

CHAIRMAN'S & MANAGING DIRECTOR'S AGM PRESENTATION HELD ON 10TH OCTOBER 2007

CHAIRMAN'S ADDRESS

Good afternoon Ladies and Gentlemen.

My name is Brian Beattie and as the Chairman of The Reject Shop I welcome you all to the Annual General Meeting and thank you for your attendance here today.

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

I will present a brief overview of the Company's achievements for the year and highlight the progress on some significant strategic objectives.

Gerry Masters, our new Managing Director, will then present his report.

Following Gerry's presentation, I will formally submit the Annual Report, inclusive of the Director's Report; the Director's Declaration and the Auditors Report for approval and invite questions from registered shareholders or their registered representatives.

We will then proceed with the ordinary resolutions on the agenda.

I would now like to share with you a brief overview of the past year and a summary of the key current strategic initiatives we will focus on over the next 12 months.

This was another successful year for the Company with a number of significant milestones achieved:

- Sales were up 18.3% to \$280m;
- Net Profit After Tax was up 35.8%;
- Earnings per share was 48.1 cents, up 34.0%; and
- Ordinary dividends of 31.0 cents per share were declared and paid.

During the year significant long term changes took place:

- We successfully transitioned the Managing Director's role from Barry Saunders to Gerry Masters and the Board is delighted with Gerry's performance;
- We opened our new Distribution Centre at Melbourne Airport, which is operating to plan; and
- We accelerated our store opening program with 22 new stores opened.

Before proceeding further, I would like to formally acknowledge Barry's contribution to the business during his tenure. He left the business on a strong platform for future growth.

As part of our annual Board processes, we have undertaken a review of the effectiveness of the Board and its Committees.

The review demonstrated the Board is fulfilling its role appropriately and the Board and Management are continuing to work well together.

I would now like to take the opportunity to thank my fellow Directors, the Management team and all our staff for their significant contributions to the Company's success.

Looking ahead, we have just completed our strategic planning process, which highlighted the significant opportunities and challenges we have over the next few years.

Our accelerated growth plans means we will be investing in all aspects of our business, in People, Training and Development, Information Technology and Logistics.

Notwithstanding our planned investments in these areas, the Board has evaluated it's short term cashflow needs and is pleased to announce that it has decided to increase the annual dividend payout ratio from 65% of NPAT to 75% effective this year.

Whilst the Board reserves the right to review its dividend policy each year we believe this is sustainable in the foreseeable future.

MANAGING DIRECTOR'S ADDRESS

Introduction

Thank you Brian, and thanks to you all for joining us today.

It has been just over six months since I joined The Reject Shop. I am pleased to be able to update you on the company's performance for the 2007 financial year and outline our focus for the year ahead. At this point, I'd like to also say thanks to Barry Saunders for all his help and support. It has ensured a very smooth transition in the leadership of the company.

Since joining The Reject Shop, my focus has been on developing a sound grasp of our business and getting to know our many people. I have visited all the States we operate in, and covered quite a few of our stores. I am pleased to report I have been highly impressed with what I have seen. We've got a real 'can do' culture and we keep things simple.

On that note I will move onto the main focus of today's presentation. The key areas I want to talk to you about today include:

- Our headline results for the 2007 financial year;
- The key operational initiatives that have played an instrumental role in helping to build our future success; and
- Finally, I would like to provide some insight into the current financial year.

Key Highlights FY 2007

It was another strong year for The Reject Shop, both from a financial and operational point of view.

The highlights from this financial year's performance are:

- Sales grew by 18.3% to \$280.5 million
- Net profit after tax was up 35.8% to \$12.3 million
- Comparable store sales growth of 8.4%

This continued the strong sales and profit trend of the past few years. More than anything, the FY 2007 results reflect the commitment and ability of The Reject Shop's team of people to lift performance across all areas of the business.

The result was underpinned by:

- The continued strengthening of the Company's everyday business;

- Improved performances in key seasonal trading events – Christmas, Easter, Mothers Day and Fathers Day;
- An ongoing commitment to monitoring and managing operating costs;
- Maintaining a competitive pricing strategy;
- The accelerated rollout of new stores;
- Ongoing in-store refurbishment creating a better shopping experience;
- Continued investment in, and expansion of, our merchandise team; and
- Improvements in stock replenishment and customer communications, which enhanced the in-store experience for our customers.

The business continues to maintain a robust balance sheet and clean inventory. This provides confidence that we can continue to reward our shareholders and at the same time develop a strong foundation for our future growth.

Operational Achievements

Store Operations

We continue to actively manage our store portfolio. This is an important part of ensuring our ability to efficiently roll out new stores in areas we want to be in. Key highlights this year included:

- The opening of 22 new stores;
- Four stores were closed, two of these reopened in FY 2008 ;
- 14 stores were refurbished, this keeps the chain 'fresh';
- As part of our refurbishment program a lot of work goes into improving the presentation; and performance of our existing stores, through tighter stock control, merchandising, in-store promotion and selected additional space for a better customer experience.

A factor in the success of our store expansion program in FY 2007 has been improvements in overall execution. The main drivers behind these improvements include the development and introduction of IT programs to monitor and support the new store roll-out. In addition, we have also focussed on store set up and merchandising, recruitment of new staff, up skilling of existing staff and ongoing training of our management teams.

Merchandise

Merchandising is one of our key performance areas, and the team continues to challenge the status quo with:

- Continuous review of everyday lines balanced with variety products;
- Improving the quantification, timing and allocation of stock to stores;
- Balancing the sourcing between local and overseas opportunities; and
- Continuously reviewing our pricing in the marketplace on a regular basis to ensure we remain competitive.

Logistics

The new Melbourne Airport DC facility which opened during the year is performing to expectations.

Pleasingly, it has become clear through extensive analysis, and internal discussion and debate with our people that the DC can service a larger number of stores than first envisaged.

As a result, we are now in a position where we can carefully measure and manage how we progress plans on a go-forward basis.

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IT Developments

The business made substantial investment in new information technology platforms, which are already delivering results, for example, voice picking, pallet tracking and stock in transit.

IT was also heavily involved in the establishment of the new DC. In support of our planned growth we have also evaluated our current system capability including our core systems and potential DC needs. As a result we continue to advance our internal IT capability.

People

A lot of good work was done on Succession Planning at store level; we successfully promoted more than 100 people into management positions within stores and provided career opportunities to more than 15 people from stores and the DC to our Store Support Centre. More pleasing is that this year more than 70% of all management positions were filled by internal candidates.

A yearly event is the US Study tour which gives our key people the opportunity to experience the operation and trends of the best in class US retailers. I was fortunate to participate this year and benefited greatly from it.

Looking Ahead

Before closing, I want to provide some insight into our current financial year.

Store Operations

We will continue our focus on improving the customer experience in everything we do at store level. We are heavily investing in our store operations team including additional resources to be made available for staff training and development and recruitment, and addition of two Divisional Managers and three Area Managers.

Merchandise

Key priorities include:

- Evaluation of overseas freight consolidation opportunities;
- Continuing to improve our allocation methodologies and store replenishment;
- Product range refinement to ensure our offering remains exciting and relevant to changing customer needs;
- Being competitive in our pricing and growing our customer base; and
- Establishing and developing a localisation program targeting the local product needs of customers in certain markets across Australia.

Real Estate

We remain focussed on our existing store rollout strategy, with a planned target of:

- 20 new stores (9 already opened);
- 18 stores refurbished and 2 relocations;

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- Four existing stores will be 'rightsized' to better serve the trade area;
- We have commenced a new focus in this current FY on building an appreciation of our business model amongst our landlords across Australia;
- We have no doubt that we add a lot of value to any shopping precinct in which we operate; and
- Over and above our focus on our current Real Estate agenda, we are looking at possible opportunities for the future in markets where we currently don't operate. Although still very early stages, we are looking at the feasibility of operating in the Tasmanian market with a view of targeting an initial beachhead number of 3 stores in FY09.

Looking Ahead

Logistics

Our current Distribution Centre represents an important step forward in facilitating the future growth of the business. It also represents the opportunity to introduce greater efficiencies in our stock pipeline and increase accuracy in our stock picking. We aim to be able to provide a definitive answer later in the 2008 financial year on our go forward plans in Logistics.

IT Developments

Our evaluation of core systems is complete, and planning for key IT enhancements is underway. The introduction of a new Enterprise Resource Planning system will provide improved planning tools and upgraded allocation methodologies. We are also evaluating opportunities to upgrade our Point of Sale and the possibility of increased technology in logistics.

People

We recognize our current future success sits with our people and we are committed to investing in this most important sector of our business. This year sees us investing heavily in training, developing and growing our people. We are ensuring that we develop the depth that is going to be needed to cater for our future growth. We have also taken steps to enhance our succession plans throughout the business. It is an exciting time for our people with a wide range of job and career opportunities opening up.

Outlook

While we are only 3 months into the new financial year, we are encouraged with trading to date and we are well placed to deliver our market guidance NPAT of \$14.8m to \$15.0m. The store opening program is also on schedule.

For this financial year, the drive continues to improve the customer experience and our people opportunities.

The focus now and in the coming weeks will be on delivering the Christmas result. I think our customers will love our range and the value it offers.

And of course, working through our two major Strategic Projects of the Logistics go forward and commencing the implementation of our Enterprise Resource Planning solution, both of which will need an investment in resources and capital.

Closing

In closing, it has been an exciting and rewarding first six months.

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EVERYONE'S A WINNER AT
THE REJECT SHOP

The business has a clear and concise strategy, and management remains focused on the core principles of the business that made it the success that it is today, as well as keeping an eye on new opportunities to expand our potential.

The Reject Shop has a great future and I look forward to keeping you informed as we continue to grow your business this financial year.

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