

**MANAGING DIRECTOR'S ADDRESS TO 2006 ANNUAL GENERAL MEETING
- 11 OCTOBER 2006**

Thank you Brian, and thanks to you all for coming along today.

As you may be aware, this will be my last AGM before stepping down as Managing Director in June next year. I would like to take this opportunity to thank you personally for the tremendous support you have given us since our IPO in April 2004. It is great to have your confidence behind us, and to see it reflected in our market ranking.

Of course, every Managing Director relies on his team. The Reject Shop has a talented, experienced and committed team, whose dedication and energy are responsible for the results you see today. It has been a very demanding year for all The Reject Shop team members, and I thank each of you for your continued hard work and enthusiasm. It gives me great confidence in the future, and in what more can be done.

FY06 results

Firstly, for the benefit of our shareholders, I would like briefly to review the financial year just past, and in particular, touch on

- Results for the year to June 2006, which included our maiden 2nd half profit
- Some of the main operational initiatives we have put in place this year to build the business.

While some of this is covered in the 2006 Annual Report and has therefore been in shareholders' hands for some time, it is useful to have the opportunity to invite and respond to any questions shareholders may have of us.

Key factors in FY06 result

Overall, it was an extremely strong year for The Reject Shop, both from a trading and a profit point of view.

The results demonstrate The Reject Shop's business model is a strong and resilient one, capable of performing well even against a background of rising petrol prices and interest rate concerns.

To recap the headline numbers

- Sales growth was up 16.8% to \$237.2 million
- Net profit after tax was up 38.7% to \$9.1 million
- Comparable store sales growth of 7.7% (with 9.8% in the second half)

This continued the strong sales and profit trend of the past few years. More than anything, the FY06 results reflect the dedicated efforts of all The Reject Shop's 2500 strong team to continue to lift performance across all areas of the business.

The result was achieved on:

- Strong sales in basic and traffic building ranges
- Improved performances in the main seasonal events – Christmas, Easter, Mothers Day (and Fathers Day)
- Continued rollout of new stores, with 14 new stores opened
- The Board's decision last year to invest in an expanded merchandise team, and the information systems to support them.
- Improvements in stock replenishment and customer communications, enhancing the in-store experience for our customers.

At year end, we were in the fortunate position of having a robust balance sheet, minimal debt, and a clean inventory. This provides confidence that we can continue to reward our

shareholders and at the same time continue to develop a strong foundation for The Reject Shop's future growth.

Operational achievements

Our focus has been and remains on continuous improvement in all areas, and we made further excellent progress in this regard during the year.

Merchandise

- ❑ As I mentioned at our last shareholder meeting, some time ago we made a decision to invest in strengthening our experienced and successful merchandise team, with a new level of management, more buyers and increased support services. When implemented it amounted to a generational change in leadership of the function
- ❑ Merchandising is one of our key performance areas, and this investment in a new generation of management and buying practices has paid off handsomely
- ❑ Results are flowing from improved decision-making on several high growth product categories as well as our everyday range.
- ❑ It has also allowed us to improve planning and execution of peak season trading
- ❑ The evolution of the merchandise team to date gives me great confidence that there is more improvement still to come from their efforts for years ahead

Store Operations

- ❑ Active management of our store portfolio, coupled with a carefully controlled rollout of new stores has seen the chain grow to 116 stores as of today

- Our expansion during the year continued to gather momentum in accordance with our strategy. The 14 new stores opened in FY06 included:
 - Further growth in Queensland
 - First store in WA
 - Providing coverage of our exit from the remaining ES2 stores

- I am pleased to say the new stores are trading well, giving us further confidence that our business model works in geographically diverse markets
- In addition we continued to improve the presentation and performance of our existing stores, through tighter stock control, merchandising, in-store promotion and selected addition space for our customers' convenience
- The Enterprise Agreement signed last year with strong support from staff has provided greater flexibility for all concerned
- It is our intention to accelerate the new stores program in the current year

IT and People

We continued to invest in our people and the IT technology to help them do a better job.

Achievements included:

- A wide range of initiatives in the use of our store portal, support of the productivity developments in Logistics and wider use of RF technology.

- Internal promotions providing career path opportunities

- A large number of our store and distribution centre staff participating in training programs resulting in formal recognition by external educational authorities

- To broaden the retail experience of our wider management team we continued our US study tours which provide the opportunity to experience retail trends in the US and gain useful insights into how other 'best in class' retailers operate

LOOKING AHEAD

Let me now give you a quick insight into the current year.

Merchandise

- ❑ Continually improving merchandise, merchandising and the quality of our customers' experience remain high on our priorities
- ❑ This year, we are examining ways to further improve planning and allocation processes
- ❑ Coupled with a controlled focus on competitive pricing, this is expected to deliver results in the coming year

Stores

- ❑ As I mentioned earlier, it is our intention to accelerate the new stores program this year
- ❑ We are greatly encouraged by progress to date
- ❑ We intend to increase the pace of openings to around 20 new stores this year
- ❑ At this stage because of the timing of the projected opening dates we are projecting that the profit impact of the program will still be in line with our profit guidance for FY07
- ❑ However, the number of stores opened at the start of FY08 will be ahead of prior forecasts, which has caused us to raise our sights for FY08
- ❑ We also have a strong focus on seeking opportunities to expand undersized sites, and
- ❑ We are continually working to make all our stores more accountable/responsive to customer demand

Logistics

- ❑ The new distribution centre is open and operational, during the first half of this financial year. While it opened slightly late and we have experienced the standard teething problems associated with a venture of this magnitude, it is now rapidly taking shape.
- ❑ This distribution centre is an important step forward and will provide:
 - The capacity to meet our needs for the near term growth;
 - Efficiencies in the stock pipeline; and
 - Increased accuracy in picking.

- We see this DC development as the start of a wider 5 year strategic plan for excellence in logistics to give us a competitive advantage.

I.T

- Continued enhancements over the past few years have provided better information and more powerful tools to assist decision making
- Particular focus this year will be on continuous improvement to:
 - DC technology
 - The further development of store portal to assist store operating efficiency.

People

- On the people side, we continue to have a strong focus on communication at all levels in stores DC's and support functions
- We are working hard to develop a "learning culture" within the company, which means that we will be drawing on all the talents within the company to keep the strategic plan constantly evolving to produce even stronger results.

Outlook

- For the year to date, trading is in line with management's expectations. Sales are ahead of budget and the store opening program is on track
- Comparable store sales are slightly above plan, and we are confident we are on track to meet our forecast for FY07, although the vital seasonal peak trading holds the key to a successful half year
- The focus for the coming period will be on delivering the Christmas trading result, ensuring the new distribution centre is operating to optimal efficiency, accelerating the store rollout in the second half, and building our internal IT capability.
- I believe we are well placed to deliver our market guidance NPAT of \$10.7M to \$10.9M

As I said earlier, some time ago I announced my intention to step down from this current role in June of next year. It is a decision I see as timely as I will have lead the company through 7 demanding years of development. The company has identified an exciting path for consistent growth, and that path is not one man's vision but the shared view of a strong board and management team. My view is that companies benefit greatly from a change at the helm from time to time, bringing fresh perspective and energy to the role, and the time is right for The Reject Shop to benefit from a change.

The recent strategic review has confirmed the considerable potential available to the company over the next five years. I am confident that with the continuing dedication shown by our Reject Shop team, and the response of customers to our offering, The Reject Shop is well placed to deliver on that potential.

Thank you. I will now hand back to Brian.