CHAIRMAN'S & MANAGING DIRECTOR'S PRESENTATION AT AGM HELD ON 17th OCTOBER 2012

CHAIRMAN'S ADDRESS

Good afternoon Ladies and Gentlemen.

My name is Bill Stevens 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. The company secretary has advised me that we have a quorum present, so I declare the Annual General Meeting open.

Before we proceed, I would like to introduce, with me here today, my fellow non-executive directors, Ms. Melinda Conrad, Mr. Kevin Elkington (also the Chairman of our Audit Committee), Mr. Denis Westhorpe; and our Managing Director Mr. Chris Bryce; also to my far right is Mr. Darren Briggs, the Company Secretary and Chief Financial Officer.

Mr. Daniel Rosenberg, of Price Waterhouse Coopers, the Company Auditor, is also with us today; as are the members of our management team, and a number of our staff.

I will today present a brief overview of the company's activities for the year, including a number of significant events; highlight the impact of those events on a number of key decisions made by the board during the year; and profile the progress on some significant strategic objectives.

Chris Bryce, our managing director, will then present his report.

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

We will then proceed with the ordinary and special resolutions, as set out in the notice of meeting.

The Board

The Board has conducted an internal assessment of its performance, both collectively and individually. The Board, in conducting this review, has also sought feedback from the Executive Team and I consider that the Board continues to operate effectively, in your interests. With the addition of Ms. Conrad to the Board during this past year, I consider that the size and skills of the board are appropriate for your company going forward.

I also consider that the Board currently works well with your Management Team.

The Year

As you are all aware, 2011-2012 continued the 'challenging' conditions for the retail industry, and particularly for those businesses – like ours - that were seeking to recover from the impact of Australia's natural disasters in 2010-2011.

The early part of the year was a time of consolidation as we progressed with the re-opening of the Ipswich DC, as we discussed at the Annual General Meeting last year.

The efforts of the team, in having the full offer available to our customers for the peak Christmas trading season, was a remarkable performance. I would like to formally acknowledge, on your behalf and on behalf of the Board, this performance.

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As I indicated last year, we considered that the business had appropriate insurance cover in place in regard to the Queensland floods. While cover in respect of lost equipment, fittings and inventory is relatively clear cut, the position in respect of loss of trading performance (commonly known as loss of profits cover), can be a little more circumspect.

To recover insurance in this area, it is necessary to prove that we had in fact lost profits, notwithstanding that a number of other retailers were struggling in a tough environment. As a result, the Management Group, and our team members, worked tirelessly to recover the lost ground, while continuing to rebuild from the flood and continue with the planned expansion of our store portfolio.

As we recently advised the market, the insurance claim relating to events which seriously impacted our performance in 2010-2011 and 2011-2012 has now been finalized – and is behind us. In addition, we have acquired a flood barrier protection system to mitigate against any recurrence during the term of our lease at the Ipswich facility.

All of these events resulted in less than optimum trading results for our shareholders.

Nonetheless, we have continued with the store opening program – which is driving an extension of the customer access footprint - which is a significant element of our growth strategy. Additional new stores continue to be planned for this year, and a number are already firmly committed for the 2013-2014 year.

In addition, we have continued to develop the company's longer term vision - inclusive of increased investment in brand awareness through media programs - as well as people development, and infrastructure spend.

We are cognizant of the costs associated with building our business, particularly in this retail market. However with our model and this market - we believe the opportunity exists to expand our customer base via increased store growth, coupled with increased brand awareness. To achieve this requires increased costs in the short term for significant future benefit.

Chris will expand on the broader aspects of the company vision and underpinning objectives when he provides his update.

Remuneration

Short term incentives

Most of you are aware that the Remuneration Report will be subject to a shareholder advisory vote – in accordance with legislation. You will also be aware that the remuneration report specifically deals with those employees who are considered to be Key Management Personnel (KMP's). We consider this group to be our Executive Team, as well as the Board.

By reference to the annual report, it will be noted that short term 'at risk' remuneration was paid for the 2011-2012 period to key management personnel.

The amounts paid to the Executive Team comprised 50% of their 'at-risk' short term remuneration for the 2010-2011 year, as there was no short term 'performance-based' remuneration paid to the management group for the (2010-2011) financial year - together with 50% of the 'short term 'at-risk' remuneration for the 2011-2012 year.

Whilst the financial targets set by the board were not fully achieved in either of these years, these payments were in recognition of the outstanding efforts by Management in both years to recover

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from the impacts of the flood (inclusive of insurance recoveries) and to continue to drive towards other targeted objectives.

Going forward, short term elements of 'at-risk' remuneration are payable upon achievement of a combination of specified, focused elements of the Executive roles, being specific objectives essential to each year and the continued growth of the company; as well as financial earnings targets for each year.

Long term incentives

As part of the Remuneration Report, there are details in respect of Performance Rights granted during the year, which relate to the 2011 financial year. The grants to our Chief Executive, Chris Bryce, were approved at the 2011 Annual General Meeting.

The hurdles which the Board have attached to the ultimate vesting of those Performance Rights, have been discussed in the Annual Report – and include a mix of profit related and other operational objectives. These and the relative weightings of 60% financial and 40% operational targets/objectives were determined by the Board, after having regard to an external report commissioned during the year.

In respect to Performance Rights previously granted in 2008 and 2009, where the financial criteria required to enable vesting was established prior to the flood, the Board has, in its discretion, allowed 50% of those rights to vest with the remaining 50% forfeited.

The Board acknowledges that the sole financial hurdles which had been set as the benchmark for those Performance Rights issued in 2008 and 2009 was not achieved, however we also considered the impact of the floods, which contributed significantly to the inability to meet established financial criteria.

In vesting the Performance Rights, we consider that the efforts of the Executive Team to secure the long term objectives of the company, in periods severely impacted by the floods, required their total commitment – even in their knowledge that the financial hurdles could not be achieved.

The Board has already advised the Australian Stock Exchange that the remaining 50% on both these grants have been forfeited.

The Board has subsequently, after consideration of the externally commissioned review, revised the hurdles to be used in the determination of whether future Performance Rights awards will actually vest into shares.

The Board acknowledges the support of the Shareholders, in allowing us to fully consider all elements of performance, and to fairly remunerate our executive team.

Strategic direction

The Company remains committed to a number of strategic initiatives, which Chris will discuss in more detail.

We have given ourselves the ability to continue our new store growth and to reach more customers with our value offering. The responses to our new store openings program have continued to be extremely positive.

We remain committed to building a model which delivers a trusted and well-priced offering to our customers, and which provides an appropriate return to our Shareholders and finance providers for their capital support. These remain our drivers.

We continue to evaluate every opportunity; however we seek to ensure that the business model remains sound and the business maintains appropriate gearing.

The Team

In regard to our operations, and the sound business model that has been developed, the strength and commitment of the Management Team remains a major component of our ongoing success - and I sincerely thank all of them for their efforts. This is particularly so in regard to the flood impacts – which I have touched on earlier.

Since listing in 2004, the Company has enjoyed a particularly stable Executive team. Nonetheless, while the vision continues, the team members do need to change from time to time – in response to normal retirement, and changing career aspirations.

In 2011-2012 two of our General Managers retired from the business. I thank Andy and Jeff for their extended time with The Reject Shop, and wish them well with their future endeavours. I also welcome Mike Shields (GM – Merchandise Buying) and Josie Pileio (GM – Human Resources) to the Executive Group.

On behalf of the Board, I would particularly like to thank our 3,000+ team members for their continued efforts in delivering value to our customers, and for our Shareholders.

I now invite our Managing Director, Mr. Chris Bryce, to address you in regard to our results, and the challenges and opportunities facing us for the future.

MANAGING DIRECTOR'S ADDRESS

Good afternoon everyone and thank you for joining us.

With a very challenging past two years behind us today I will mainly focus on our longer term plans and things that will make a difference going forward.

You have all seen our financial results for FY2012 so I will not revisit the details behind the result. In essence, we believe we had a strong trading year considering all the issues we faced and the tough retail conditions in which we operated.

Sales were up 10% on the prior corresponding year with comparable store sales up 0.5%, with the first half comparable store sales down 1.6% impacted by lack of distribution capacity, whilst the second half comparable store sales were up 3.2%. In addition, we opened 18 new stores during the year whilst also strategically relocating 2 existing stores.

Our overall result included a combination of compromised trading ability in the first half, a progressive recovery post the opening of the Ipswich DC, a 53rd week's trading contribution and significant insurance claim recoveries.

As a result we achieved Net Profit After tax of $21.9m, up 36% on the corresponding year, inclusive of a 53rd week and insurance recoveries.

Subsequent to year end, we have finalized the overall insurance claim with respect to the Queensland flood. As a result we will record a further $2.76m pretax in insurance recoveries, in addition to the amounts recorded at year end. All insurance recoveries have now been received.

I am extremely proud of the achievements of my management team, and all our staff over the past two years. Their efforts, to recover from the flood and finalize the insurance claim whilst still progressing strategic initiatives, have been exceptional.

I also take the opportunity to thank the Board for their support throughout a very challenging and at times frustrating period.

I believe we have ticked all the key priorities we established to recover from the flood:

- The Ipswich DC is fully operational and operating efficiently; with
- Protection over the facility in place (albeit at an extra cost);
- Net Debt has reduced substantially;
- The insurance claim has now been finalized;
- Sales continue to grow; and
- Key strategic priorities are now advancing.

This was all achieved in a tough retail environment.

With retail conditions challenging, and the impacts of the flood hampering our trading capability, we did not compromise our business model, or baulk at investing for our future:

- We opened 18 new stores and relocated another two stores;
- We invested in our brand via:
    - Increased advertising;
    - Sticking to our everyday low price strategy and working our offer to drive sales, rather than shorter term tactics such as discounting; and
    - Maintaining store standards and improving our customer service; and
- We also continued to build on the organizational structure to support our future growth.

Despite the challenges in recent years we have been working progressively to build the necessary infrastructure (inclusive of distribution centres, systems and people) to be a substantially larger business than we are today. These investments come at a cost which - given the impact on our business of the general retail environment and the floods - we have yet to appropriately leverage.

The initial investments in the Ipswich DC and SAP were designed to both support our growth and improve our stock flow efficiency. Given the flood, significant progress on identified stock flow improvements has not occurred - and this represents significant opportunity over the longer term.

We have a number of co-related initiatives underway which we believe will provide greater visibility and therefore control over stock flow. These include:

- the integration of SAP to our Overseas Consolidation Centers;
- the introduction of an improved merchandise planning tool (& commensurate improvement to planning processes); and
- a major review of our overseas sourcing arrangements.

We believe these initiatives still have significant potential to deliver a combination of sales growth, improved gross margin %, and cost efficiency.

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Further investments will necessary in these areas as we grow - inclusive of a Western Australian DC, increased capacity in Ipswich, an upgrade to the DC capability in Melbourne, and enhancements to our underlying SAP platform.

Company Vision

Underpinning our store growth profile is a longer term Company Vision which we have progressively developed over the past few years. This Vision incorporates our targeted objectives with respect to:

- Our People;
- Our Brand;
- Our Customer Experience;
- Our Value Perception; and
- Our Engagement with the Community (including customers and shareholders)

In establishing our Vision we are not simply targeting to be 400 stores strong, but to be capable of long term sustainable growth.

In establishing the criteria for our Vision we have also tied the “at risk” element of remuneration of the Executive Team, to achieving the Vision.

While we acknowledge we still have some way to go to achieve our Vision, we are building momentum across a number of strategic objectives, some of which were deferred over the past two years - as we dealt with the flood.

People Management Practices

As we grow we need to continue to invest in our people. Ensuring our people are safe, well-motivated, developed appropriately and are well informed, provides the basis for future success.

Therefore, in addition to building our bench strength this year, we have a strong focus on continued improvement in OH&S practices, improved learning and development at store level and to internally communicate and establish company-wide objectives tied to our Company Vision.

Our new GM of Human Resources has already assisted us greatly in these key areas.

Investment in Our Brand

We believe we are in exactly the right market with the right offer. In a tough retail market, with a discerning consumer, this is the right time, to introduce our offer to a broader customer base.

Therefore, we have committed to additional expenditure to increase our brand awareness:

- To educate non shoppers on what we stand for; and/or
- Change perception of our overall product offer.

The most visible aspect to this is via increased use of television advertising. We have TV coverage nationwide via a combination of ‘free to air’ and ‘pay TV’. It is more expensive than our traditional catalogue program; however we remain confident of its long term benefits. We have also committed additional spend on research to fully evaluate the customer response to the campaign, and in refining our longer term strategy.

Our next logical step in conjunction with the investment above is to focus on our longer term digital strategy.

We have made significant strides this year in our use of Facebook, substantially growing our fan base and VIP customers. This has allowed us to support catalogues, new store openings and seasonal events through this media with positive results and expanded customer interaction.

However, with the continual technological developments we are working on our next logical steps via Facebook, our website integration and mobile technology.

However TV and digital media are not the only aspect to enhancing our brand. It also involves:

- Product (price and quality);
- Maintaining stores standards (presentation and physical appearance); and
- Customer service

Product & Price

Over the past six months we have:

- Introduced a new GM of Buying and restructured some elements of our buying team - as well as:
- Improving our overall stock flow and service to stores; and
- Focused on adding some much needed excitement to our ranges.

As a result, our sales over the last few months have been far more consistent across our merchandise categories and more balanced within our stores - with more work to come. To support improvements to stock flow, we are currently revising our merchandise planning processes and implementing a much needed merchandise planning tool which will enable:

- Improved ranging and grading by store and location;
- Improved allocations to stores; and
- Better utilization of space within stores.

Store Standards

Over the last 18 months, in the tough conditions, we tightly controlled costs and capital spend within our stores. However, we know that without sufficient appropriate investment, this approach can have long term detrimental effects on store standards, staff turnover and ultimate profitability.

Therefore, as cash flow has become available, we are investing back into our people development, store management structures and our store refurbishment program.

Some major refurbishments are now complete, with further refurbishments and fixture upgrades planned.

We are also continuing to improve our customer service and have recently introduced a new standard dress in our stores.

We believe that whilst retail conditions may remain challenging in the short term, our business is capable of long term sustained growth. Therefore, the investments we make today will ensure we are best prepared to capitalize into the future.

Current Year Outlook and Developments

While I believe the appropriate focus is always on the long term, I will now take the opportunity to update you briefly on the shorter term.

As we pointed out in August, given the current retail and economic environment coupled with consumer sentiment - we are not providing definitive profit guidance for the year. And this has not changed.

We have had a pleasing start to the year with positive comparable sales year to date. While consumer sentiment and general trading conditions remain challenging our aim is to continue to progressively build on our existing stores sales base over the course of the year. Our seasonal stock is now arriving and being set up in stores in accordance with our plans. With the peak seasonal period to come, we are pleased with our overall state of readiness.

We are also currently finalizing our second half plans in readiness for our main buying trip to Asia this month.

Operationally we have and will continue to invest in our brand through TV, digital media and maintenance of store standards.

We are continuing to aggressively negotiate lease renewals. To date this year we have met our financial targets with respect to occupancy costs on lease renewals. We will maintain our tough approach to future renewals, and remain steadfast in exiting stores if occupancy cost demands remain unrealistic.

We will continue to build our store base. We had initially planned a strong new store opening program of around 20 new stores for this year - with 15 new stores to open in the first half along with two store relocations.

As of today we have opened 6 stores this half - with a further 11 stores to open before Christmas (albeit some later in the half than planned). We have relocated one store and have a further store to relocate prior to Christmas.

For the second half we have secured 6 new stores, whilst there is the possibility that up to two stores will need to close due to Shopping Centre redevelopments.

<u>Potential for Increased Store Openings</u>

Before handing back to Bill I should point out that over the past few weeks we have received a number of enquiries from landlords of a major competitor. These landlords are concerned over the long term viability of that business, and certain sites of theirs, have been vacated mid-lease.

Further activity in this area could present a real opportunity for us to substantially increase the store opening program next half. Given we have invested significantly in our infrastructure to support a larger store footprint; we will actively pursue store opportunities that fit our model.

It should be noted however, that any additional stores opening in the second half will not contribute to the Company’s profit for the year - as any trading contribution derived is offset by the costs associated with opening the store.

Nonetheless, the potential to increase our store footprint significantly in the next half would provide a stronger base for FY2014. This potential would be moderated in the short-term, as it would also require us to bring forward some planned infrastructure spend.

As we stated in August, we will be better placed to update the market on trading and FY2013 profit outlook after Christmas.

I thank you again for your attendance today and will now hand you back to Bill for the formal part of today’s meeting.

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