CHAIRMAN'S & MANAGING DIRECTOR'S PRESENTATION AT AGM HELD ON 20th OCTOBER 2010

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 Mr. Kevin Elkington and 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. Dale McKee, of PriceWaterhouseCoopers, the Company Auditor, is also with us today; as are the members of our Management Team, and a number of our staff.

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

Chris Bryce, our Managing Director, will then present his report.

Following Chris's presentation I will submit the Annual Report, inclusive of the Director's 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.

As many of you are aware in July 2010, Mr. Brian Beattie, Chairman of the Company since its public listing some six years ago, retired from the Board.

I would like to formally thank Brian for his tremendous contribution to the growth and development of the company. Brian brought a wealth of retail and public domain experience to the company in its formative years.

Additionally, Brian chaired the drive to set the company on a path to take our winning value proposition to a greater customer base. This included the store expansion program and the move to multiple distribution centres.

Consequent upon the retirement of Brian, we have been delighted to welcome to the Board, Mr. Denis Westhorpe.

We believe that the Retail, Strategic and Governance skills which Denis brings to the Board, will greatly assist us, as we continue the implementation of our strategy.

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2009-2010 was a challenging year, particularly for the Retail industry, however another successful trading result provided strong returns to our shareholders;

- Sales were up 14.2 % to $470.8 Million;
- Net profit after tax was up 22.9% to $ 23.4 Million;
- Earnings per share was 90 cents, up 22.3 %; and
- Total dividends of sixty seven (67) cents per share, have been paid.

The result was achieved in conjunction with a strong focus on the strategic initiatives considered vital to our continued growth:

- The consolidation of the SAP platform, and the efficiency in processing and information access;
- Moving to the successful opening of our Queensland Distribution Centre in June 2010; and
- The monitoring and evaluation of changes within our competitors, and our market sector.

The company remains committed to a number of strategic initiatives, which Chris will discuss in more detail. Progress to date has been pleasing, however further work is still required on a number of fronts.

The realization of the full benefits from these initiatives, particularly those relating to the expansion of our logistics chain, and the introduction of an additional distribution centre, do not flow immediately. Nonetheless, we have given ourselves the ability to continue our new store growth and to reach more customers with our value offering.

We will continue to invest funds in strengthening our people resources, and our infrastructure, to ensure that logical growth can continue, and that the efficiencies in delivery can be optimised.

Before passing over to Chris, I would like to update you on the results of the Annual Review that is undertaken of the Board, and its committees.

This is an important process, as my fellow directors and I are committed to ensuring that the Board is, and remains, effective in its role.

The process in 2010 was again, we believe, robust. As a result of the review, it is considered that the Board is fulfilling its role, and I am pleased to report that the Board and management are continuing to work well together.

This is not to suggest that we can not consider, or do, certain things better - and a number of improvement opportunities identified will be addressed.

Included in the formal proceedings of the meeting to be considered later, is a proposal for an increase in the maximum level of fees available to remunerate the Board.

While a component of this resolution is to allow for some CPI increases, we would also like to be able to consider an increase in the actual number of Board members.

This will enable us to consider the introduction of further diversity and skills into the Board, as well as sharing of certain workloads, as the company continues to grow.

I am certainly conscious that this year a number of public companies are seeking shareholder approval to increase director's fees.

Nonetheless, I trust that you will agree with me that the current maximum of $350,000 (set a numbers of years ago) provides limited ability to remunerate Board members adequately – and certainly limits the ability to cater for any expansion in the number of Board members to represent the shareholders interests.

In regard to our operations, we consider that a sound business model has been developed, however 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.

In addition, and 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 outlook.

MANAGING DIRECTOR'S ADDRESS

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

I would like to take this opportunity to briefly:

- Overview our headline results for the 2010 financial year which we released in August;
- Update you all on the operational developments over the past two years and the opportunities to come; and
- Finally, provide some insight into trading to date.

Key Highlights FY2010

The company achieved a pleasing result, in what was a challenging year for retail with economic conditions generally weak and trading volatile. Our headline numbers were:

- Sales of $471m; up 14.2% on the prior year;
- 27 new stores during the year – a Company record;
- Comparable store sales increase of 1%;
- Some one-off tax benefits improved our tax expense ratio; and
- Net Profit After Tax of $23.4m; up 22.9% on the prior year

Comparable store sales growth was moderate during the year, with contributing factors including poor in-stock positions in the first 6-7 months and the negative impact of cycling against stimulus payments in the prior year. Additionally, there was significant price deflation as the currency strengthened.

The result was achieved during a period where significant focus was required on our strategic initiatives outlined at last years AGM and that will be the main focus of my presentation today.

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Supply Chain Rationalisation

Our success is built around our product offer and value proposition. We believe we continue to offer a very relevant range of everyday needs, variety and seasonal offerings, at everyday low prices.

Our ability to continue to provide our customers with the right product, at the right price, at the right time, in the right quantities and to the right stores remains our biggest challenge and greatest opportunity.

With competition ever present and customers being more value conscious, price competitiveness is critical. As noted earlier we continued to pass on the favourable currency in the form of reduced prices. This, in itself, means we need to process and sell more products to achieve the equivalent level of sales dollars.

To do this profitably, we need to continue to improve our supply chain efficiency. This has been a major focus of ours over the past few years, and will remain so for the years to come.

As we stand today, we are in the middle of significant change to our overall supply chain. To achieve our aim of 400 stores nationally we identified our strategic requirements and commenced several strategic initiatives over the past two years, namely the implementation of SAP (Information Technology systems), and the development of our Ipswich distribution centre.

SAP was implemented in May 2009; and our Ipswich distribution centre opened in June 2010, on schedule, and on budget. The time and effort required from our people over the past two years to achieve this can not be underestimated. Nonetheless, we balanced our focus between these initiatives and maintaining current trading, in an extremely challenging environment.

As pointed out last year, these initiatives have come with significant capital investment and a necessary rationalisation of our supply chain which, in the short term, leads to additional operating costs. The associated benefits are yet to be fully realized. In the short term, the main impacts are:

- Our cost of shipping imported product has increased as we are utilizing offshore consolidated freight centres to split our orders between Melbourne and Ipswich. In preparation for opening our Ipswich DC we have expanded the use of these centres progressively since March this year. This is a necessary cost to ensure the right amount of stock is available in each distribution centre, for the stores they service; and
- Our fixed costs, in rent and depreciation, have increased as we are now supporting infrastructure capable of servicing twice the number of stores we currently operate.

There are some initial freight benefits in servicing stores closer to the appropriate distribution centre; however the increase in fixed costs currently outweighs these benefits.

Our new Queensland distribution centre is fully operational and efficiency is improving continuously. Whilst our capacity to grow has been addressed, we still have a number of additional investments to come. Our next priority is to match the processing capability of Ipswich in our Melbourne distribution centre. Planning is underway, with a timeline for a change currently earmarked for FY2012 -13.

Internally, our focus is on realising the inherent benefits which can be derived from the introduction of both SAP and the processing capability of the new distribution centre. The ultimate aim of these investments, and the investment to come in Melbourne, is geared towards servicing our stores more efficiently. This will take some time, as we progressively improve our merchandise planning,

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including the quantification and timing of stock to our distribution centres, as well as rationalising our distribution to stores.

Further investment in people and systems will be required over the next few years.

From a strategic point of view, we have made significant progress over the past two years to establish the foundation for future growth. Whilst this has come at a cost, our future store growth plans justify both the capital investment, as well as the need to bear the additional operating costs in the short term.

Future Store Growth

It is well documented that we believe our long term national footprint is in the order of 400 stores. This remains unchanged. We continue to actively seek new stores Australia wide. With the opening of our Queensland distribution centre, we have now scheduled our first Far North Queensland store to open in the second half of this year. This represents an exciting new opportunity, as historically, servicing stores beyond South East Queensland was not viable from Melbourne.

In addition, we are continuing to grow our traditional states, as well as finding additional opportunities in both Western Australia and Tasmania.

We have successfully opened 6 stores so far this half, with a further 9 new stores to come before Christmas, totaling 15 for the half. Although this represents more stores than initially planned, there have been some 'landlord induced' delays in store opening dates so far this half. We have also closed two stores - one as a result of a fire (to be replaced with a temporary location), and the other due to a relocation – scheduled to reopen in 2012. We currently have 200 stores and expect to finish the half with 210 stores.

We have also 4 more new stores scheduled for the second half of 2011, and a strong base for FY2012 with 9 confirmed new stores.

Our People

The strength of our business remains our people.

Having invested heavily in infrastructure over the past few years, we also continue to develop our organisational structure to support our business as it grows. As we grow, the need to supplement our support services grows also.

Our merchandise team continues to expand, with both additional buyers and planning resources, to ensure we continue to provide our customers with a diverse product offering - at very competitive pricing.

We have also increased other areas of our Store Support Centre, including Information Technology and Human Resources.

I would be remiss if I did not take the opportunity to acknowledge our management team and all our staff for their efforts over the past year. The challenges we have undertaken have been significant to set ourselves up for our future growth, with work still to come.

All of the initiatives undertaken by our staff have come with increased responsibility, accountability and significant change across our business, in addition to their current roles. The progress made over the past few years has been pleasing and rewarding, but the process is time consuming and can be frustrating at times. Through it all the dedication, passion and 'can do' attitude of our people has remained unquestioned and we could not have achieved the progress to date without their support and commitment.

I sincerely thank all our team members for their efforts and continuing support as we continue to grow our business.

FY2011 Outlook

Sales to date are in line with our expectations, and consistent with our previously communicated outlook for FY2011. We believe this will enable a full year Net Profit after Tax of between $26m and $26.5m, as announced in August, reflecting:

- Comparable store sales growth at 3-4 %;
- Gross Margin % consistent with the prior year;
- 19 new stores; and
- The absorption of the increased costs of doing business, as outlined earlier.

As most of you are aware, the peak seasonal period of November to December is still ahead of us. This constitutes a significant component of our overall result. As we stand today, we believe we are better placed to track into Christmas, than at this time last year. Our seasonal merchandise is being built up ready for the peak November and December trade, and the remaining store openings, notwithstanding some of the delays to date, have fixed opening dates.

Our seasonal offer is robust. It is now up to us, to ensure we feed the stock to our stores in a manageable way to enable our store teams to offer our customers our range in the best possible way.

In the short term, we cannot predict what the impact of interest rates and the general economy will be on our business. The increasing Australian dollar whilst having the potential to reduce purchase costs will invariably be passed on in lower prices, which can result in selling more product for the same retail dollars with commensurate increases in costs. Balancing value with volume over the remainder of the year will be a major focus.

Looking ahead, our focus remains on the areas we can influence, namely product, price and customer service. In addition, we will continue to refine our supply chain to ensure we are well placed for future profitable growth.

I thank you for all attending today, and will now pass you back to Bill for the formal part of today's meeting.

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