Appendix 4D

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary half year report

For the 26 weeks ended 01 January 2017
Compared to the 26 weeks ended 27 December 2015

				$A'000
Revenues from continuing operations	up	2.0%	to	432,942
Profit from continuing operations after tax attributable to members	down	4.4%	to	17,520
Net profit for the period attributable to members	down	4.4%	to	17,520

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

Record date for determining entitlements to the dividend	20 March 2017
Dividend payment date	10 April 2017

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	HYE17	HYE16	% Chg
Sales	432,942	424,652	2.0%
Gross Profit (excl. DC Exit Costs) (i)	43.9%	44.6%	
Cost of Doing Business (ii)	35.8%	35.8%	
Melbourne DC Exit Costs	0	1,310	
EBITDA	35,059	36,028	-2.7%
Depreciation and Amortisation	9,531	9,629	
EBIT	25,528	26,399	-3.3%
Net Interest Expense	356	467	
Profit Before Tax	25,172	25,932	-2.9%
Income Tax Expense	7,652	7,609	
Net Profit After Tax	17,520	18,323	-4.4%

Sales

Sales grew by 2.0% from $424.7m to $432.9m against the prior corresponding period (pcp).

Comparable sales fell 0.5% for the half, with the first quarter 0.3% above the pcp and the second quarter 1.2% below the pcp, as we cycled +6.1% and +3.2% from the first two quarters of the prior year.

The business was particularly challenged in Western Australia, where continued underemployment and declining housing price growth contributed to a particularly negative comparable sales result.

Comparable Sales across the Eastern Seaboard were relatively flat, where slight increases in average basket size were offset by a slight decline in comparable customer counts.

On a pleasing note, our Christmas Seasonal offering was well received, with Sales and Gross Profit coming in above budgeted expectations.

Overall sales growth was also aided by 8 new store openings and 3 relocations in the half, as well as growth from the 8 new stores (Net) opened in the prior year.

Gross Profit

Gross Profit (sales less cost of sales) as a percent to sales was down 70 basis points on the pcp reflecting the challenge of passing product cost increases to customers in a competitive retail environment. In addition, the business engaged in additional markdown activity as Sales did not meet Budget expectations during the half.

Cost of Doing Business (CODB)

CODB (consisting of store and administrative expenses but excluding depreciation and amortisation and the Melbourne DC exit costs) was flat as a % to Sales during the half. This was a solid achievement given the comparable store sales in the half, reflecting the continued strong focus the business has had over the last 24 months on reducing our CODB, with some of the key components being:

- ➔ Store expenses inclusive of store wages, new store opening costs, relay/refurbishment costs and impairment/onerous lease costs, increased by 0.5% to Sales, mainly being the net of:
  - Store Wages (incl. on-costs) increased 0.30% of sales, where improved rostering techniques and continued workers compensation cost reductions were outweighed by the impact of the negative comparable store sales;
  - Occupancy Costs increased 0.24% of Sales despite the continuation of reduced cash rentals on lease renewals during the period;

  - Advertising Costs increased by 0.25% of sales, as a result of a greater spend on digital communication channels and on in-store communication at Point of Sale; and
  - Impairment/onerous lease costs reduced by 0.25% to Sales, as a number of underperforming stores trading contribution improved when compared to past periods.

- ➔ Administrative expenses, which decreased by 0.5% to sales, mainly due to the reduced provision for short and long-term incentives on the pcp.

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 18 months.

Earnings

The Company EBIT of $25.5 million was 3.3% below the prior half, with EBIT Margin down by 0.3% to 5.9%, mainly as a result of the reduced Gross Margin % to Sales.

Net Profit after tax reduced by 4.4% 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 $0.1 million on the prior period.

Dividends

The Company has declared an interim dividend of 24.0 cents per share (pcp: 25.0cps) which has a record date of 20 March 2017 and will be paid on 10 April 2017. This dividend 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 a particularly solid operating cash flow generation during the half, with its Cashflow from Operating Activities of $39.4 million more than sufficient to fund the increased capital investment requirements of the business as well as fund the increase in the final dividend payable.

Consistent with the prior half year, the Company finished the peak seasonal trading period in a Net Cash position. However, this will not continue throughout the second half, as the business will need to fund approximately $9 million in employee related entitlements connected to the closure of the Distribution Centre at Melbourne Airport in February 2017.

The level of Capital Expenditure increased against the pcp mainly due to the fit-out costs associated with the new Distribution Centre in Truganina, which totalled approximately $6.1 million during the half. In addition, the business opened eight new stores during the half as well as refurbished six stores in a new North/South layout (WA:5; VIC:1) – which was the main reason for Store related capital expenditure increasing approximately $1.6 million on the pcp. The business can confirm it has adequate financing facilities in place to meet all its future funding requirements.

Overview of Operational Performance and Outlook

The below expectation Sales and Margin performance of the business during the first half was the main reason that Net Profit After Tax fell 4.4% on the pcp, and closer to 9% when the impact of the Melbourne DC Exit costs are excluded from last half-years result.

Importantly, the business has continued to progress all of its strategic projects, all designed to improve the processes and procedures within the business, reduce CODB and further develop the platform for longer term profit growth for the Company. The benefits of some of these projects can be seen in the Cost of Doing Business reported in the half, with more benefits that will be progressively realised.

These future benefits will include the improved level of efficiency that our new Distribution Centre in Truganina will deliver. We are pleased to report it is now fully operational, and improving its underlying efficiency levels on a weekly basis.

The business plans to continue with its North/South layout refurbishment program in the second half, with 18 stores set for refurbishment. The business also plans to open another five stores and relocate one store in the same period.

The challenging market environment experienced in first half, particularly the second quarter, has continued in the first six weeks of trade in the second half of the 2017 financial year. Underlying customer numbers are below last year for the first six weeks of the half, resulting in reduced overall growth in sales and the continuation of the negative comparable sales trend experienced in Q2.

We remain focused on our customers and on improving our business to enable us to continually invest in additional value to our customers. We have confidence in our long term plan. We will however need to see a change in the current sales momentum to enable TRS to meet last year's financial performance for H2 2017.

Whilst we are relatively pleased with the ongoing progress we are making, we remain on a journey to ensure the Company can sustain long term future growth. Our focus is on being customer-led in what continues to be a particularly challenging environment.

DIRECTORS' REPORT

Your directors present their report on the Company and its controlled entities for the half year ended 01 January 2017.

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 $17,520,184.

The half year ended 01 January 2017, 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 01 January 2017 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 17 October 2016, a fully franked final ordinary dividend of 19.0 cents per share totalling $5,483,314 was paid. On 22 February 2017, the directors declared a fully franked interim dividend of 24.0 cents per share to be paid on 10 April 2017.

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

22 February 2017

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Auditor's Independence Declaration

As lead auditor for the review of The Reject Shop Limited for the half-year ended 1 January 2017, 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.

Sam Lobley
Partner
PricewaterhouseCoopers

Melbourne
22 February 2017

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Consolidated Statement of Comprehensive Income
For the Half Year Ended 01 January 2017

	Note	Half Year 2016 $'000	2015 $'000
Revenues from continuing operations			
Sales revenue	2	**432,942**	424,652
Other income	2	**15**	47
		432,957	424,699
Cost of sales		**244,079**	238,113
Store expenses		**141,067**	136,409
Administrative expenses		**22,268**	23,731
		407,414	398,253
Finance costs	3	**371**	514
Profit before income tax		**25,172**	25,932
Income tax expense	4	**7,652**	7,609
Profit for the half year		**17,520**	18,323
Other comprehensive income			
Items that may be re-classified to profit or loss			
Changes in the fair value of cash flow hedges		**8,857**	(2,021)
Income tax relating to components of other comprehensive income		**(2,657)**	606
Other comprehensive income for the half-year, net of tax		**6,200**	(1,415)
Total Comprehensive Income for the Half Year Attributable To Members Of The Reject Shop Limited		**23,720**	16,908

Earnings per Share		**Cents**	Cents
Basic Earnings Per Share	20	**60.7**	63.5
Diluted Earnings Per Share	20	**60.2**	63.0

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

Consolidated Balance Sheet
As at 01 January 2017

	Note	01 January 2017 $'000	03 July 2016 $'000
Current Assets			
Cash	5	**20,896**	15,068
Inventories	6	**110,158**	98,515
Derivative financial instruments	27	**5,459**	-
Other	7	**2,155**	10,983
Total Current Assets		**138,668**	124,566
Non-Current Assets			
Property, plant and equipment	8	**96,580**	89,942
Deferred tax assets	9	**12,054**	16,087
Total Non-Current Assets		**108,634**	106,029
Total Assets		**247,302**	230,595
Current Liabilities			
Payables	10	**39,458**	33,118
Borrowings	11	**-**	12,000
Tax liabilities		**4,645**	2,479
Provisions	12	**22,074**	22,416
Derivative financial instruments		**-**	3,398
Other	13	**13,546**	10,394
Total Current Liabilities		**79,723**	83,805
Non-Current Liabilities			
Provisions	14	**1,054**	1,832
Other	15	**12,376**	9,616
Total Non-Current Liabilities		**13,430**	11,448
Total Liabilities		**93,153**	95,253
Net Assets		**154,149**	135,342
Equity			
Contributed equity	16	**46,247**	46,247
Reserves	17	**9,627**	2,857
Retained profits	18	**98,275**	86,238
Total Equity		**154,149**	135,342

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 01 January 2017

2016	Contributed Equity $'000	Capital Profits $'000	Share Based Payments $'000	Hedging Reserve $'000	Retained Earnings $'000	Total $'000
Balances as at 03 July 2016	**46,247**	**739**	**4,497**	**(2,379)**	**86,238**	**135,342**
Profit for the period	-	-	-	-	17,520	17,520
Other comprehensive income	-	-	-	6,200	-	6,200
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(5,483)	(5,483)
Share based remuneration	-	-	550	-	-	550
Tax credited directly to equity	-	-	20	-	-	20
Balances as at 01 January 2017	**46,247**	**739**	**5,067**	**3,821**	**98,275**	**154,149**

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**

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 01 January 2017

	Note	Half Year 2016 $'000	2015 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		**476,236**	466,407
Payments to suppliers and employees (inclusive of goods and services tax)		**(432,319)**	(433,880)
Interest received		**15**	47
Borrowing costs paid		**(375)**	(526)
Income tax paid		**(4,094)**	(5,584)
Net cash inflows from operating activities	19	**39,463**	26,464
Cash Flows from Investing Activities			
Proceeds from sale of property, plant and equipment		**-**	3
Payments for property, plant and equipment		**(16,152)**	(6,321)
Net cash outflows used in investing activities		**(16,152)**	(6,318)
Cash Flows from Financing Activities			
Proceeds from borrowings		**61,960**	38,000
Repayment of borrowings		**(73,960)**	(50,000)
Dividends paid	22	**(5,483)**	(3,895)
Net cash outflows used in financing activities		**(17,483)**	(15,895)
Net increase / (decrease) in cash held		**5,828**	4,251
Cash at the beginning of the half year		**15,068**	17,326
Cash at the end of the half year	19	**20,896**	21,577

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 01 January 2017 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 03 July 2016 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	
	2016	2015
	$'000	$'000
Note 2: Revenue From Continuing Operations		
Sales Revenue		
Sales of goods	**432,942**	424,652
Other Income		
Interest	**15**	47
	432,957	424,699

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

Interest and finance charges paid/payable	**371**	514
Depreciation and amortisation expenses included in:		
Cost of sales	**1,321**	1,326
Store expenses	**6,786**	6,874
Administrative expenses	**1,424**	1,429
	9,531	9,629
Reversal of impairment of store assets	**(276)**	-
Net loss / (gain) on disposal of property, plant and equipment	**-**	300
Store asset write off	**84**	294
Accelerated depreciation and make good costs relating to Melbourne distribution centre	**-**	1,310
Rental expenses relating to operating leases:		
Minimum lease payments	**57,137**	54,943
Reversal of provision for onerous leases	**(295)**	-
Provision for rent escalations	**(763)**	(376)
Rent paid on percentage of sales basis	**152**	258
Employee benefits expenses	**87,383**	85,009
New store opening costs (inc. refurbishments)	**871**	382

	Half Year	
	2016	2015
	$'000	$'000
Note 4: Income Tax		
(a) Income tax expense		
Current tax	**6,414**	10,865
Deferred tax	**1,238**	(3,256)
	7,652	7,609
Deferred income tax expense included in income tax expense comprises:		
(Increase) in net deferred tax assets	**1,238**	(3,256)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**25,172**	25,932
Tax at the Australian tax rate of 30% (2015 – 30%)	**7,552**	7,779
Tax effect of amounts which are deductible in calculating taxable income:		
Research and development	**100**	(170)
	7,652	7,609
Under provided in prior years	**-**	-
Income tax expense	**7,652**	7,609
(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	**20**	-
(d) Tax (expense) / income relating to items of other comprehensive income		
Cash flow hedges	**(2,657)**	606

	Note	01 January 2017 $'000	03 July 2016 $'000
Note 5: Current Assets – Cash			
Cash on hand	19	**1,675**	1,600
Cash at bank	19	**19,221**	13,468
		20,896	15,068
Note 6: Current Assets – Inventories			
Inventory at cost		**108,655**	96,636
Inventory at net realisable value		**1,503**	1,879
		110,158	98,515

Note 7: Current Assets – Other	Note	01 January 2017 $'000	03 July 2016 $'000
Prepayment		**1,997**	10,049
Other current assets		**158**	934
		2,155	10,983

Note 8: Non-Current Assets – Property, Plant And Equipment
Leasehold improvements

At cost	**71,783**	68,541
Less accumulated depreciation	**(36,404)**	(32,831)
	35,379	35,710

Plant and equipment

At cost	**148,194**	135,327
Less accumulated depreciation	**(86,993)**	(81,095)
	61,201	54,232
Total property, plant and equipment	**96,580**	89,942

Note 9: Non-Current Assets – Deferred Tax Assets

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

Employee benefits	**4,280**	7,322
Lease escalation	**2,839**	3,068
Inventories	**1,270**	1,548
Lease incentives	**732**	628
Provisions and accruals	**1,236**	1,073
Depreciation	**3,987**	2,350
Employee share trust	**466**	441
Equity raising costs	**33**	65
Hedging reserve	**-**	1,019
Sundry items	**117**	(300)
	14,960	17,214
Set-off of deferred tax liabilities of consolidated entity pursuant to set off provisions:		
Depreciation	**(1,268)**	(1,127)
Hedging reserve	**(1,638)**	-
Net deferred tax assets	**12,054**	16,087

	01 January 2017 $'000	03 July 2016 $'000
Deferred tax assets expected to be recovered within 12 months	**5,664**	10,426
Deferred tax assets expected to be recovered after more than 12 months	**6,390**	5,661
Net deferred tax assets	**12,054**	16,087

Note 10: Current Liabilities – Payables

Unsecured liabilities		
Trade payables	**29,526**	27,516
Sundry payables and accruals	**9,932**	5,602
	39,458	33,118

Note 11: Current Liabilities – Borrowings

Cash advance	**-**	12,000

Note 12: Current Liabilities – Provisions

Make good	**600**	600
Restructuring costs	**7,650**	7,650
Onerous leases	**358**	355
Employee entitlements	**13,466**	13,811
	22,074	22,416

Note 13: Current Liabilities –Other

Accrued expenses	**9,132**	6,929
Deferred income	**1,444**	851
Rent escalation	**2,970**	2,614
	13,546	10,394

Note 14: Non-Current Liabilities – Provisions

Employee entitlements	**1,017**	1,497
Onerous leases	**37**	335
	1,054	1,832

Note 15: Non-Current Liabilities – Other

Deferred income	**5,883**	2,004
Rent escalation	**6,493**	7,612
	12,376	9,616

Note 16: Equity – Contributed Equity

Movements in ordinary share capital

Date	Details	No. of shares	Issue Price per share $	Contributed Equity $'000
29 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**
4 July 2016	**Balance**	**28,849,623**		**46,247**
26 July 2016	Exercise of performance rights	9,925		-
1 January 2017	**Balance**	**28,859,548**		**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.

	01 January 2017 $'000	03 July 2016 $'000
Note 17: Equity – Reserves		
Capital profits reserve	**739**	739
Share based payments reserve	**5,067**	4,497
Hedging reserve – cash flow hedges	**3,821**	(2,379)
	9,627	2,857
Note 18: Equity – Retained Profits		
Retained profits at the beginning of the period	**86,238**	80,246
Net profit attributable to members of the consolidated entity	**17,520**	17,100
Dividends paid	**(5,483)**	(11,108)
Retained profits at reporting date	**98,275**	86,238

Note 19: Cash Flow Information

Reconciliation of Cash

	Half Year	
	2016	2015
	$'000	$'000
Reconciliation of cash flow from operations with profit from ordinary activities		
Profit from ordinary activities after income tax	**17,520**	18,323
Non-cash flows in profit from ordinary activities:		
Depreciation	**9,531**	9,629
Reversal of impairment of store assets	**(276)**	-
Reversal of provision of onerous leases	**(295)**	-
(Profit) / Loss on sale of property, plant and equipment	**-**	300
Store asset write off	**84**	294
Accelerated depreciation and make good costs relating to Melbourne distribution centre	**-**	1,310
Non-cash share based payment expense	**550**	496
Tax credited directly to equity	**20**	-
Changes in operating assets and liabilities, net of effects of purchase and disposal of subsidiaries		
Decrease/(Increase) in receivables and other assets	**8,828**	(1,822)
Decrease/(Increase) in inventories	**(11,643)**	(5,877)
Increase in trade and other creditors and other provisions	**8,944**	2,392
Increase in income tax payable	**2,167**	5,281
Decrease/(Increase) in deferred taxes	**4,033**	(3,862)
Net cash provided by operations	**39,463**	26,464

Reconciliation of Cash

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

Cash on hand	**1,675**	1,625
Cash at bank	**19,221**	19,952
	20,896	21,577

	Half Year	
	2016	2015
Note 20: Earnings per share	**Cents**	Cents
Basic earnings per share	**60.7**	63.5
Diluted earnings per share	**60.2**	63.0
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**28,858,342**	28,848,994
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**29,123,760**	29,084,856

Note 21: Net Tangible Assets	**01 January 2017 Cents**	03 July 2016 Cents
Net tangible asset backing per ordinary share	**534.4**	469.1

	Half Year	
	2016 $'000	2015 $'000
Note 22: Dividends		
Fully franked final dividend paid on 17 October 2016 (2015: 12 October 2015)	**5,483**	3,895
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	**49,469**	46,280

Note 23: Segment Information

The Reject Shop operates within the one reportable segment (retailing of discount variety merchandise). Total revenues of $432,942,129 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 $3,427,574 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 01 January 2017 was an asset of $5,458,864 (03 July 2016: liability of $3,398,326).

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 1 January 2017 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
22 February 2017

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 1 January 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for The Reject Shop Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during the 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 1 January 2017 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:

1. giving a true and fair view of the consolidated entity's financial position as at 1 January 2017 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

Sam Lobley
Partner

Melbourne
22 February 2017