Appendix 4D

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary half year report

For the 26 weeks ended 27 December 2015
Compared to the 26 weeks ended 28 December 2014

				$A'000
Revenues from continuing operations	up	5.6%	to	424,652
Profit from continuing operations after tax attributable to members	up	42.9%	to	18,323
Net profit for the period attributable to members	up	42.9%	to	18,323

Dividends	Amount per share	Franked amount per share
Interim dividend	25.0¢	100%

Record date for determining entitlements to the dividend	21 March 2016
Dividend payment date	11 April 2016

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

Overview of Financial Performance

$ Amounts are in '000's / %'s are to Sales	HYE16	HYE15	% Chg
Sales	424,652	402,221	5.6%
Gross Profit (excl. DC Exit Costs) (i)	44.6%	44.9%	
Cost of Doing Business (ii)	35.8%	37.8%	
Melbourne DC Exit Costs	1,310	-	
EBITDA (i)	36,028	28,528	26.3%
Depreciation and Amortisation	9,629	9,513	
EBIT	26,399	19,015	38.8%
Net Interest Expense	467	864	
Profit Before Tax	25,932	18,151	42.9%
Income Tax Expense	7,609	5,331	
Net Profit After Tax	18,323	12,820	42.9%
(i) Non IFRS Measure			
(ii) Unaudited			

Sales

Sales grew by 5.6% from $402.2m to $424.7m against the corresponding period last year. Comparable sales grew 4.4% for the half, with the first quarter 6.1% above the pcp and the second 3.2%. above the pcp.

In the first quarter, we had a better sell-through of winter seasonal lines compared to the prior period. The business also managed its stock position better, and we did not have the disruptions of the pcp, when the entire store network was re-laid.

The second quarter proved a little more challenging, with competition for sales of Christmas seasonal merchandise continuing to intensify, but ultimately resulting in a solid peak season outcome.

Overall sales growth was also aided by 8 new store openings and 2 relocations in the half, as well as growth from the 12 new stores (Net) opened in the prior year.

Gross Profit

Gross Profit (sales less cost of sales) as a percent to sales was slightly down on prior half year as the significant decline in the Australian Dollar compared to prior period presented the challenge of passing such landed product cost increases to customers in a competitive retail environment.

This impact of the decline in the Australian Dollar was well managed due to our ongoing currency hedging policy and proactive changes to purchasing and product pricing by our buying team.

Cost of Doing Business (CODB)

CODB (consisting of store and administrative expenses but excluding depreciation and amortisation and the Melbourne DC exit costs) decreased by 2.0% to sales during the half. This partly reflects the significantly improved comparable store sales in the half but more significantly reflects the strong focus the business has had over the last 18 months on reducing our CODB, with some of the key drivers being:

- ➔ Store expenses inclusive of store wages, new store opening costs, relay/refurbishment costs, were down by 2.6% as a percentage to sales, mainly due to:

- Store Wages (incl. on-costs) down 0.4% of sales, aided by close management of store spending against sales, workers compensation cost reductions and improved in-store stock positions compared to pcp;
- Store Opening, Refurbishment and Relay Costs down 0.8% of sales, due to the reduced number and average cost of new store openings, and the $1.6m non-recurring wage cost to relay stores in the prior year;
- Store Operating Costs down 0.2% of sales due to a number of cost-out initiatives relating to goods and services into store;
- Occupancy costs decreasing by 0.7% of sales, primarily due a combination of reduced cash rents on lease renewals and the effect of closing / relocating underperforming stores over the last 18 months; and
- Advertising Costs decreasing by 0.3% of sales, mainly reflecting the cost of the National TV Brand launch in the prior corresponding half.

➔ Administrative expenses, which increased by 0.5% to sales as a result of increased provisions for short and long-term incentives and due to the costs incurred to date in servicing the strategic projects.

Depreciation and amortisation expense has remained relatively flat, reflecting the moderated number of new store openings (net of closures) and the reducing average capital cost to open new stores during the last 12 months.

Earnings

The Company EBIT of $26.4 million was 38.8% above the prior half, with EBIT Margin up by 1.5% to 6.2%, mainly as a result of the reduced CODB.

Net Profit after tax increased by 42.9% on the prior period, with the reduced level of debt required during the period the main driver behind the positive impact of net interest expense, which fell $0.4 million on the prior period.

Dividends

The Company has declared an interim dividend of 25.0 cents per share (pcp: 16.5cps) which has a record date of 21 March 2016 and will be paid on 11 April 2016. This dividend is indicative of an expected continuation of a 60% payout ratio of Net Profit After Tax. This payout ratio is supported by the Company's strong balance sheet position and the strong operating cash flow generated during the half.

Financial Position and Capital Investment

The Company experienced another strong operating cash flow generation during the half, with its Cashflow from Operating Activities of $26.4 million more than sufficient to fund the moderated capital investment requirements of the business as well as fund the increase in the interim dividend payable.

Consistent with the prior half year, the Company finished the peak seasonal trading period in a Net Cash position and expects to be able to continue to operate at its moderate gearing levels for the foreseeable future. In addition, the Company's debt covenants have been comfortably achieved.

The level of Capital Expenditure again moderated in the half as the Company opened 8 new stores, compared to 19 in the prior corresponding half. It is expected the number of new store openings in future years will continue at around the current levels as the Company continues to be more selective in where it places its new stores. It was also pleasing to report that the fit-out costs associated with opening new stores also declined, with the cost down approximately 25% as a result of changes in-store.

As previously advised, the Company has entered into a number of contracts related to the construction and fit-out of its new Distribution Centre in Truganina, and has adequate financing facilities in place to meet all its future funding requirements.

Overview of Operational Performance and Outlook

The improved Earnings achieved in the half is reflective of a management team and overall business that has a renewed focus of improving the efficiency of all aspects of the business, as well as improving its understanding of what our customers would like to see in our stores.

The first six weeks of the second half has seen the positive comparable store sales growth continue, at a rate consistent with that recorded in the second quarter.

During the second half, the business will continue with progress on its strategic projects, all designed to improve the processes and procedures within the business, reducing CODB and further develop the platform for longer term profit growth for the Company.

The Company will open five new stores in the second half, whilst also planning to close five stores, three of which are as a result of redevelopments in Centres where the business is located.

DIRECTORS' REPORT

Your directors present their report on the Company and its controlled entities for the half year ended 27 December 2015.

Directors

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

William J Stevens
Non-executive Director
Chairman of the Board, Member of the Remuneration Committee and Member of the Audit and Risk Committee.

Ross Sudano
Managing Director and Chief Executive Officer

Kevin J Elkington
Non-executive Director
Chairman of the Audit and Risk Committee and Member of the Remuneration Committee.

Denis R Westhorpe
Non-executive Director
Member of the Audit and Risk Committee and Member of the Remuneration Committee.

Melinda Conrad
Non-executive Director
Chairman of the Remuneration Committee and Member of the Audit and Risk Committee.

Review of operations

The profit of the consolidated entity for the half year after providing for income tax amounted to $18,323,377.

The half year ended 27 December 2015, incorporates 26 weeks trading.

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

Seasonality

The first half of the Company's year traditionally produces a profit result significantly higher than the second half. This is due to the significant sales increase during the peak trading period of November and December which provides profit leverage; given a fixed cost base which does not increase during this same two month period.

The balance sheet as at 27 December 2015 reflects a reduced level of borrowings as compared to other times during the year due to the seasonal nature of the consolidated entity's activities.

Dividends

On 12 October 2015, a fully franked final ordinary dividend of 13.5 cents per share totalling $3,894,710 was paid. On 17 February 2016, the directors declared a fully franked interim dividend of 25.0 cents per share to be paid on 11 April 2016.

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Rounding of amounts to nearest thousand dollars

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

Signed in accordance with a resolution of the directors:

William J Stevens	Ross Sudano
Chairman	Managing Director

17 February 2016

Auditor's Independence Declaration

As lead auditor for the review of The Reject Shop Limited for the half-year ended 27 December 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Daniel Rosenberg
Partner
PricewaterhouseCoopers

Melbourne
17 February 2016

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Consolidated Statement of Comprehensive Income
For the Half Year Ended 27 December 2015

	Note	Half Year 2015 $'000	Half Year 2014 $'000
Revenues from continuing operations			
Sales revenue	2	**424,652**	402,221
Other income	2	**47**	17
		424,699	402,238
Cost of sales		**238,113**	222,961
Store expenses		**136,409**	139,627
Administrative expenses		**23,731**	20,618
		398,253	383,206
Finance costs	3	**514**	881
Profit before income tax		**25,932**	18,151
Income tax expense	4	**7,609**	5,331
Profit for the half year		**18,323**	12,820
Other comprehensive income			
Items that may be re-classified to profit or loss			
Changes in the fair value of cash flow hedges		**(2,021)**	13,492
Income tax relating to components of other comprehensive income		**606**	(4,048)
Other comprehensive income for the half-year, net of tax		**(1,415)**	9,444
Total Comprehensive Income for the Half Year Attributable To Members Of The Reject Shop Limited		**16,908**	22,264

Earnings per Share		**Cents**	Cents
Basic Earnings Per Share	20	**63.5**	44.4
Diluted Earnings Per Share	20	**63.0**	44.2

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

Consolidated Balance Sheet
As at 27 December 2015

	Note	27 December 2015 $'000	28 June 2015 $'000
Current Assets			
Cash	5	**21,577**	17,326
Inventories	6	**106,117**	100,240
Derivative financial instruments	27	**3,412**	5,433
Other	7	**3,299**	1,477
Total Current Assets		**134,405**	124,476
Non-Current Assets			
Property, plant and equipment	8	**89,432**	94,132
Deferred tax assets	9	**13,562**	9,700
Total Non-Current Assets		**102,994**	103,832
Total Assets		**237,399**	228,308
Current Liabilities			
Payables	10	**40,912**	43,004
Tax liabilities		**6,815**	1,534
Provisions	11	**17,456**	15,706
Other	12	**12,544**	10,631
Total Current Liabilities		**77,727**	70,875
Non-Current Liabilities			
Borrowings	13	**-**	12,000
Provisions	14	**10,821**	9,977
Other	15	**669**	783
Total Non-Current Liabilities		**11,490**	22,760
Total Liabilities		**89,217**	93,635
Net Assets		**148,182**	134,673
Equity			
Contributed equity	16	**46,247**	46,247
Reserves	17	**7,261**	8,180
Retained profits	18	**94,674**	80,246
Total Equity		**148,182**	134,673

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

Consolidated Statement of Changes in Equity
For the Half Year Ended 27 December 2015

2015	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balances as at 28 June 2015	**46,247**	**739**	**3,638**	**3,803**	**80,246**	**134,673**
Profit for the period	-	-	-	-	18,323	18,323
Other comprehensive income	-	-	-	(1,415)	-	(1,415)
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(3,895)	(3,895)
Share based remuneration	-	-	496	-	-	496
Tax credited directly to equity	-	-	-	-	-	-
Balances as at 27 December 2015	**46,247**	**739**	**4,134**	**2,388**	**94,674**	**148,182**

2014	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balances as at 29 June 2014	**46,247**	**739**	**3,705**	**(3,636)**	**73,217**	**120,272**
Profit for the period	-	-	-	-	12,820	12,820
Other comprehensive income	-	-	-	9,444	-	9,444
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(2,451)	(2,451)
Share based remuneration	-	-	(112)	-	-	(112)
Tax credited directly to equity	-	-	122	-	-	122
Balances as at 28 December 2014	**46,247**	**739**	**3,715**	**5,808**	**83,586**	**140,095**

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

Consolidated Statement of Cash Flows
For the Half Year Ended 27 December 2015

	Note	Half Year 2015 $'000	2014 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		**466,407**	441,821
Payments to suppliers and employees (inclusive of goods and services tax)		**(433,880)**	(393,716)
Interest received		**47**	17
Borrowing costs paid		**(526)**	(858)
Income tax paid		**(5,584)**	(2,294)
Net cash inflows from operating activities	19	**26,464**	44,970
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		**3**	231
Payments for property, plant and equipment		**(6,321)**	(13,600)
Net cash outflows used in investing activities		**(6,318)**	(13,369)
Cash Flows from Financing Activities			
Costs associated with share issue		**-**	-
Proceeds from borrowings		**38,000**	84,000
Repayment of borrowings		**(50,000)**	(101,000)
Dividends paid	22	**(3,895)**	(2,451)
Net cash outflows used in financing activities		**(15,895)**	(19,451)
Net increase / (decrease) in cash held		**4,251**	12,150
Cash at the beginning of the half year		**17,326**	7,572
Cash at the end of the half year	19	**21,577**	19,722

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

Note 1: Basis of preparation of half-year report

This condensed consolidated interim financial report for the half year reporting period ended 27 December 2015 has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 28 June 2015 and any public announcements made by The Reject Shop Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

New standards and interpretations not yet adopted

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

	Half Year	
	2015	2014
	$'000	$'000
Note 2: Revenue From Continuing Operations		
Sales Revenue		
Sales of goods	**424,652**	402,221
Other Income		
Interest	**47**	17
	424,699	402,238

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

Interest and finance charges paid/payable	**514**	881
Depreciation and amortisation expenses included in:		
Cost of sales	**1,326**	1,292
Store expenses	**6,874**	6,661
Administrative expenses	**1,429**	1,560
	9,629	9,513
Net loss / (gain) on disposal of property, plant and equipment	**300**	149
Store asset write off	**294**	-
Accelerated depreciation and make good costs relating to Melbourne distribution centre	**1,310**	-
Rental expenses relating to operating leases:		
Minimum lease payments	**54,943**	53,613
Provision for rent escalations	**(376)**	586
Rent paid on percentage of sales basis	**258**	245
Employee benefits expenses	**85,009**	83,052
New store opening costs (inc. refurbishments)	**382**	2,032
Store relay costs	**-**	1,577

	Half Year 2015 $'000	Half Year 2014 $'000
Note 4: Income Tax		
(a) Income tax expense		
Current tax	**10,865**	6,105
Deferred tax	**(3,256)**	(774)
	7,609	5,331
Deferred income tax expense included in income tax expense comprises:		
(Increase) in net deferred tax assets	**(3,256)**	(774)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**25,932**	18,151
Tax at the Australian tax rate of 30% (2014 – 30%)	**7,779**	5,445
Tax effect of amounts which are deductible in calculating taxable income:		
Research and development	**(170)**	(114)
	7,609	5,331
Under provided in prior years	**-**	-
Income tax expense	**7,609**	5,331
(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	**-**	122
(d) Tax (expense) / income relating to items of other comprehensive income		
Cash flow hedges	**606**	(4,048)

	Note	27 December 2015 $'000	28 June 2015 $'000
Note 5: Current Assets – Cash			
Cash on hand	19	**1,625**	1,472
Cash at bank	19	**19,952**	15,854
		21,577	17,326
Note 6: Current Assets – Inventories			
Inventory at cost		**105,283**	99,115
Inventory at net realisable value		**834**	1,125
		106,117	100,240

	Note	27 December 2015 $'000	28 June 2015 $'000
Note 7: Current Assets – Other			
Prepayments		**2,518**	969
Other current assets		**781**	508
		3,299	1,477
Note 8: Non-Current Assets – Property, Plant And Equipment			
Leasehold improvements			
At cost		**63,077**	63,016
Less accumulated depreciation		**(29,341)**	(26,329)
		33,736	36,687
Plant and equipment*			
At cost		**130,533**	126,366
Less accumulated depreciation		**(74,837)**	(68,921)
		55,696	57,445
Total property, plant and equipment		**89,432**	94,132

*Plant and equipment includes fixtures, fittings and motor vehicles as well as $1,640,478 (FY2015: $1,577,657) of work in progress costs.

Note 9: Non-Current Assets – Deferred Tax Assets

The balance comprises temporary differences attributable to:
Amounts recognised in profit or loss

	27 December 2015 $'000	28 June 2015 $'000
Employee benefits	**4,986**	4,083
Lease escalation	**2,704**	3,212
Inventories	**1,430**	1,455
Lease incentives	**761**	617
Provisions and accruals	**1,744**	1,343
Depreciation	**2,276**	1,668
Employee share trust	**330**	66
Equity raising costs	**98**	131
Sundry items	**1,242**	(403)
	15,571	12,172
Set-off of deferred tax liabilities of consolidated entity pursuant to set off provisions:		
Depreciation	**(985)**	(842)
Hedging reserve	**(1,024)**	(1,630)
Net deferred tax assets	**13,562**	9,700

	27 December 2015 $'000	28 June 2015 $'000
Deferred tax assets expected to be recovered within 12 months	**8,658**	4,084
Deferred tax assets expected to be recovered after more than 12 months	**4,904**	5,616
Net deferred tax assets	**13,562**	9,700

Note 10: Current Liabilities – Payables

Unsecured liabilities		
Trade payables	**28,256**	35,893
Sundry payables and accruals	**12,656**	7,111
	40,912	43,004

Note 11: Current Liabilities – Provisions

Onerous leases	**562**	1,261
Provision for rent escalation	**2,346**	2,725
Employee entitlements	**14,548**	11,720
	17,456	15,706

Note 12: Current Liabilities – Other

Accrued expenses	**10,447**	8,137
Deferred income	**2,097**	2,494
	12,544	10,631

Note 13: Non-Current Liabilities – Borrowings

Secured liabilities		
Cash advance	**-**	12,000

Note 14: Non-Current Liabilities – Provisions

Employee entitlements	**1,808**	1,666
Onerous leases	**1,028**	329
Provision for rent escalation	**7,985**	7,982
	10,821	9,977

Note 15: Non-Current Liabilities – Other

Deferred income	**669**	783

Note 16: Equity – Contributed Equity

Movements in ordinary share capital

Date	Details	No. of shares	Issue Price per share $	Contributed Equity $'000
29 June 2014	**Balance**	**28,826,248**		**46,247**
1 July 2014	Exercise of performance rights	18,400	-	-
28 December 2014	**Balance**	**28,844,648**		**46,247**
28 June 2015	**Balance**	**28,844,648**		**46,247**
21 July 2015	Exercise of performance rights	4,975	-	-
27 December 2015	**Balance**	**28,849,623**		**46,247**

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.

	27 December 2015 $'000	28 June 2015 $'000
Note 17: Equity – Reserves		
Capital profits reserve	**739**	739
Share based payments reserve	**4,134**	3,638
Hedging reserve – cash flow hedges	**2,388**	3,803
	7,261	8,180
Note 18: Equity – Retained Profits		
Retained profits at the beginning of the period	**80,246**	73,217
Net profit attributable to members of the consolidated entity	**18,323**	14,239
Dividends paid	**(3,895)**	(7,210)
Retained profits at reporting date	**94,674**	80,246

Note 19: Cash Flow Information

Reconciliation of Cash

	Half Year 2015 $'000	Half Year 2014 $'000
Reconciliation of cash flow from operations with profit from ordinary activities		
Profit from ordinary activities after income tax	**18,323**	12,820
Non-cash flows in profit from ordinary activities:		
Depreciation	**9,629**	9,513
(Profit) / Loss on sale of property, plant and equipment	**300**	149
Store asset write off	**294**	-
Accelerated depreciation and make good costs relating to Melbourne distribution centre	**1,310**	-
Non-cash share based payment expense	**496**	(112)
Tax credited directly to equity	**-**	122
Changes in operating assets and liabilities, net of effects of purchase and disposal of subsidiaries		
Decrease/(Increase) in receivables and other assets	**(1,822)**	588
Decrease/(Increase) in inventories	**(5,877)**	4,825
Increase in trade and other creditors and other provisions	**2,392**	10,087
Increase in income tax payable	**5,281**	4,180
Decrease/(Increase) in deferred taxes	**(3,862)**	2,798
Net cash provided by operations	**26,464**	44,970

Reconciliation of Cash

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

	2015	2014
Cash on hand	**1,625**	1,656
Cash at bank	**19,952**	18,086
	21,577	19,742
Bank overdrafts	**-**	(20)
	21,577	19,722

Note 20: Earnings per share

	Half Year 2015 Cents	Half Year 2014 Cents
Basic earnings per share	**63.5**	44.4
Diluted earnings per share	**63.0**	44.2
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**28,848,994**	28,844,547
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**29,084,856**	29,005,167

Note 21: Net Tangible Assets	27 December 2015 Cents	28 June 2015 Cents
Net tangible asset backing per ordinary share	**501.3**	466.9

	Half Year	
	2015 $'000	2014 $'000
Note 22: Dividends		
Fully franked final dividend paid on 12 October 2015 (2014: 13 October 2014)	**3,895**	2,451
Balance of franking account at half year adjusted for franking credits arising from payment of income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years	**46,280**	41,212

Note 23: Segment Information

The Reject Shop operates within the one reportable segment (retailing of discount variety merchandise). Total revenues of $424,652,188 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 24: Dividend Reinvestment Plan

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

Note 25: Capital Commitments

The consolidated entity has contractually committed to approximately $6,475,000 in capital expenditure at the end of the reporting period relating to the supply of sortation and conveying equipment for the new Melbourne DC at Truganina of which no amount has been recognised as a liability.

Note 26: Matters Subsequent to the End of the Half Year

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

Note 27: Fair Value Measurements

The directors consider the cash flow hedges to be Level 2 financial instruments because, unlike Level 1 financial instruments, their measurement is derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices). There have been no transfers between levels 1, 2 and 3 for recurring fair value measurements during the half-year. The cash flow hedges fair values have been obtained from third party valuations derived from forward exchange rates at the balance sheet date.

The fair value of the cash flow hedges at 27 December 2015 was an asset of $3,412,332 (28 June 2015: asset of $5,433,153).

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 7 to 18 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 27 December 2015 and of its performance, as represented by the results of it's operations and it's cash flows, for the half year ended on that date; and

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

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

William J Stevens
Chairman

Ross Sudano
Managing Director

Melbourne
17 February 2016

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of The Reject Shop Limited (the company), which comprises the consolidated balance sheet as at 27 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for The Reject Shop Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 27 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of The Reject Shop Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 27 December 2015 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

Daniel Rosenberg
Partner

Melbourne
17 February 2016