

EVERYONE'S A WINNER AT THE REJECT SHOP

ASX/Media Release

THE REJECT SHOP LIMITED - FULL YEAR RESULTS (FY2006) (ASX:TRS)

16 August 2006

THE REJECT SHOP PROFIT INCREASES BY 38.7% including maiden second half profit

Highlights:

- Strong sales growth to \$237.2 million up 16.8%
- Comparable store sales growth of 7.7%, second half 9.8%
- NPAT of \$9.1 million up 38.7%; maiden second half profit
- Final dividend of 10 cents per share, fully franked
- Special dividend of 7.5 cents per share, fully franked

Summary:

| | FY2006 | FY2005 |
|---------------|-------------------|-------------------|
| | \$ million | \$ million |
| Sales | 237.2 | 203.1 |
| EBITDA | 17.6 | 13.5 |
| EBIT | 13.6 | 10.1 |
| NPAT | 9.1 | 6.5 |

The Chairman of The Reject Shop Limited, Mr Brian Beattie, today announced a strong trading and profit performance for the year to 25 June 2006, which included the Company's maiden second half profit.

Sales grew from \$203.1 million to \$237.2 million, an increase of 16.8%; net profit after tax was \$9.1 million up from \$6.5 million, an increase of 38.7%.

Mr. Beattie stated that the Directors have declared a fully franked final dividend of 10 cents per share reflecting the Board's commitment to increase the annual payout ratio from 60% to 65% to compensate for the adverse non cash impact of the introduction of AIFRS. This brings the full year dividend distribution to 23 cents per share compared to 17 cents per share last year. The record date for the payment of the final dividend is 1 September 2006.

In addition to the final dividend, Mr Beattie was pleased to announce the payment of a special dividend of 7.5 cents per share, fully franked with a record date of 1 September 2006. He said the decision to pay a special dividend was made after reviewing The Reject Shop's ongoing capital requirements and reflected the Company's strong balance sheet and cash flows. Special dividends are considered one of a number of capital management initiatives which may be considered by the Board in future years.

The Reject Shop Managing Director, Mr Barry Saunders said, "This was another pleasing result reflecting the benefits from our commitment to continuously improve our operations. The strong sales in basic and traffic building ranges coupled with improved performances in the main seasonal events—Christmas, Easter and Mothers Day—validated the Board's decision to invest in an expanded merchandise team last year. The evolution of the merchandise team provides confidence that more improvement is still to come.

"We are committed to investing for future growth as evidenced by the imminent opening of our new distribution centre, which will enable greater efficiency in logistics in years to come. While our short term priority is to ensure the new facility is operating effectively, we have already turned our attention to the next opportunities to assist our future growth. Over the next 12 months we expect to strengthen our internal IT resources and deliver enhancements to the core systems which will facilitate improvements in the use of information.

"Ongoing expansion has continued with 14 new stores opened during the year including further growth in Queensland and the opening of the first Western Australian store. The performance of these stores exceeded expectations and provides the basis for accelerated new store growth on a broad front. The Company expects to open 15 new stores during the year which includes the recent opening of a second store in Western Australia," he said.

Improvements in stock replenishment and customer communications also added to the in store experience for customers.

The result was underpinned by strong annual comparable store sales growth of 7.7%, including second half comparable stores growth of 9.8% reflecting the continued strengthening of the Company's everyday business.

Gross margin remained steady during the year, demonstrating a controlled improvement in the competitive profile, contributing to strong sales during the year. Operating costs decreased as a percentage of sales, despite the investment in the new distribution centre and the costs associated with the closure of the remaining E\$2 stores, ahead of schedule.

Looking forward, Mr. Beattie said that trading to date for FY2007 was in line with expectations and the Directors were confident that current strategic initiatives were positioning the business for future profitable growth.

The Company has forecast net profit after tax for the financial year 2007 of between \$10.7 million and \$10.9 million.

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

The Reject Shop

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