

**EVERYONE'S A WINNER AT
THE REJECT SHOP**



**PRODUCT
PROMISE**

We are committed to providing merchandise that is:

- + GREAT VALUE
- + SAFE TO USE
- + FIT FOR PURPOSE
- + COMPLIANT WITH AUSTRALIAN STANDARDS & REGULATIONS



The Reject Shop

**Six months ended 25 December 2005
Results Presentation**



First Half 2006 Results Presentation Agenda

→ Overview

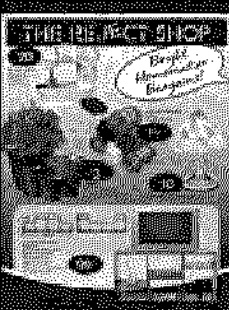
- Trading Result
- Operational Achievements

→ Financial Performance

- First Half Highlights
- AIFRS Impact FY2006
- Profit and Loss
- Cash Flow
- Balance Sheet

→ Outlook FY2006

- Operational Targets
- Financial Targets



First Half Overview Trading Result

PRODUCT PROMISE
We are committed to providing merchandise that is

- GREAT VALUE
- SAFE TO USE
- FIT FOR PURPOSE
- COMPLIANT WITH AUSTRALIAN STANDARDS & REGULATIONS



THE REJECT SHOP
Bright Homecare
Beating Household Boredom!



	AIFRS			AGAAP Comparison		
	\$ Dec 05	\$ Dec 04	% inc Last yr	\$ Dec 05	\$ Dec 04	% inc Last yr
Sales	127.7m	111.8m	14.3%	127.7m	111.8m	14.3%
Comp Store sales growth	5.8%	5.9%		5.8%	5.9%	
EBITDA	14.7m	12.3 m	19.4%	15.0m	12.5m	19.8%
EBIT	12.7m	10.8 m	17.6%	13.0m	11.0m	18.0%
NPAT	8.7m	7.2m	20.4%	9.0 m	7.5m	20.2%

→ Interim Dividend 13 cents per share up 30% on last year

→ EPS 34.3 cents per share up 15.1% on last year

First Half Overview

Operational Achievements

**EVERYONE'S A WINNER AT
THE REJECT SHOP**

→ Stores - Total 113

→ Portfolio Management

- 10 new store openings (2 E\$2 closures)
- 2 store openings in Queensland (all 4 performing strongly)
- 5 stores strategically relocated
- 1 store resized to service sales potential

→ Portal and RF - driving change

- Communication to stores via task management system
- Pricing maintained at shelf edge
- Basic administrative tasks performed on shop floor

→ Enterprise Agreement introduced



First Half Overview

Operational Achievements

**EVERYONE'S A WINNER AT
THE REJECT SHOP**

→ Merchandise

→ Enhanced buying team delivering results

→ Sales growth reflects:

→ Continuing development of basics and traffic building ranges

→ Improved planning and execution of peak Nov/Dec trade

→ Constant attention to competitive pricing

→ More effective marketing program

→ Margin performance reflects:

→ Improved stock turns/ less clearance required on slow moving stock

→ Strong sales in high margin Christmas merchandise

→ Balance of sourcing between local and overseas purchases

→ In addition margin was assisted by:

→ Reduced shrinkage/improved controls

→ Some favourable impact from AUD



First Half Overview

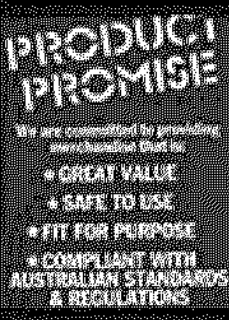
Operational Achievements

→ Logistics

- New distribution centre on track
 - Opening June/July 2006
 - Voice picking trial successful

→ Tour of US facilities

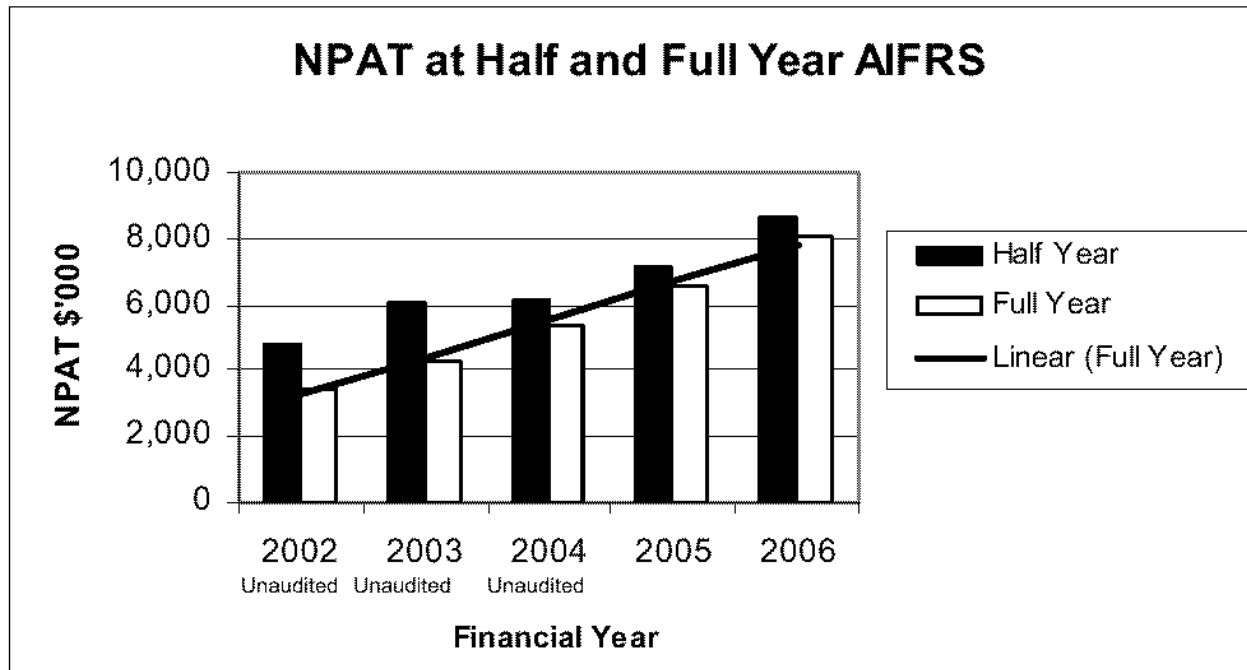
- Re-enforced our strategy for the new distribution centre
- Highlighted opportunities for future development



Financial Performance First Half Highlights

**EVERYONE'S A WINNER AT
THE REJECT SHOP**

- Sales \$127.7m up 14.3% on FY2005
- Gross margin up 0.9%
- Operating costs as a % of sales increased slightly
- Record NPAT of \$8.7m, up 20.4% on last year
- Free cash flow of \$12.6m

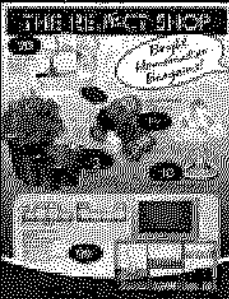


Financial Performance AIFRS Impact FY2006

**EVERYONE'S A WINNER AT
THE REJECT SHOP**

PRODUCT PROMISE
We are committed to providing merchandise that is

- GREAT VALUE
- SAFE TO USE
- FIT FOR PURPOSE
- COMPLIANT WITH AUSTRALIAN STANDARDS & REGULATIONS



Explanation of transition to AIFRS from AGAAP

Issue	HY06	FY06
	\$'000's	Range \$'000's
Net profit after tax reported under AGAAP	8,955	8,400 To 8,600
Equity based compensation	(182)	(354)
Lease escalation	(144)	(245)
Employee benefits	41	60
IPO tax effect	(50)	(50)
Income tax effect	31	189
Net profit after tax reported under AIFRS	8,651	8,000 To 8,200

Financial Performance

Profit & Loss

**EVERYONE'S A WINNER AT
THE REJECT SHOP**

(\$'m)	Dec05	Dec04
Total Sales	127.7	111.8
Gross Profit	64.0	55.0
Total Operating Expenses	49.3	42.7
EBITDA	14.7	12.3
Depreciation/Amortisation	2.0	1.5
EBIT	12.7	10.8
Interest	0.3	0.4
Tax	3.7	3.2
NPAT	8.7	7.2
<hr/>		
Sales Growth	14.3%	12.8%
NPAT Growth	20.4%	N/A
Gross Margin	50.1%	49.2%
EBIT Margin	10.0%	9.7%
<hr/>		
EPS Basic (cents)	34.3	29.8
EPS Diluted (cents)	33.4	28.5
<hr/>		
Stores	113	105

Key Drivers - Sales Growth

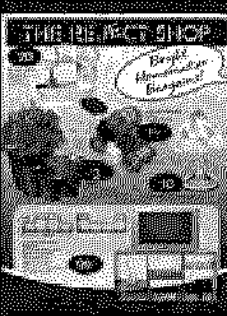
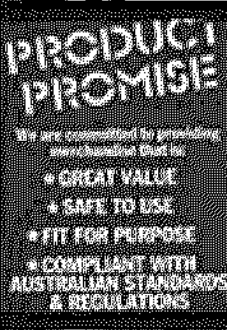
- Comparable store growth at 5.8%
 - Basic and Traffic building ranges
 - Strong peak seasonal trade
 - Store upsizes and relocations
- 10 new store openings
 - All performing well
 - Qld very strong

Key Drivers - Gross Margins

- Sales in high margin Christmas category
- Reduced profit erosion from shrinkage and stock clearance
- Net favourable impact from \$AUD

Other Key Impacts on Profit

- Operating costs absorbed:
 - Investment in new DC/relocation
 - Accelerated depreciation for E\$2 store closures/existing DC (inc makegood)
 - Cost of expanded merchandise team structure
 - Initial costs on introduction of store EA



Financial Performance

Cashflow

**EVERYONE'S A WINNER AT
THE REJECT SHOP**

→ Cashflows are strong

(\$'m)	Dec 05	Dec 04
Gross cashflow[†]	10.6	8.6
Changes in working capital & other	7.8	6.8
Operating cashflows	18.4	15.4
New store openings	(3.0)	(1.5)
Existing stores maintenance	(1.6)	(1.1)
IT development	(0.2)	(0.8)
New Distribution Centre	(0.8)	(0.0)
General capital maintenance	(0.2)	(0.3)
Net capital expenditure	(5.8)	(3.7)
Free cashflows	12.6	11.7
Dividend	(1.8)	(0.6)
Debt movement	(0.8)	(0.5)
Financing cash flows	(2.6)	(1.1)
Net change in cash held	10.0	10.6

→ Operating Cash Flows

→ Strong trading

→ Improving stock turn

→ Capital Expenditure

→ New Stores

→ Existing Stores

→ Refurbished

→ Relocated/upsized

→ New DC

→ Free Cash Flows

→ Support increased dividend payout

→ Fit out of new DC

→ Scope for additional new stores

[†]Gross cashflow equals earnings before depreciation and amortisation and after interest and tax

Financial Performance Balance Sheet

**EVERYONE'S A WINNER AT
THE REJECT SHOP**

PRODUCT PROMISE
We are committed to providing merchandise that is
 + GREAT VALUE
 + SAFE TO USE
 + FIT FOR PURPOSE
 + COMPLIANT WITH AUSTRALIAN STANDARDS & REGULATIONS



(\$'m)	Balance as at Dec 05	Balance as at Dec 04
CURRENT ASSETS		
Cash Assets	14.6	13.7
Inventories	23.0	22.2
Other	1.2	1.0
TOTAL CURRENT ASSETS	38.8	36.9
NON CURRENT ASSETS		
Property, Plant & Equipment	21.3	17.6
Deferred Tax Assets	2.6	2.2
TOTAL NON CURRENT ASSETS	23.9	19.8
TOTAL ASSETS	62.7	56.7

(\$'m)	Balance as at Dec 05	Balance as at Dec 04
CURRENT LIABILITIES		
Payables & Accruals	21.8	20.8
Interest Bearing Liabilities	1.6	2.4
Provisions and tax liabilities	7.2	6.5
TOTAL CURRENT LIABILITIES	30.6	29.7
NON CURRENT LIABILITIES		
Interest Bearing Liabilities	0.6	1.9
Provisions	2.1	1.6
TOTAL NON CURRENT LIABILITIES	2.7	3.5
TOTAL LIABILITIES	33.3	33.2
NET ASSETS	29.4	23.5

Stock Turns (times)	4.9	4.6
Interest Cover (times)	33.8x	24.7x
Fixed Charges Cover	2.0x	1.9x
Net (Debt) / Cash	\$12.3m	\$9.4m

Fixed Charges Cover = (EBITDA + Rent Expense) / (Rent Expense + Interest Expense)

Balance Sheet remains strong

- Inventory is clean
- Improving stock turns
- Net Cash is \$12.3m

Second Half Outlook Operational Targets

→ Stores

→ Portfolio Management

- 4 new stores planned to open (1 in Queensland)
- Western Australia evaluation continuing
- 5 remaining E\$2 stores will close

→ Productivity Initiatives

- Enhanced computer recommended store ordering
- Improved functionality on shopfloor via RF
- Increased focus on staff scheduling

→ Merchandise

→ Focus on:

- Range planning
- Item logistics

→ Continued emphasis on:

- Price competitiveness
- Basic and traffic building ranges



Second Half Outlook Operational Targets

→ IT Developments

- Implementing new DC technology
- Introduction of Content Management System
- Improved deployment of IT to stores

→ Logistic Developments

- New DC to open on schedule
- Detailed review of item logistics



FY 2006 Outlook Financial Targets

**EVERYONE'S A WINNER AT
THE REJECT SHOP**

- Full year net profit forecast upgraded from \$7.5m - \$7.7m to \$8.0m - \$8.2m.
- Under AGAAP profit range is upgraded from \$7.9m - \$8.1m to \$8.4m - \$8.6m
- Key growth assumptions are:
 - Comparable stores growth moderating slightly
 - 4 new store openings
 - 5 \$E2 closures
 - Gross margin moderating (delayed by strong Christmas)
 - Stock turn improving

- Balance Sheet and Free cashflow support:
 - Increased new store rollout
 - Accelerated investment in logistics



Contact Details

**EVERYONE'S A WINNER AT
THE REJECT SHOP**

→ For Further Information

→ Barry Saunders

Managing Director

(03) 9371 5555

Chris Bryce

Chief Financial Officer

(03) 9371 5555

→ Or visit our Website @ www.rejectshop.com.au

