

THE REJECT SHOP LIMITED

1 Role of Board

The role of the Board is to provide strategic guidance for The Reject Shop Limited ("Company") and effective oversight of management.

The Board delegates responsibility for day-to-day management of the company to the Managing Director ("MD").

2 Responsibilities of Board

The Board is responsible to the Company for the overall monitoring of senior management's performance and implementation of strategy and ensuring appropriate resources are available. It will promote best practice corporate governance. In particular, the Board has the following responsibilities.

2.1 Strategic direction

The Board will contribute to and endorse management's development of the corporate strategy and performance objectives for the Company. It will also monitor the implementation of those strategies.

2.2 Risk management

The Board will oversee the Company's control and accountability systems, establish policies on risk oversight and management and review the systems of risk management at least annually.

The risk management policies should clearly describe the roles and respective accountabilities of the Board, committees of the Board, management and any internal audit function. The policies should make reference to the oversight function, risk profile, risk management, compliance and control, and assessment of effectiveness.

2.3 Compliance

The Board will:

- (a) establish, review and ratify the systems of internal compliance and control, codes of conduct and systems of legal compliance that govern the operations of the company, and ensure they are operating effectively;
- (b) establish written policies and procedures to ensure compliance with the ASX Listing Rules disclosure requirements and ensure accountability at a senior management level for that compliance; and
- (c) establish a vetting and authorisation process to ensure company announcements are timely, factual, do not omit material information and are expressed clearly and objectively.

2.4 Financial management and reporting

The Board will:

- (a) approve and monitor the progress of major capital expenditure, capital management and acquisitions and divestitures;
- (b) review and approve annual and half yearly financial statements and monitor financial results on an ongoing basis;
- (c) determine the dividend policy of the company and declare dividends; and
- (d) invite the external auditor to attend annual general meetings to answer shareholder questions.

2.5 Safeguard integrity in financial reporting

The Board will establish an Audit Committee to review and consider the accounts of the Company and ensure the Company adopts a process to ensure the independence and competence of the Company's external auditors.

2.6 Appointment of officers and executives

The Board is responsible for the appointment, performance review and removal of the MD, chief financial officer ("CFO") and the Company Secretary.

The Board will approve succession plans for the MD and CFO and Board succession plans.

2.7 Review of Board function

The Board will establish an effective induction process for new directors and key executives and conduct an annual performance evaluation of the Board that:

- (a) compares the performance of the Board with the requirements of this Charter and Corporate Governance manuals;
- (b) sets goals and objectives of the Board for the next year; and
- (c) suggests any improvements to this Charter and Corporate Governance manuals considered necessary or desirable.

The performance evaluation will be conducted as the Board considers appropriate. Disclosure of the process for performance evaluation of the Board, its committees, individual directors and key executives take into account the ASX Corporate Governance Council *Principles of Good Corporate Governance and Best Practice Recommendations* (March 2003) ("ASX CGC Guidelines").

3 Board Composition

3.1 General structure

The Board will be of an effective composition and size to enable it to discharge its responsibilities and duties adequately, in particular making decisions expediently and in the best interests of the Company as a whole rather than of individual shareholders or interest groups. This requires that the Board comprise individuals having a variety of perspectives and skills.

The Board will be structured in such a way that it has a proper understanding of, and competence to deal with, current and emerging business issues of the Company, can effectively review and challenge management's performance and exercise independent judgment. To facilitate this, the Board will formulate a procedure for directors to take independent professional advice if necessary, at the Company's expense.

3.2 Appointment

Members of the Board will be appointed using a formal and transparent procedure, taking into account the ASX CGC Guidelines.

3.3 Skills required on the Board

Before a candidate is recommended for appointment, an evaluation of the range of skills, experience and expertise on the Board will be carried out. Candidates with the skills, experience and expertise that best compliment the Board's effectiveness will be recommended. Succession plans will be implemented to maintain an appropriate balance of skills, experience and expertise on the Board.

3.4 Independence of the Board

The majority of the Board will be directors who are independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment or be perceived to do so.

The Board will regularly assess the independence of each director in light of interests disclosed by them. In so doing, the Board will consider Principle 2.1 of the ASX CGC Guidelines.

4 Committees

The Board may from time to time establish committees to assist it in carrying out its responsibilities, and will adopt charters setting out matters relevant to the composition, responsibilities and administration of these committees, and other matters that the Board may consider appropriate.

5 Meetings

5.1 Timing of meetings

The Board will meet at least annually, with additional Board meetings called, as the Board considers appropriate. All Board meetings will be conducted in accordance with the Company's constitution and the Corporations Act.

5.2 Attendees at meetings

As necessary or desirable, the Board may request or invite members of management or outside consultants to be present at Board meetings.

5.3 Record of proceedings

The Company Secretary will maintain a formal record of Board proceedings and resolutions passed without a meeting. Following the approval of the minutes by the Directors and signature by the Chairman of the Board, they will be circulated to all Directors. If the Chairman determines, minutes of a sensitive nature will be recorded in a private minutes book

All Directors will have access to the minute books, including any private minutes, upon request to the Company Secretary.

6 Roles of officers

6.1 MD

The MD will not also be the Chairman.

The MD is responsible to the Board for the overall development of strategy, management and performance of the Company. The MD manages the organisation in accordance with the strategy, business plans and policies approved by the Board to achieve the agreed goals.

6.2 Responsibilities of MD and CFO

Each of the MD and CFO will state in writing to the Board that:

- (a) the Company's financial reports represent a true and fair view in all material respects of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- (b) the statement referred to in paragraph (a) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- (c) the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

6.3 Chairman

The Chairman is an independent director appointed by the Board and will not also be the MD. The Chairman is responsible for:

- (a) leadership of the Board;

- (b) chair Board meetings and shareholder meetings;
- (c) efficient organisation and conduct of the Board's function;
- (d) briefing all Directors in relation to issues arising at Board meetings;
- (e) facilitating effective contribution by all Directors;
- (f) overseeing that membership of the Board is skilled and appropriate for the Company's needs;
- (g) promoting constructive and respectful relations between Board members and between the Board and management;
- (h) reviewing corporate governance matters with the Company Secretary and reporting on those matters to the Board; and
- (i) monitoring Board performance.

6.4 Company Secretary

The Board is supported by the Company Secretary who is accountable to the Board through the Chairman on all corporate governance matters. The Company Secretary is responsible for:

- (a) monitoring compliance with Board policy and procedures;
- (b) coordinating the completion and despatch of the Board agenda and briefing materials;
- (c) organising Board meetings and director attendance;
- (d) providing a point of reference for all dealings between Board and management; and
- (e) ensuring the Company complies with its requirements under the Corporations Act regarding registered office, annual returns and notices to be lodged with the Australian Securities and Investments Commission ("ASIC").

7 Individual Directors

7.1 Legal obligations

Directors must:

- (a) discharge their duties in good faith and in the best interests of the Company and for a proper purpose;
- (b) act with care and diligence, demonstrate commercial reasonableness in their decision making and with the level of skill and care expected of a director of a major company;
- (c) bring an independent judgment to bear in decision-making and avoid conflicts of interest except in those circumstances permitted by the Corporations Act;
- (d) act for the benefit of the Company at all times;
- (e) not make improper use of information gained through their position as director;
- (f) not take improper advantage of their position as director;
- (g) notify other Directors of a material personal interest when a conflict arises;
- (h) make reasonable inquiries if relying on information or advice provided by others;
- (i) undertake any necessary inquiries in respect of delegates;
- (j) give the Company the information regarding the Director, the Directors' positions and interests required by the Corporations Act; and
- (k) prevent the Company engaging in insolvent trading.

7.2 Participation in Board meetings

Directors will strive to be present in person or using available technology at all meetings.

Directors are encouraged to question, request information, raise any issue which is of concern to them, fully canvas all aspects of any issue confronting the Company and cast their vote on any resolution according to their own judgment. Outside the boardroom, Directors should support the letter and spirit of Board decisions.

Directors must keep confidential Board discussions, deliberations and decisions which have not been publicly disclosed by the Company.

Confidential information received by a Director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been properly authorised, or is required by law.

7.3 Non-executive Director meetings

Non-executive Directors will confer regularly without management present.

7.4 Conflicts of interest

The Directors are required to disclose any conflicts of interest and to abstain from participating in any discussion or voting on matters in which they have a material personal interest. In addition, the Board will develop procedures to be followed by a Director who believes they may have a conflict of interest or material personal interest.

Directors must:

- (a) disclose to the Board any actual or potential conflicts of interest which may exist or might reasonably be thought to exist as soon as they arise;
- (b) if considered appropriate by the Board or the Director, take all reasonable steps to resolve any conflict of interest within an appropriate period; and
- (c) comply with the Corporations Act provisions about disclosing interests and restrictions on voting.

The Board will regularly assess the independence of each Director in light of the interests disclosed by the relevant Director.

Generally speaking, a Director should leave the room when the Board discusses and votes on matters to which the conflict relates.

It is expected that a Director would inform the Chairman of any related party transactions (other than personal and domestic dealings with the Company Secretary), and where appropriate, raise it for consideration at the following Board meeting.

7.5 Dealing with the media, analysts and institutional investors

Generally, communication with the media, analysts or institutional investors on issues relating to the Company, will be overseen by the MD or the Chairman. Non-executive Directors are not expected to become involved in such communications in the normal course of the business. In addition, the Company will develop a policy on the release of information to the public to ensure there is a unified and co-ordinated approach to disclosure.

7.6 Access to information

Directors will be provided with information in a form, time frame and quality that will enable the Directors to discharge their responsibilities efficiently. Directors will have complete access to the Company's senior management and the Company Secretary. In addition to regular presentations by senior management to Board meetings, Directors may seek briefings from senior management on specific matters, and must do so where they consider that the information supplied by management is insufficient to support informed decision-making.

7.7 Remuneration

The Board will establish a Remuneration Committee. Both Executive and Non-executive Directors' remuneration is determined by the Remuneration Committee and approved by the Board. Remuneration will be determined according to the Company's disclosed remuneration policies, taking into account the ASX CGC Guidelines.

7.8 Education

Directors and key executives will have access to continuing education to update and enhance their knowledge and skills.

7.9 Procedure for independent professional advice

The Board will agree on a procedure for Directors to take independent professional advice for the purpose of ensuring independent decision-making.

8 Indemnities and Insurance

The Company indemnifies Directors and officers and will execute deeds of indemnity, access and insurance in favour of Directors in accordance with the Company policy and the requirements of the Corporations Act.

The Company will maintain a Directors' and officers' insurance policy to the extent permitted by law, at reasonable cost and consistent with generally accepted industry practices including exclusions and conditions.

9 Internal operating policies and principles

9.1 Trading policy

The Company has in place a policy for directors, officers and employees in regard to trading in Company securities.

9.2 Code of Conduct for Directors and senior executives

The Company has in place a code of conduct to guide the directors, the MD, the CFO and any other key executives as to:

- (a) the standards of ethical behaviour required of Directors and key executives; and
- (b) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

9.3 Corporate Code of Conduct

The Company has in place a code of conduct to guide compliance with its legal and other obligations to legitimate stakeholders.

9.4 Continuous disclosure policy

The Company has in place a continuous disclosure policy. The policy is reviewed and updated on a regular basis. The aim of the policy is to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

9.5 Communications Strategy

The Company has in place a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

9.6 Matters requiring Board action

The matters set out in the schedule to this Charter require Board action and are not within the authority delegated to the MD. There are other matters which by law or under the Constitution must also be dealt with by the Board.

9.7 Matters of urgency

If approval is required for an item reserved to the Board during a period between scheduled Board meetings, the procedures set out in the a schedule to this Charter apply.

10 Corporate Governance Compliance

10.1 Company Website

The Board or its delegate will approve material to be made publicly available, ideally in the corporate governance section on the Company's website, taking into account the ASX CGC Guidelines.

10.2 Annual report

The Board or its delegate will approve material to be included in the corporate governance section of the Company's annual report in accordance with the ASX CGC Guidelines, and to the extent material required is not included, will approve statements explaining why not.