

EVERYONE'S A WINNER AT
THE REJECT SHOP



The Reject Shop

Annual General Meeting

27 October 2004

**The Reject Shop Limited - Annual General Meeting
Agenda**



- **Welcome and Introduction**
- **Chairman's Address**
- **Managing Director's Address**
- **General Business**
 - Questions and Answers
 - Consider and Receive Annual Report FY2004
 - Resolutions
 - Re-election of John Shuster
 - Re-election of Brian Beattie
- **Conclusion of Annual General meeting**
- **Afternoon Tea**

Good afternoon Ladies and Gentlemen.

I am Brian Beattie and as Chairman of The Reject Shop, I would like to welcome you to the Annual General Meeting.

Before we commence I will quickly walk you through today's agenda:

- I will firstly introduce to you the gentlemen sitting to my left, including your directors, and the company secretary.
- I will then present the Chairman's Report
- I will then invite Barry Saunders, Managing Director to present his report
- I will then open the meeting for questions and discussion from registered shareholders or their registered representatives.
- I will then formally submit the annual report for approval.
- Once approved, I will then hand over the meeting to Mr Craig McMorron, Chairman of the Audit Committee, to move to the formal resolutions on the agenda.
- At the conclusion of the meeting, I invite everyone to stay for light refreshments with your Directors and Management.

QUORUM: The Company Secretary has advised me we have a quorum present, that the meeting has been properly constituted and it being 3:30pm I declare the meeting open.

NOTICE OF MEETING

Now to the formalities of the Meeting. I now propose that Notice of Meeting be taken as received and read and I ask that a Shareholder second the motion.

SECONDED: *The motion was seconded from the floor.*

CHAIRMAN: All in favour

Against

I declare the motion carried.

**The Reject Shop Limited - Annual General Meeting
Welcome and Introduction**



→ **Directors**

- Brian Beattie, Chairman
- Barry Saunders, Managing Director
- Craig McMorrison, Non-executive Director
- John Shuster, Non-executive Director

→ **Company Secretary and Chief Financial Officer**

- Chris Bryce

→ **External Auditor**

- Len Hogan (Partner, PricewaterhouseCoopers)

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INTRODUCTION:

Now, before going further, let me introduce your Directors

Barry Saunders, Managing Director.

Craig McMorrison, Non Executive Director and Chairman of the Audit Committee

John Shuster, Non Executive Director.

Also present are:

Chris Bryce, Company Secretary and Chief Financial Officer and in attendance is,

Mr Len Hogan, Partner of PricewaterhouseCoopers, the Company's Auditor

Board and Management

As you are aware the Board was restructured during the year and as a result some long serving directors retired, namely John Fox, Sandy Lockhart, and Rob Backwell. I sincerely thank them for their support and contribution to the Company.

The new Board has been in place since April and I believe it has the right mix of retail and senior management experience, balanced with continuity of service, to oversee the Company's future.

Our management team, led by Barry Saunders:

- has a diverse retail experience, and
- a strong and proven track record.

I believe the Company is well managed and the foundations have been laid for future sustainable growth.

Overview of FY2004

→ Significant Milestones

- Opened 100th Store in November 2003
- Opened first store in Queensland
- Public Listing on 1 June 2004

→ Financial Highlights

- Sales of \$180.6m up 10.4% on FY 2003
- Record NPAT of \$5.6m up 20.9% on FY 2003, and 10.8% on our forecast



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I would now like to share a high level overview of the past year and a brief look at the current strategic initiatives of the Company. I will then hand you to our Managing Director, Mr Barry Saunders for a more detailed review of the past year and the outlook for this year and beyond.

This was a watershed year for the Company:

- We opened our 100th store in November 2003
- We opened our first store in Queensland; and
- We successfully listed on the Australian Stock Exchange in June 2004

In addition to these milestones our financial performance was pleasing:

- Sales increased 10.4% to \$180.6 million, comfortably exceeding the prospectus forecast.
- Net profit after tax increased 20.9% to \$5.6million, also comfortably exceeding the prospectus forecast.
- A fully franked dividend of 2.5 cents per share was paid in September, an increase from the forecast of 2.1 cents per share in the Prospectus.

This result validates our business model and is a credit to our management team and staff.

Whilst it was a significant year for us, we understand that we have to continue to deliver sustainable growth to our shareholders and we are committed to doing so.

The year to June 2004 demonstrates that the foundation of the business is solid, and our strong focus on the customer is being reflected in growing sales and profit. In the first quarter of FY 2005, sales have exceeded our budgets and we are confident of a strong first half result that will position us well to deliver on our full year profit outlook. However much remains to be done if we are to realise the full potential of the business going forward



→ **Strategic Outlook**

- 5 Year Strategic Plan

→ **Significant Initiatives**

- Continued store rollout program, with new emphasis on Queensland
- Increasing focus to better serve our customer
- Strengthening of Merchandise Department
- Constant Focus on IT solutions
- Development of Investor Relations

Strategic Outlook

The Board's role is to assist in the establishment of the Company's overall strategy and monitor management's implementation of the strategy.

As a new Board, together with management, we have taken the opportunity, to revisit our overall strategy and are close to completing our 5 year strategic plan.

While work is still ongoing I can confirm The Reject Shop will continue:

- to build on its strengths, growing in a controlled and well managed way
- to incorporate best practice from other markets and retailers

Significant Initiatives

Some significant points I can share are:

- We will continue our store rollout plan of 8-10 stores per annum
- We are increasing the focus on things we can do in stores to better serve the customer
- We have commenced adding strength and depth to our merchandise and buying team;
- We will maintain our focus on developing our information systems to support our business
- With our new public company status, we are quickly developing an internal competence to deliver a superior Investor Relations service

I am pleased with the progress management is making with all current initiatives and would like to take the opportunity to thank Barry, his management team and all our employees for their significant contributions to the Company's' success.

I now invite Barry Saunders, our Managing Director to address the meeting, and provide some more details on the result and our outlook.



**Barry Saunders
Managing Director**

Thank you Brian, and good afternoon ladies and gentlemen.

I intend to briefly overview the past year focusing on:

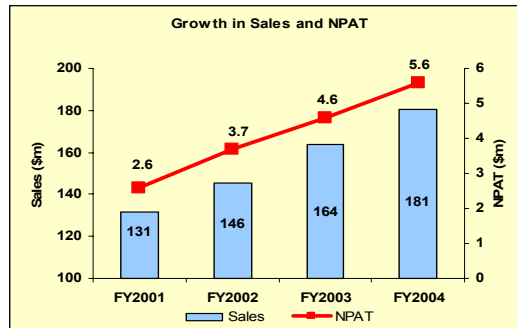
- . The financial highlights; and
- . The operational initiatives actioned during the year.

I will then add some detail to our current strategic initiatives and finally provide guidance on the outlook for the current year.



Financial Highlights FY2004

- Sales of \$180.6m up 10.4% on FY2003
- Gross margin up 0.1% on FY2003 and 0.6% on forecast
- Operating costs as a % of sales reduced by 0.2% on FY2003
- Record NPAT of \$5.6m, up 20.9% on FY2003 and 10.8% on forecast
- First positive EBITDA in second half
- Free cash flow of \$10.6m, supports store expansion and dividend policy
- Balance Sheet is strong



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To recap the headline numbers

- We exceeded our financial forecast with sales up 10.4% and net profit after tax up 20.9% to \$5.6million, and so continued our sales and profit trend of the past few years.

Sales growth was underpinned by:

- comparable store sales growth of 6.1%,
- eight new store openings, and
- continued growth from stores opened during the prior year.

Our strong sales performance was a result of a combination of:

- Improved item selection and quantification by our merchandise team, (supported by improved availability of information); and
- a high level of store presentation maintained by our store people.

In addition,

- Several key stores benefited from additional space and improved space utilization; and
- Sales growth was assisted by a surge in retail spending in the last quarter of the year.

With our margins stronger than anticipated and operating costs stable, we achieved a very pleasing profit result, a record profit.

As we are a seasonal business, it was especially pleasing to see the progress we have made in building our year round business. We recorded our first ever positive second half EBITDA.

Our strong trading led to improved cash flows which fully support:

- our current store rollout program; and
- our current dividend policy.

We have a robust balance sheet, net debt is decreasing and the inventory is clean.



Operational Achievements

→ Merchandise

- Product performance
 - Strong performance in high margin categories
 - Continued strengthening of traffic building ranges
- Commenced strengthening of Merchandise Capability
- Improved decision making supported by IT improvements

Overview of Operational Performance

Our focus is on continuous improvement in all critical activities, and we made widespread progress during the year.

Merchandise

- In merchandise we experienced excellent results on several high growth product categories as well as our everyday range;
- We made good early progress on our longer term plan to strengthen and grow our experienced and successful merchandise team;
- Increasingly we were able to improve the level of decision making supported by improved data.



Operational Achievements

→ Store Operations

- 8 new stores opened
- First Queensland store trading strongly
- Store productivity Improvements
 - Further rollout of Drive Aisle
 - Upsizing selected stores
 - Fine tuned space allocation by category

Store Operations

- We opened eight new stores and finished the year with a total of 103 stores;
- The early sales of our Pacific Fair store, our first in Queensland, were particularly pleasing.

We are committed to actively managing our store portfolio and we improved the productivity of existing stores by:

- extending the penetration of our drive aisle configuration,
- upsizing selected stores in major shopping locations; and
- continuing the fine tune of our space allocation by product category.

Logistics

We also made some good progress in logistics, especially phasing stock into stores at the right time.



Operational Achievements

→ IT Developments

- Implementation of Data Warehouse
- Development of Store Portal
- Upgraded Distribution Centre Replenishment Ordering

In IT, we continued our focus on utilising IT to provide support to the business decision making and operations:

- We implemented a Data Warehouse which will provide a wider range of information on a more accessible and timely basis
- Major progress was achieved on our store portal technology which in the near term will start to make a major contribution to improved intra company communications
- We implemented computer assisted Distribution Centre replenishment during the year which is operating effectively

People

Our people continue to be our major strength with an experienced senior team, consistent development across middle management, and highly motivated employees, especially those serving the day-to-day needs of the customer.



Strategic Initiatives

→ Merchandise

- Strengthening of buying team including:
 - additional level of management
 - increasing number of buyers
 - additional planning and administrative support
- Further utilization of IT decision support information

We are engaged now in a strong program of strategic initiatives to continue and accelerate our development. We are further developing our merchandise capability to be the engine room of medium term growth. The merchandise team is in the process of being strengthened with,

- New layer of management
- Introduction of New Buyers
- Increased administrative support

With the implementation of the Data Warehouse we will make better use of the information available us in item selection, quantification and allocation.

Accommodation

The expansion of this team makes this an appropriate time to address Store Support Centre or central office accommodation needs. This has been done on very favorable terms and will be effective mid-November.



→ **Store Operations Initiatives**

- Maintain new store program of 8-10 new store openings per year
- Increase proportion of larger TRS stores
- Replace some E\$2 stores with TRS stores
- Disciplined execution of Store Presentation

We will continue our program of store openings:

- 8 of the planned nine new stores have been finalised
- 6 have opened to date
- We will increase our presence in Queensland

We have identified over 100 trade areas we would like to operate in across all states and are actively pursuing opportunities in these areas.

We will also continue the task of identifying areas where a more appropriately sized store with the correct product mix would better serve our needs. This may mean:

- we will close some existing E\$2 stores in preference for TRS stores; and/or
- take additional space, where available, on existing TRS stores

We continue to look for further improvements in store selection as well as even better execution in store.



→ I.T. Developments

- Continue integration of Data Warehouse
- Development of Store Portal
- Low cost enhancements to Logistics
- Upgrade of existing Disaster Recovery Plan
- Improved support for store order replenishment

We will continue to place a high priority on continuous improvement in our IT capability.

This is important for better decision making and quicker execution of our operating program.

Empowerment of our people with improved technology will occur on a number of fronts:

- with areas of special emphasis including,
- intra company communications
- centralised allocation of central purchases
- buying planning
- store replenishment ordering and,
- enhanced financial reporting and analysis



→ **US Study Tour**

- Confirmation we are on track
- New Product Ideas

→ **Other**

- Logistics Review
- Company Secretary Appointment

US Tour

I recently led a senior management group to the US, something we have done consistently over the years, and which we think is an essential part on keeping the business focused on continuous improvement. The purpose of this and other visits is to:

- Observe general retail trends;
- Study US developments in our market segment; and
- Identify product opportunities and best practice presentation techniques for use by us

I am pleased to say it reinforced our belief in our business model, but of course there is plenty of scope for us to do better.

Logistics Strategic Review

We are responding to the Board's request for a detailed five year plan, and as expected this is highlighting many new opportunities, especially in logistics. This is still very much "work in progress" but the possibilities are exciting.

Investor Relations

To ensure we provide a superior investor relations function, we will shortly announce an internal appointment to the role of Company Secretary, reporting to our CFO, who currently holds the Company Secretary title. With this appointment we aim to:

- Provide superior service to our shareholders and the investment community
- Discharge the added requirements our ASX listing requires



Financial Targets FY2005

- FY2005 net profit outlook upgraded from \$5.7m to a range between \$6.0m - \$6.2m
- The growth assumptions in the prospectus remain relatively constant:
 - Comparable stores growth of 4% (off higher FY2004 base)
 - New store openings of 9
 - Operating costs as % to sales to remain stable
 - Free cash flow of \$4.3m as per prospectus forecast
- Dividend payout ratio targeted at 60% of NPAT
- Stock turns above prospectus forecast
- Fixed charges cover in line with prospectus forecast

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We have already announced an upgrade of our prospectus profit forecast for FY2005.

We have traded well in the first four months of this year, with sales and profit ahead of budget and the outlook for the remainder of the first half is positive.

Based on trading performance to date we are confident of delivering our latest net profit after tax forecast of between \$6.0 and \$6.2 million, notwithstanding all the activity we are undertaking to ensure future growth.

Our financial position is stable and we are well placed for further growth.

Acknowledgements

I would like to take the opportunity to thank our people for their contribution to a successful year. It was a year of major transition and challenge for The Reject Shop, however our employees managed to retain a determined focus on the day to day details of the business and our key principle of serving the customer better. The success of the trading year is a tribute to their skill, focus and dedication.

I will now hand you back to Brian.