value was determined using Black-Scholes option pricing model taking into account the following inputs:

(a) Performance rights are granted for no consideration, all grants are exercisable provided the relevant EPS hurdle rate is met and the executive remains employed on the exercise date

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

(c) share price at grant date: $15.43

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

(e) expected dividend yield: 2.72%

(f) risk-free interest rate: 3.00%

The expected price volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

Performance rights do not carry voting or dividend entitlements.

Subsequent to period end, the Board has not granted any further performance rights under the PRP.

	Consolidated Entity	
Remuneration Expenses arising from share-based payment transactions	**2013 $**	**2012 $**
Performance rights granted	**618,564**	236,123

NOTES TO FINANCIAL STATEMENTS

	Consolidated Entity 2013 $	2012 $
Note 28: Remuneration of Auditors		
During the period the following fees for services were paid or payable to PricewaterhouseCoopers and its related parties as the auditor:		
Audit and Assurance Related Services		
Audit and review work	**236,730**	216,300
Other assurance services	**32,451**	32,500
	269,181	248,800
Tax Compliance and Consulting Services		
Tax compliance	**46,000**	25,000
Tax consulting advice	**30,000**	40,187
	76,000	65,187
Total remuneration	**345,181**	313,987

Note 29: Dividends

Since period end the directors have declared the payment of a fully franked final dividend of 13.0 cents per share. The amount of the proposed dividends is to be paid on 14 October 2013 out of retained profits, but not recognised as a liability at period end.	**3,745**	4,697
Balance of franking account at period 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 periods based on a tax rate of 30%	**35,498**	30,439

Dividends recognised during the reporting period:

Dividends paid to members during the financial period were a final ordinary dividend for the financial period ended 1 July 2012 of 9.5 cents per share totalling $2,478,761 and a special dividend for the financial period ended 1 July 2012 of 8.5 cents per share totalling $2,217,839 paid on 15 October 2012. An interim ordinary dividend for the financial period ended 30 June 2013 of 24.0 cents per share (2012: 24.0 cents per share) totalling $6,262,133 (2012: $6,257,081) was paid on the 15 April 2013 (2012: 16 April 2012).

Note 30: Earnings per share

	2013 Cents	2012 Cents
Basic earnings per share	**73.4**	84.1
Diluted earnings per share	**71.4**	83.2
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	**26,506,067**	26,070,663
Adjustments for dilutive portion of options and performance rights	**719,522**	267,928
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	**27,225,589**	26,338,591

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. Details relating to the performance rights are set out in note 26.

NOTES TO FINANCIAL STATEMENTS

Note 31: Net Tangible Assets

	2013 Cents	2012 Cents
Net tangible asset backing per ordinary share	**434.1**	262.8

Note 32: Parent Entity Financial Information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent Entity 2013 $'000	Parent Entity 2012 $'000
Balance Sheet		
Current assets	**101,669**	79,096
Total assets	**194,153**	159,037
Current liabilities	**57,592**	67,478
Total liabilities	**70,089**	91,524
Shareholders' equity		
Issued capital	**46,277**	3,366
Reserves	**10,136**	4,987
Retained earnings	**67,651**	59,160
	124,064	67,513
Profit or Loss for the year	**19,451**	21,923
Total Comprehensive Income	**23,971**	23,568

(b) Guarantees entered into by the parent entity

Carrying amount included in current liabilities	**-**	-

Refer to note 22 and 23 for disclosures concerning contingent liabilities and contractual commitments for the parent entity.

Note 33: Segment information

The Reject Shop operates within one reportable segment (retailing of discount variety merchandise). Total revenues of $617,959,679 all relate to the sale of discount variety merchandise in the Company's country of domicile (Australia), in this single reportable segment. The Company is not reliant on any single customer.

Note 34: Subsidiaries

The Reject Shop Limited has a 100% owned non-operating subsidiary, TRS Trading Group Pty Ltd incorporated in Australia. There were no transactions between the parent entity and its subsidiary during the period (FY2012 - $Nil).

In addition, The Reject Shop Limited has effective control over The Reject Shop Limited Employee Share Trust which administers shares issued through the Company's Performance Rights Plan. This entity is also consolidated.

Note 35: Matters Subsequent to the End of the Financial Period

No matters or circumstances have arisen since the end of the financial period 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 periods, other than information disclosed in relation to the new store opening program.

Note 36: Related Party Transactions

No related party transactions were entered into during the period ended 30 June 2013 other than those disclosed in notes 26 and 27 to the financial statements.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) The financial statements and notes set out on pages 20 to 48 are in accordance with the *Corporations Act 2001*, including:

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

   (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial period ended on that date; and

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

The directors draw attention to Note 1(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

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:

....

WJ Stevens
Chairman

....

CJ Bryce
Managing Director

Dated this 21st day of August 2013

The shareholder information set out below was applicable as at 31 July 2013.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE REJECT SHOP LIMITED

pwc

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

Report on the financial report

We have audited the accompanying financial report of The Reject Shop Limited (the company), which comprises the balance sheet as at 30 June 2013, statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for The Reject Shop Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the period's end or from time to time during the financial period.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standard*.

Auditor's responsibility

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

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331L, MELBOURNE VIC 3001
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE REJECT SHOP LIMITED

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the period ended on that date; and

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

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

Report on the Remuneration Report

We have audited the remuneration report included within the directors' report for the period ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of The Reject Shop Limited for the period ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Daniel Rosenberg
Partner

Melbourne
21 August 2013

SHAREHOLDERS' INFORMATION

(a) The distribution of shareholding was as follows:

Size of Shareholding	Shareholders
1 - 1,000	2,909
1,001 - 5,000	1,559
5,001 - 10,000	187
10,001 - 100,000	108
100,001 and over	17

(b) 163 shareholders hold less than a marketable parcel of shares, being a market value of less than $1,000

(c) Substantial shareholders based on notifications to the Company were:

Shareholder	Number	% Held
Hyperion Asset Management Limited	2,994,158	10.39%
Alleron Investment Management Limited	2,110,484	7.32%
BT Investment Mgt.	1,852,061	6.45%
Acorn Capital Limited	1,709,102	5.93%
Australian Super Pty Ltd	1,538,539	5.34%

(d) The fully paid issued capital of the Company consisted of 28,826,248 shares held by 4,780 shareholders.

Each share entitles the holder to one vote.

	Number on Issue	Number of holders
(e) Unquoted Equity Securities		
Performance Rights issued under The Reject Shop Performance Rights Plan	373,900	20

SHAREHOLDERS' INFORMATION

(f) Twenty largest shareholders

Shareholder	Number	% Held
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,523,645	19.16%
J P MORGAN NOMINEES AUSTRALIA LIMITED	5,222,706	18.12%
NATIONAL NOMINEES LIMITED	5,002,047	17.35%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES	888,337	3.08%
CITICORP NOMINEES PTY LIMITED	870,151	3.02%
AUST EXECUTER TRUSTEES SA LTD	578,252	2.01%
JP MORGAN NOMINEES AUSTRALIA LIMITED	575,613	2.00%
BNP PARIBAS NOMS PTY LTD	517,923	1.80%
GRAHGER CAPITAL SECURITIES PTY LTD	400,925	1.39%
UBS NOMINEES PTY LTD	224,523	0.78%
CS FOURTH NOMINEES PTY LTD	138,882	0.48%
AMP LIFE LIMITED	134,255	0.47%
HIGHMONT HEIGHTS PTY LTD	117,315	0.41%
CHARLIE MCSHANAG	116,225	0.40%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	90,115	0.31%
ALMARGEM PTY LTD	85,000	0.29%
MR ROBERT THOMAS & MRS KYRENIA THOMAS	83,000	0.29%
DR ANDREW RICHARD CONWAY & DR VESNA JOY	70,825	0.25%
WOOLYA PTYLTD	64,325	0.22%
WARBONT NOMINEES PTY LTD	50,962	0.18%

The twenty members holding the largest number of shares together held a total of 72.00% of the issued capital.

(g) Restricted Shares

There are no restricted shares on issue.