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# Appendix 4D

## The Reject Shop Limited

(ABN 33 006 122 676)

### Consolidated preliminary half year report

For the 26 weeks ended 27 December 2009  
Compared to the 26 weeks ended 28 December 2008

				\$A'000
Revenues from continuing operations	up	13.0%	to	250,460
Profit from continuing operations after tax attributable to members	up	21.7%	to	18,942
Net profit for the period attributable to members	up	21.7%	to	18,942
<b>Dividends</b>		Amount per share		Franked amount per share
Interim dividend		39.0¢		100%
Record date for determining entitlements to the dividend	31 March 2010			
Dividend payment date	19 April 2010			

Commentary on the Company's trading result is included in the media release and on pages 2 to 3 of the half year report enclosed.

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### **Overview of Financial Performance**

Sales grew from \$221.6m to \$250.5m and net profit after tax grew from \$15.6m to \$18.9m, representing growth of 13.0% and 21.7% respectively, on the corresponding period last year.

Sales growth was driven by twenty three new store openings (a company record) in the half; continued growth from stores opened during the prior year and comparable store sales growth of 1.0%.

Gross margin, increased from 47.3% to 48.0% of sales compared to the corresponding period last year. The strengthened AUD enabled significant reductions in prices (against increasing prices in FY2009) recouping margin erosion from the prior year.

Operating costs as a percentage of sales, excluding depreciation and amortisation, increased from 35.3% to 35.6%, compared to the corresponding period last year, inclusive of costs to accommodate an increased number of new store openings.

Depreciation and amortisation, as a percentage of sales, increased from 1.6% to 1.7% reflecting the recent investment in SAP.

The reduction in interest expense was mainly due to lower interest rates helping to more than offset the impact of the increased level of borrowings during the year.

Tax expense was moderated by benefits associated with the legislated capital allowance of 30% for FY2010 and the introduction of an employee share trust.

The Company is increasing debt associated with the opening of the new distribution centre, however can still support a strong dividend payout ratio and continued investment in new stores.

### **Operational Performance**

Trading suffered early in the half due to a poor in stock position compounded by tough market conditions. The second quarter and Christmas sales were stronger - supported by an improved stock position and the new store opening program.

Twenty three new stores were opened during the half with one closure, finishing the half with 192 stores. Seven stores were opened in Western Australia, five in Queensland, five in Victoria, three stores in New South Wales, two in South Australia, and one store in the ACT. The new store performance was strong with the majority of new stores performing above expectations.

During the period significant progress was made on a number of strategic initiatives. The new Queensland Distribution Centre has been built with the internal fitout close to completion. The hiring of the first management staff has begun and detailed testing of the operational environment is commencing shortly. The project is tracking ahead of schedule with a progressive ramp up from May 2010 (against an initial plan of July 2010).

### **Outlook for the remainder of FY2010**

The Company is confident of achieving a full year guidance of NPAT between \$22.0m to \$22.5m, reflecting the strong first half result and a prudent second half plan.

The Company remains confident in its business model and is continuing with its long term growth plans. Four new stores are planned for opening in the second half although immediate profit contribution from these stores is not expected to cover their opening costs during this period. Further investment will be made in resources to support the growth of the business and optimise the benefits associated with the new Queensland Distribution Centre.

The early opening of the Queensland Distribution Centre will require additional costs to be recognised in the second half as well as a build up of stock to maintain service to stores during the transition period from one to two distribution centres. The opening costs and the additional finance costs associated with the stock build up have been factored into the profit outlook.

**THE REJECT SHOP LIMITED**

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The Company has a long term projected national footprint of up to 400 stores which will be supported by significant investment in all areas, with particular focus in the short term on Information Technology and Logistics.

Given the sound financial position, the Board has declared a fully franked interim dividend of 39.0 cents per share, consistent with a 75% payout ratio of anticipated full year net profit after tax.

## DIRECTORS' REPORT

Your directors present their report on the company and its controlled entity for the half year ended 27 December 2009.

### Directors

The names of the directors in office during the whole of the half year and up to the date of this report are:

BJ Beattie

*Chairman, Non-executive director, Chairman of the Remuneration Committee and Member of the Audit Committee*

CJ Bryce was appointed as Managing Director on 14 September 2009 and as a director on 15 October 2009 and continues in office at the date of this report.

KJ Elkington

*Non-executive director, Member of the Audit Committee, Member of the Remuneration Committee*

WJ Stevens

*Non-executive director, Chairman of the Audit Committee, Member of the Remuneration Committee*

GJ Masters was Managing Director from beginning of the financial year until his resignation on 11 September 2009.

### Review of operations

The profit of the consolidated entity for the half year after providing for income tax amounted to \$18,942,453.

The half year ended 27 December 2009, incorporates 26 weeks trading.

A review of the operations of the consolidated entity during the half year and the results of these operations are set out on pages 2 and 3 of the Appendix 4D and the Company's media release.

### Seasonality

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

The balance sheet as at 27 December 2009 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 2009, a final fully franked dividend of 23 cents per share totalling \$5,973,806 was paid. On 17 February 2010, the directors declared a fully franked interim dividend of 39.0 cents per share to be paid on 19 April 2010.

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 5.

### Rounding off 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:



BJ Beattie  
Chairman



CJ Bryce  
Managing Director

17 February 2010



**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Freshwater Place  
2 Southbank Boulevard  
SOUTHBANK VIC 3006  
GPO Box 1331L  
MELBOURNE VIC 3001  
DX 77 Melbourne  
Australia  
[www.pwc.com/au](http://www.pwc.com/au)  
Telephone +61 3 8603 1000  
Facsimile +61 3 8603 1999

## Auditor's Independence Declaration

As lead auditor for the review of The Reject Shop Limited for the half year ended 27 December 2009, 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 entity it controlled during the period.

A handwritten signature in cursive script that reads 'Dale McKee'.

Dale McKee  
Partner  
PricewaterhouseCoopers

Melbourne  
17 February 2010

**THE REJECT SHOP LIMITED**

**Consolidated Statement of Comprehensive Income  
For the Half Year Ended 27 December 2009**

	Note	27 December 2009 \$'000	28 December 2008 \$'000
Revenues from continuing operations			
Sales revenue	2	250,460	221,616
Other income	2	37	67
		250,497	221,683
Cost of sales		130,367	116,733
Store expenses		72,096	63,355
Administrative expenses		14,310	11,905
Warehousing expenses		6,999	6,530
		223,772	198,523
Finance costs	3	701	812
<b>Profit before income tax</b>		<b>26,024</b>	22,348
Income tax expense	4	7,082	6,787
<b>Profit for the half year</b>		<b>18,942</b>	15,561
Other comprehensive income			
Changes in the fair value of cash flow hedges		3,205	(237)
Income tax relating to components of other comprehensive income		(962)	71
Other comprehensive income for the half-year, net of tax		2,243	(166)
<b>Total Comprehensive Income Attributable To Members Of The Reject Shop Limited</b>		<b>21,185</b>	15,395
<b>Earnings per Share</b>		<b>Cents</b>	<b>Cents</b>
Basic Earnings Per Share	22	73.1	60.3
Diluted Earnings Per Share	22	72.3	59.5

The above income statements should be read in conjunction with the accompanying notes.

**Consolidated Statement of Financial Position  
As at 27 December 2009**

	Note	27 December 2009 \$'000	28 June 2009 \$'000
<b>Current Assets</b>			
Cash assets	5	10,226	865
Receivables	6	4	135
Inventories	7	46,636	39,705
Other	8	1,220	277
<b>Total Current Assets</b>		<u>58,086</u>	<u>40,982</u>
<b>Non-Current Assets</b>			
Property, plant and equipment	9	65,325	49,786
Deferred tax assets	10	6,625	6,268
<b>Total Non-Current Assets</b>		<u>71,950</u>	<u>56,054</u>
<b>Total Assets</b>		<u>130,036</u>	<u>97,036</u>
<b>Current Liabilities</b>			
Payables	11	35,950	18,460
Borrowings	12	9,543	11,379
Tax liabilities	13	5,144	1,796
Provisions	14	7,194	7,041
Derivative financial instruments		28	3,233
Other	15	7,015	5,289
<b>Total Current Liabilities</b>		<u>64,874</u>	<u>47,198</u>
<b>Non-Current Liabilities</b>			
Borrowings	16	1,513	2,996
Provisions	17	7,286	6,414
<b>Total Non-Current Liabilities</b>		<u>8,799</u>	<u>9,410</u>
<b>Total Liabilities</b>		<u>73,673</u>	<u>56,608</u>
<b>Net Assets</b>		<u>56,363</u>	<u>40,428</u>
<b>Equity</b>			
Contributed equity	18	3,366	3,366
Reserves	19	3,589	622
Retained profits	20	49,408	36,440
<b>Total Equity</b>		<u>56,363</u>	<u>40,428</u>

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

**THE REJECT SHOP LIMITED**

**Consolidated Statement of Changes in Equity  
For the Half Year Ended 27 December 2009**

2009	Contributed Equity \$'000	Capital Profits \$'000	Share Based Payments \$'000	Hedging Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance as at 28 June 2009</b>	3,366	739	2,146	(2,263)	36,440	40,428
<b>Total comprehensive income</b>	-	-	-	2,243	18,942	21,185
<b>Transaction with owners in their capacity as owners:</b>						
Dividends Paid	-	-	-	-	(5,974)	(5,974)
Share based remuneration	-	-	260	-	-	260
Reversal of previously non tax effected items	-	-	464	-	-	464
<b>Balances as at 27 December 2009</b>	<b>3,366</b>	<b>739</b>	<b>2,870</b>	<b>(20)</b>	<b>49,408</b>	<b>56,363</b>
2008	Contributed Equity \$'000	Capital Profits \$'000	Share Based Payments \$'000	Hedging Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance as at 29 June 2008</b>	4,241	739	798	(249)	30,611	36,140
<b>Total comprehensive income</b>	-	-	-	(166)	15,561	15,395
<b>Transaction with owners in their capacity as owners:</b>						
Dividends Paid	-	-	-	-	(4,905)	(4,905)
Share based remuneration	158	-	117	-	-	275
Deferred tax credited directly to equity	4	-	-	-	-	4
<b>Balances as at 28 December 2008</b>	<b>4,403</b>	<b>739</b>	<b>915</b>	<b>(415)</b>	<b>41,267</b>	<b>46,909</b>

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

**THE REJECT SHOP LIMITED**

**Consolidated Cash Flow Statement  
For the Half Year Ended 27 December 2009**

	Note	27 December 2009 \$'000	28 December 2008 \$'000
<b>Cash Flows from Operating Activities</b>			
Receipts from customers (inclusive of goods and services tax)		275,128	243,339
Payments to suppliers and employees (inclusive of goods and services tax)		(231,289)	(217,831)
Interest received		35	67
Borrowing costs paid		(737)	(619)
Income tax paid		(4,590)	(4,831)
<b>Net cash inflows from operating activities</b>	21	<u>38,547</u>	<u>20,125</u>
<b>Cash Flows from Investing Activities</b>			
Proceeds from sale of property, plant and equipment		138	138
Payments for property, plant and equipment		(20,031)	(11,316)
<b>Net cash used in investing activities</b>		<u>(19,893)</u>	<u>(11,178)</u>
<b>Cash Flows from Financing Activities</b>			
Payments under finance lease		(2,116)	(1,580)
Repayment net of borrowings		(500)	-
Dividends paid		(5,974)	(4,905)
<b>Net cash used in financing activities</b>		<u>(8,590)</u>	<u>(6,485)</u>
<b>Net increase/(decrease) in cash held</b>			
Cash at the beginning of the period		10,064	2,462
Cash at the end of the period	21	<u>10,029</u>	<u>5,363</u>
		<u>7,825</u>	

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

**Note 1: Basis of preparation of half-year report**

This general purpose financial report for the interim half year reporting period ended 27 December 2009 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 2009 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.

**THE REJECT SHOP LIMITED**

	<b>27 December 2009 \$'000</b>	28 December 2008 \$'000
<b>Note 2: Revenue From Continuing Operations</b>		
<b>Sales Revenue</b>		
Sales of goods	<u>250,460</u>	<u>221,616</u>
<b>Revenue from non-operating activities</b>		
Interest and other income	<u>37</u>	<u>67</u>
	<u>37</u>	<u>67</u>
	<u>250,497</u>	<u>221,683</u>

**Note 3: Expenses**

**Profit before income tax expense includes the following expenses:**

Interest and finance charges paid/payable	701	812
Depreciation and amortisation	4,222	3,551
Net (profit)/loss on disposal of property, plant and equipment	132	(6)
Rental expenses relating to operating leases:		
Minimum lease payments	27,483	24,209
Provision for rent escalations	641	624
Rent paid on percentage of sales basis	210	120
Employee benefits expenses	48,083	42,172

**Note 4: Income Tax**

**(a) Income tax expense**

Current tax	8,155	7,727
Deferred tax	<u>(1,073)</u>	<u>(940)</u>
	<u>7,082</u>	<u>6,787</u>

Deferred income tax expense included in income tax expense comprises:

Increase in net deferred tax assets	(1,073)	(940)
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**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

Profit before income tax expense	26,024	22,348
Tax at the Australian tax rate of 30% (2009 – 30%)	7,807	6,704
Tax effect of amounts which are deductible in calculating taxable income:		
Share based payments	-	83
Reversal of previously non tax effected items	(335)	-
Capital tax allowance	<u>(303)</u>	<u>-</u>
	<u>7,169</u>	<u>6,787</u>
Under / (Over) provided in prior years	<u>(87)</u>	<u>-</u>
Income tax expense	<u>7,082</u>	<u>6,787</u>

**THE REJECT SHOP LIMITED**

	<b>27 December 2009 \$'000</b>	28 December 2008 \$'000
<b>(c) Amounts recognised directly in equity</b>		
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	(498)	75
	<b>27 December 2009 \$'000</b>	28 June 2009 \$'000
<b>Note 5: Current Assets – Cash Assets</b>		
Cash on hand	783	555
Cash at bank	<u>9,443</u>	<u>310</u>
	<u><b>10,226</b></u>	<u><b>865</b></u>
<b>Note 6: Current Assets – Receivables</b>		
Other debtors	<u>4</u>	<u>135</u>
<b>Note 7: Current Assets – Inventories</b>		
Inventory at cost	46,341	39,479
Inventory at net realisable value	<u>295</u>	<u>226</u>
	<u><b>46,636</b></u>	<u><b>39,705</b></u>
<b>Note 8: Current Assets – Other</b>		
Prepayments	1,169	194
Other current assets	<u>51</u>	<u>83</u>
	<u><b>1,220</b></u>	<u><b>277</b></u>
<b>Note 9: Non-Current Assets – Property, Plant And Equipment</b>		
<b>Leasehold improvements</b>		
At cost	22,871	18,321
Less accumulated depreciation	<u>(8,063)</u>	<u>(7,532)</u>
	<u><b>14,808</b></u>	<u><b>10,789</b></u>
Under finance lease and hire purchase	4,541	5,863
Less accumulated amortisation	<u>(1,554)</u>	<u>(1,448)</u>
	<u><b>2,987</b></u>	<u><b>4,415</b></u>
<b>Plant and equipment*</b>		
At cost	68,446	50,858
Less accumulated depreciation	<u>(26,372)</u>	<u>(23,938)</u>
	<u><b>42,074</b></u>	<u><b>26,920</b></u>
Under finance lease and hire purchase	14,173	16,366
Less accumulated amortisation	<u>(8,717)</u>	<u>(8,704)</u>
	<u><b>5,456</b></u>	<u><b>7,662</b></u>
Total property, plant and equipment	<u><b>65,325</b></u>	<u><b>49,786</b></u>

\*Plant and equipment includes fixtures, fittings and motor vehicles, as well as \$11,070,118 (FY2009: \$1,989,131) of work in progress costs (incl. \$229,429 in capitalised borrowing costs) associated with the new DC in Queensland.

	27 December 2009 \$'000	28 June 2009 \$'000
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**Note 10: Non Current Assets – Deferred Tax Assets**

The balance comprises temporary differences attributable to:

Employee benefits	2,527	2,074
Non deductible accruals	2,087	1,777
Inventories	762	825
Lease incentives	500	457
Hedging reserve	8	970
Employee share trust	246	-
Sundry items	576	220
	<b>6,706</b>	<b>6,323</b>

Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:

Finance leases	(10)	(15)
Sundry items	(71)	(40)
Net deferred tax assets	<b>6,625</b>	<b>6,268</b>

**Note 11: Current Liabilities – Payables**

Unsecured liabilities		
Trade creditors	29,073	16,225
Sundry creditors and accruals	6,877	2,235
	<b>35,950</b>	<b>18,460</b>

**Note 12: Current Liabilities – Borrowings**

Secured Liabilities		
Bank overdraft	197	900
Commercial bills	6,000	6,500
Finance lease liability	20	55
Hire purchase liability	3,326	3,924
	<b>9,543</b>	<b>11,379</b>

**Note 13: Current Liabilities – Tax Liabilities**

Income tax	5,144	1,796
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**Note 14: Current Liabilities – Provisions**

Employee entitlements	7,194	7,041
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**Note 15: Current Liabilities – Other**

Accrued expenses	5,349	3,667
Deferred income	1,666	1,622
	<b>7,015</b>	<b>5,289</b>

**THE REJECT SHOP LIMITED**

<b>27 December</b>	28 June
<b>2009</b>	2009
<b>\$'000</b>	\$'000

**Note 16: Non-Current Liabilities – Borrowings**

Secured liabilities		
Hire purchase liability	<b>1,513</b>	2,996

**Note 17: Non-Current Liabilities – Provisions**

Employee entitlements	<b>1,606</b>	1,375
Provision for rent escalation	<b>5,680</b>	5,039
	<b>7,286</b>	6,414

**Note 18: Equity – Contributed Equity**

Movements in ordinary share capital

Date	Details	No. of shares	Issue Price per share \$	Contributed Equity \$'000
29 June 2008	Opening Balance	25,708,295		4,241
1 July 2008	Exercise of performance rights	109,375	-	-
	Transfer to share based payment reserve	-	-	(879)
	Deferred tax credits	-	-	4
28 June 2009	Closing balance	25,817,670		3,366
18 August 2009	Exercise of performance rights	141,000	-	-
15 September 2009	Exercise of performance rights	14,400	-	-
27 December 2009	Closing balance	25,973,070		3,366

**THE REJECT SHOP LIMITED**

	<b>27 December</b>	28 June
	<b>2009</b>	2009
	<b>\$'000</b>	\$'000

**Note 19: Equity - Reserves**

Capital profits reserve	739	739
Share based payments reserve	2,870	2,146
Hedging reserve – cash flow hedges	(20)	(2,263)
	<b>3,589</b>	<b>622</b>

**Note 20: Equity – Retained Profits**

Retained profits at the beginning of the financial period	36,440	30,611
Net profit attributable to members of the consolidated entity	18,942	18,995
Dividends provided for or paid	(5,974)	(13,166)
Retained profits at reporting date	<b>49,408</b>	<b>36,440</b>

	<b>27 December</b>	28 December
	<b>2009</b>	2008
	<b>\$'000</b>	\$'000

**Note 21: Cash Flow Information**

**Reconciliation of Cash**

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

Cash on hand	783	547
Cash at bank	9,443	7,604
Bank overdrafts	(197)	(326)
	<b>10,029</b>	<b>7,825</b>

**Reconciliation of cash flow from operations with profit from ordinary activities**

Profit from ordinary activities after income tax	18,942	15,561
Non-cash flows in profit from ordinary activities		
Amortisation of leased assets	-	16
Depreciation	4,222	3,535
(Profit)/Loss on sale of property, plant and equipment	132	(6)
Non-cash share based expense	260	275
Changes in operating assets and liabilities, net of effects of purchase and disposal of subsidiaries		
Increase in receivables and other assets	(812)	(23)
Increase in inventories	(6,931)	(9,030)
Increase in trade and other creditors and other provisions	20,241	7,842
Increase in income tax payable	3,348	2,966
Increase in deferred taxes	(855)	(1,011)
Net cash provided by operations	<b>38,547</b>	<b>20,125</b>

**THE REJECT SHOP LIMITED**

	<b>27 December 2009 \$'000</b>	28 December 2008 \$'000
<b>Note 22: Earnings per share</b>		
Basic earnings per share	73.1	60.3
Diluted earnings per share	72.3	59.5
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>25,927,308</u>	<u>25,816,468</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>26,195,507</u>	<u>26,151,956</u>

	<b>27 December 2009 Cents</b>	28 June 2009 Cents
<b>Note 23: Net Tangible Assets Per Share</b>		
Net tangible asset backing per ordinary share	217.0	152.8
Total shares outstanding as at end of period	<u>25,973,070</u>	<u>25,817,670</u>

	<b>27 December 2009 \$'000</b>	28 December 2008 \$'000
<b>Note 24: Dividends</b>		
Final fully franked dividend paid on 12 October 2009	5,974	4,905
Balance of franking account at half year adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years	28,551	25,175

**Note 25: Contingent Liabilities**

Estimates of the maximum amounts of contingent liabilities that may become payable:

Letters of credit established for acquisition of goods for resale	195	-
ANZ Bank indemnity guarantee to landlords	1,277	1,489
	<u>1,472</u>	<u>1,489</u>

**Note 26: Segment**

The Reject Shop operates within the one geographic segment (Australia) and the one business segment (retailing of discount variety merchandise).

**Note 27: Dividend Reinvestment Plan**

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

**Note 28: Matters Subsequent to the End of the Half Year**

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

**DIRECTORS' DECLARATION**

In the directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 16 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 2009 and of its performance, as represented by the results of its operations and its 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.



BJ Beattie  
Chairman



CJ Bryce  
Managing Director

Melbourne  
17 February 2010

**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 statements of The Reject Shop Limited, which comprise the consolidated statement of financial position as at 27 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration for The Reject Shop Limited (the consolidated entity). The consolidated entity comprises both The Reject Shop Limited and the entities it controlled during that half-year.

*Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 27 December 2009 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. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. 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.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

*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 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Dale McKee*

Dale McKee  
Partner

Melbourne  
17 February 2010