

Company Announcements Office
Australian Stock Exchange Limited
530 Collins St
Melbourne Vic 3000

19 October 2005

Dear Sir/Madam

Please find attached the Chairman's and Managing Director's Address to shareholders, to be presented at The Reject Shop Limited Annual General Meeting which commences at 3.30pm today.

Yours Faithfully,



Graham Lever
Company Secretary

**CHAIRMAN'S ADDRESS TO THE MEMBERS OF THE REJECT SHOP LIMITED AT THE
AGM HELD ON 19th OCTOBER 2005**

Good afternoon Ladies and Gentlemen.

My name is Brian Beattie and I am the Chairman of The Reject Shop.

On behalf of my fellow directors I welcome you to the second Annual General Meeting of The Reject Shop Limited and thank you for your attendance here today.

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

- I will present an overview of the Company's achievements for the year; and highlights on major strategic objectives;
- I will invite Barry Saunders, the Managing Director, to present his report;
- I will open the meeting for questions and discussion from registered shareholders or their registered representatives;
- I will formally submit the:
 - Annual Report;
 - Director's Report;
 - Director's Declaration; and
 - Auditors Report for approval; and
- I will then deal with the ordinary and special business items 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 the Company will focus on over the next 12 months.

I will then invite Mr. Barry Saunders to present a more detailed review of the past year and the outlook for this year and beyond.

This was an exciting year for the Company with a number of significant milestones achieved:

- Sales were up 12.5% and exceeded \$200m for the first time;
- Net Profit After Tax was up 26.5%:
 - Comfortably exceeding forecasts for the year; and
 - Completing the pattern of overachieving on all prospectus forecasts;
- Earnings per share was 28.9 cents, up 20.9%; and
- Dividends of 17 cents per share were declared and paid, up 18.8% on forecast.

The result demonstrates the foundation of the business is solid, our strong focus on the customer and our consistent execution of retail fundamentals by our people is being reflected in growing sales and profit.

The result validates our business model and is a credit to our management team and staff.

Whilst last year's result was pleasing, our focus is now on delivering long term sustainable growth to our shareholders. To achieve this aim the Board has delegated responsibility for the development of strategy and the day to day management of the Company to the Managing Director and senior management,

However, the Board still retains responsibility for providing strategic guidance, reviewing and approving strategy and monitoring management's implementation of the agreed strategy.

This responsibility has, in part, been discharged through the introduction of an annual strategy conference which provides the opportunity each year for the Board and management to:

- Align strategies;
- Set priorities;
- Assess the status of major initiatives; and
- Agree the roadmap for the next 5 years.

I am pleased this process is working effectively, with some initiatives from last year's strategy well advanced, for example:

- the strengthening of the buying team; and
- the decision to build a new Distribution Centre.

Progress was also made on a range of other initiatives with the potential to contribute to improved trading and productivity in future years.

This year's strategy conference was similarly productive with a major focus on:

- Stock pipeline initiatives;

- A comprehensive property strategy, including an evaluation of opportunities to expand into Western Australia;
- The potential for store productivity improvements made possible by the joint impact of the Enterprise Agreement and the effective use of technology.

Another area of significant focus by the Board has been on succession planning for key staff. I am pleased to advise Barry has agreed to extend his service contract for a further year until June 2007;

This provides the Board additional time to ensure proper preparations are made for:

- An orderly handover before he retires; and
- A robust plan for the future leadership of the company is in place.

The Board has also given careful attention to setting and maintaining high standards of corporate governance. As a result, I am satisfied appropriate governance policies and procedures are in place and more importantly, adherence to these policies is being adequately measured.

I am pleased with the way the Board and management are working together and I would like to take the opportunity to thank my fellow Directors, the management team and all our employees for their significant contributions to the Company's' success.

I now invite Barry Saunders, to provide more details on the result and our outlook.

MANAGING DIRECTOR'S ADDRESS TO THE MEMBERS OF THE REJECT SHOP LIMITED AT THE AGM HELD ON 19th OCTOBER 2005

Thank you Brian, and good afternoon ladies and gentlemen.

I intend to briefly review the past year focusing on the financial highlights and the operational initiatives actioned during the year.

I will then add some detail to our current strategic initiatives and provide guidance on the outlook for the current year.

To recap the headline numbers, we exceeded our financial forecast with sales of \$203.1m up 12.5% and Net Profit after Tax of \$7.1million up 26.5%, continuing our sales and profit trend of recent years.

Sales growth was underpinned by:

- Comparable store sales growth of 6.5% (with a stronger performance in the second half);
- Eleven new store openings; and
- Continued growth from stores opened during the prior year.

Our strong sales performance was a result of a combination of:

- Improved item selection and quantification by our merchandise team, (supported by improved availability of information);
- A high level of store presentation maintained by our store people;
- Several key stores benefiting from additional space; and
- continued growth of our "everyday business".

Our strong trading and improved stock turns led to improved cash flows which fully support our current store rollout program and our current dividend policy.

We have a robust balance sheet, minimal debt and inventory is clean. All of which provide a strong foundation for future growth.

In over viewing operational performance our focus has been and remains on continuous improvement in all activities and we made widespread progress during the year.

In merchandise, we made a major contribution to our future success by strengthening our merchandise team:

- With a new level of management;
- More buyers; and
- Increased support services.

We were able to improve their decision making by providing them with more relevant and timely data, via standardised systems.

This led to excellent results on several high growth product categories, as well as our everyday range.

More remains to be achieved with this initiative.

In Stores, we continued to actively manage our store portfolio. We opened eleven new stores and continued the exit from the ES2 format, finishing the year with a total of 105 stores.

We opened two stores in Queensland, both are trading strongly which provides confidence our model works in new territories.

In addition, we strategically improved our existing stores by completing the penetration of our drive aisle configuration, upsizing /refurbishing 7 stores and relocating selected stores.

Within the stores we focussed heavily on productivity and presentation initiatives including:

- Introducing cyclical stocktaking;
- Enhancing shelf edge pricing;
- Rolling out radio frequency technology;
- Advancing computer assisted store ordering; and
- Reaching an Enterprise Agreement with overwhelming support from our store staff.

In Information Technology we continued our focus on leveraging IT to support business decisions.

- The Data Warehouse is now providing a wider range of information on a more accessible and timely basis;
- We introduced radio frequency into stores which will:
 - Enable process re-engineering in a number of areas; and
 - Allow store staff to perform tasks more effectively;
- Major progress was achieved on our store portal technology which provides the platform for:
 - Improved communication; and
 - Task management and supervision of execution.
- We implemented computer assisted Distribution Centre replenishment which will assist stock turn improvements and DC efficiency; and
- With our reliance on IT we also upgraded our Disaster Recovery Plan.

People remain the key to our success and a number of exciting opportunities arose during the year.

- The strengthening of the buying team enabled several store staff the opportunity to expand their careers with us; and
- The increasing store portfolio created a number of opportunities available in supervisory roles.

We continued to invest in our people with 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 provides the opportunity to experience retail trends in the US and gain useful insights into how other retailers operate.

We introduced a new Enterprise Agreement into the stores and renewed the Distribution Centre Enterprise Agreement.

LOOKING AHEAD

In Merchandise, with the new team in place, a major focus this year will be on stock flow improvements, particularly in the planning and allocation of stock.

We are also focussing heavily on our product ranges and pricing.

In Store Operations our store opening program is strong with Fourteen new stores secured. We have already opened 8 year to date, with 2 more to open in the first half. The 4 stores planned for the second half have scheduled opening dates and we are actively seeking new sites with the aim to over achieve the full year target.

We will continue to exit the Everything Here \$2 format which will be completed by the end of the fiscal year.

We remain focussed on our expansion in Queensland, with a further 2 more stores planned, bringing the total to at least 5 by the end of the year.

At our recent strategy conference the Board again considered options for future expansion into the Western Australian market. This is something we have had on our radar screen for some time and the Board has now made a firm commitment to enter Western Australia. Based on the strong performance of our recently opened Queensland stores, we are extremely confident in the ability of our business model to travel into new markets. In respect of Western Australia, we have already commenced planning, including evaluation of potential sites with our aim to have established a beach head in this market within 3 years.

In logistics we are well into the planning phase for our new Distribution Centre which we aim to have operational by the first half FY2007. This new facility provide:

- The capacity to meet our needs for the next 5 years;
- Efficiencies in the stock pipeline; and
- Increased accuracy in picking.

In I.T, continued enhancement over the past few years have provided better information and more powerful tools to assist decision making. Particular focus this year will be on:

- New DC technology (voice picking); and
- The rollout of the store portal to assist task management and improve efficiency.

Outlook

To re-state our forecast for FY2006 is net profit after tax of between \$7.9 and \$8.1 million (Current Accounting Standards) or \$7.5m- \$7.7m (AIFRS Adjusted).

Our current trading performance for the September quarter has been strong. Sales are ahead of budget with our new store opening program is ahead of plan; and comparative store sales are slightly above plan.

Whilst we have the important Christmas trade period to come, we are on track and remain confident of delivering our forecast.

Acknowledgements

The year provided a constant variety of challenges and I acknowledge and appreciate the contribution of our people and thank all of the team for their loyalty and dedication.

I will now hand you back to Brian.