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Performance Rights Plan - The Reject Shop Limited

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1 Grant of Performance Rights

1.1 Eligibility

The Board may in its absolute discretion, without being bound to do so and subject to any approvals of shareholders of TRS required by law or the Listing Rules, at intervals determined by the Board, grant Performance Rights to Executives selected by the Board (“**Participants**”).

1.2 Exercise of Performance Rights

On exercise of a Performance Right, a Participant accepts the irrevocable offer made by TRS pursuant to clause 1.1. Acceptance may only be made if the terms and conditions for exercise have been satisfied and the Performance Right has not lapsed.

2 Performance Rights terms

2.1 Terms of Plan

Subject to the Listing Rules, Performance Rights will be granted on the terms of this Plan unless the Board determines otherwise.

2.2 Additional terms and conditions

Without limiting clause 2.1, the Board may impose such additional terms in relation to Performance Rights, including the terms of exercise of Performance Rights, as it considers appropriate. Any such terms must be notified to the Executive at the time of grant. Without in any way limiting the Board’s discretion in this regard, the terms of exercise may include conditions relating to:

- (a) the performance of the Executive;
- (b) the profitability of TRS;
- (c) the price at which TRS’ shares are traded on a stock market of the ASX or any other stock exchange; and
- (d) limits on the number or proportion of the Performance Rights that may be exercised in any one or more time periods.

2.3 First Performance Rights

The first Performance Rights granted under this Plan will be governed by the additional terms set out in Schedule 1.

3 Entitlement

3.1 Offer

Subject to clause 8, the grant of a Performance Right constitutes an irrevocable offer by TRS that entitles the holder to acquire one fully paid Share.

3.2 Exercise Price

The total exercise price payable on the exercise of one or more Performance Rights on a particular day is \$1.00, irrespective of the number of rights exercised on that day.

3.3 Acceptance

On exercise of a Performance Right, the holder accepts the irrevocable offer made by TRS.

3.4 Allotment or Transfer

Subject to the Listing Rules, on the exercise of a Performance Right TRS must (at its election):

- (a) allot and issue; or
- (b) procure the transfer of,
a Share to the holder of the Performance Right.

3.5 Rank pari passu

Shares issued on the exercise of Performance Rights will rank pari passu with all existing Shares from the date of issue and will be entitled in full to those dividends which have a record date for determining entitlements after the date of issue.

4 Exercise of Performance Rights

4.1 Terms of Exercise

A Performance Right may be exercised:

- (a) subject to any terms and conditions imposed by the Board under clause 2.2, at any time before the Expiry Date of the Performance Right, unless the Performance Right lapses under clause 5; or
- (b) if the Board otherwise determines in writing to the Participant.

4.2 Notice of Exercise

A Performance Right is exercised by the holder lodging a notice of exercise of Performance Rights and application for Shares, together with the exercise price, with the Company Secretary of TRS or such other person as the Board designates.

4.3 Confirm bound by constitution

The notice of exercise of Performance Rights and application for Shares must include a confirmation that the Participant agrees to be bound by TRS' Constitution.

4.4 Number exercised

Performance Rights must be exercised in multiples of 100, unless the Participant exercises all Performance Rights able to be exercised at that time. The exercise of some Performance Rights only does not affect the Participant's right to exercise other Performance Rights at a later time.

5 Lapse

Subject to any additional terms applying to Performance Rights under clause 2.2, a Performance Right not exercised will lapse on the first to occur of:

- (a) the Expiry Date of the Performance Right;
- (b) 30 days after a Participant ceases to be employed by the Group, unless the Board otherwise determines; and
- (c) notice from the Participant that the Participant wishes the Performance Right to lapse.

6 No Transfers

Performance Rights may not be transferred without the consent of the Board.

7 Quotation of Performance Right and Shares

Performance Rights will not be quoted on the ASX. TRS will make application to the ASX for official quotation of Shares issued on the exercise of Performance Rights, if other Shares are listed at that time, as soon as practicable after the Shares are issued.

8 Participation in future issues

8.1 Participation generally

A Participant may only participate in new issues of securities to holders of Shares if the Performance Right has been exercised in accordance with its terms, and the Shares in respect of the Performance Right have been allotted before the record date for determining entitlements to the issue.

8.2 Bonus issues

Subject to the Listing Rules, if TRS makes a bonus issue of shares or other securities pro rata to holders of Shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and no Shares have been allotted in respect of a Performance Right before the record date

for determining entitlements to the bonus issue then the rights attaching to that Performance Right will be altered as follows:

- (a) the number of Shares to which the Participant is entitled on exercise of the Performance Right will be increased by the number of Shares that the Participant would have received if the Participant had exercised the Performance Right and been allocated a Share in respect of that Performance Right before the record date for the bonus issue; and
- (b) the exercise price per Performance Right will not be changed.

8.3 Rights issues

Subject to the Listing Rules, if TRS makes an offer of shares pro rata to all or substantially all holders of Shares (whether or not an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) then the number of Shares to which the Participant is entitled on exercise of the Performance Right and the exercise price of the Performance Right will not be changed.

8.4 Reconstructions

Subject to the Listing Rules, if at any time or times prior to the exercise by a Participant of a Performance Right:

- (a) there is a consolidation of the Share capital of the TRS, the number of Performance Rights must be consolidated in the same ratio as the Share capital and the exercise price must be amended in inverse proportion to that ratio;
- (b) there is a sub-division of the Share capital of TRS, the number of Performance Rights must be sub-divided in the same ratio as the Share capital and the exercise price must be amended in inverse proportion to that ratio ;
- (c) there is a pro-rata cancellation of Shares, the number of Performance Rights must be reduced in the same ratio as the Share capital and the exercise price must be amended in inverse proportion to that ratio;
- (d) there is any other reconstruction of the issued capital of TRS the number of Performance Rights or the exercise price (or both), must be reorganised in compliance with the Listing Rules and so that the holders of Performance Rights will not receive a benefit that holders of Shares do not receive; and
- (e) (subject to the provisions with respect to rounding of entitlements as sanctioned by the meeting of the holders of Shares approving a reconstruction of capital) in all other respects the terms for the exercise of Performance Rights remain unchanged.

8.5 Rounding

Before a Performance Right is exercised, all adjustment calculations are to be carried out including all fractions. On the exercise by a person of a number

of Performance Rights, the aggregate number of Shares acquired by that person as a result of that exercise will be rounded down to the nearest whole number.

8.6 Notice of Adjustment

TRS must give notice to each Performance Right Holder of any adjustment to the number of Shares which the Performance Right Holder is entitled to subscribe for or be issued on exercise of a Performance Right or the exercise price per share in accordance with the Listing Rules.

9 Overriding restrictions on grant and exercise

Notwithstanding the Plan or the terms of any particular Performance Right as granted, no Performance Right may be granted or exercised if to do so would contravene the Corporations Act, the Listing Rules, or any other applicable laws or regulators.

10 Administration of the Plan

10.1 Board administers Plan

The Plan will be administered by the Board in accordance with the terms of this Plan. The Board may make further rules for the operation of the Plan which are consistent with this Plan.

10.2 Powers exercised to benefit TRS

Any power or discretion which is conferred on the Board by this Plan must be exercised by the Board in the interests or for the benefit of TRS, and the Board is not, in exercising any such power or discretion, under any fiduciary or other obligation to any other person.

10.3 Powers may be delegated

Any power or discretion which is conferred on the Board by this Plan may be exercised by the Board or any person or persons appointed by the Board to act on its behalf.

10.4 Board decision final

The decision of the Board as to the interpretation, effect or application of this Plan, the exercise by the Board of any power or discretion under this Plan or the giving of any consent or approval by the Board in connection with this Plan will be final and conclusive.

10.5 Plan may be suspended/cancelled

The Board may from time to time suspend the operation of this Plan and may at any time cancel this Plan. The suspension or cancellation of this Plan will not prejudice the existing rights of Participants.

11 Rights of Participants

Except as expressly provided in this Plan, nothing in this Plan:

- (a) confers on any Executive the right to be granted any Performance Rights;
- (b) confers on any Participant the right to continue as an employee of TRS or any of its subsidiaries;
- (c) affects any rights which TRS or a subsidiary may have to terminate the employment of any employee;
- (d) may be used to increase damages in any action brought against TRS or a subsidiary in respect of any such termination; or
- (e) confers on an Executive any expectation to become a Participant.

12 Amendment of the Plan

12.1 Board may amend

Subject to clauses 12.2 and 12.3, TRS may at any time by resolution of the Board, amend all or any of the provisions of this Plan (including this clause 12).

12.2 No reduction in rights

No amendment of the provisions of this Plan is to reduce the rights of any Participant in respect of Performance Rights granted under the Plan prior to the date of the amendment, other than an amendment introduced primarily:

- (a) for the purpose of complying with or conforming to present or future State, Territory or Commonwealth legal requirements governing or regulating the maintenance or operation of the Plan or like plans (including the Corporations Act and the Listing Rules);
- (b) to correct any manifest error or mistake;
- (c) to enable contributions or other amounts paid by any body corporate in the Group in respect of the Plan to qualify as income tax deductions for that body corporate the company or any other body corporate within the Group; or
- (d) to enable any body corporate in the Group to comply with the requirements of a regulator, including any requirements of, or relevant instruments of relief issued by, the Australian Securities and Investments Commission from time to time.

12.3 Compliance with Listing Rules

No amendment of this Plan may be made except in compliance with any applicable law, regulation or the rules of a stock exchange on which TRS' Shares are listed and which apply to TRS.

12.4 Retrospective effect

Subject to the above provisions of this clause 12, any amendment made pursuant to clause 12.1 may be given such retrospective effect as is specified in the resolution by which the amendment is made and, if so stated, amendments to this Plan, including the terms of Performance Rights, have the effect of automatically amending the terms of granted but unexercised Performance Rights.

13 Notices

Notices may be given by TRS to the Performance Right Holder in the manner prescribed by the Constitution of TRS for the giving of notices to members of TRS and the relevant provisions of the Constitution of TRS apply with all necessary modification to notices to Performance Right Holders.

14 Governing Law and jurisdiction

The Plan is governed by and will be construed and take effect in accordance with the laws of Victoria. All disputes arising in connection with or under this Plan will be submitted to the exclusive jurisdiction of the courts of Victoria.

15 Definitions and interpretation

15.1 Definitions

In this Plan, the following words and expressions have the meanings indicated unless the contrary intention appears:

ASX means Australian Stock Exchange Limited (ABN 98 008 624 691).

Board means all or some of the Directors acting as a board or a committee of directors.

Corporations Act means the Corporations Act 2001 (Cwlth).

Director means a director of TRS.

Exercise Date means the date a Performance Right is granted to a Performance Right Holder, unless otherwise determined by the Board.

Executive means an employee or Director of TRS whom the Board determines to be in an executive position.

Expiry Date means for a Performance Right, a date determined by the Board not earlier than the day prior to the fifth anniversary of the Exercise Date of the Performance Right and not later than the tenth anniversary of the Exercise Date of the Performance Right.

Group means TRS and each body corporate that is a subsidiary of TRS under the Corporations Act.

Listing Rules means the Listing Rules of ASX.

Participant means an Executive who has been granted a Performance Right by the Board in accordance with this Plan.

Performance Right means a right granted under the Plan for Shares.

Plan means this The Reject Shop Performance Rights Plan.

Share means a fully paid ordinary share in the capital of TRS.

TRS means The Reject Shop Limited (ABN 33 006 122 676).

15.2 Interpretation

In this Plan unless the contrary intention appears:

- (a) the singular includes the plural and vice versa;
- (b) reference to a rule, a statute or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them; and
- (c) a reference to a person includes a reference to the person's legal personal representatives, executors, administrators and successors, a firm or a body corporate.

15.3 Headings

Headings are inserted for convenience and do not affect the interpretation of this Plan.

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Schedule 1 - Terms of first Performance Rights (clause 2.3)

Pursuant to clause 2.3 of the Plan, the first Performance Rights granted under the Plan will be governed by the additional terms set out in this Schedule 1.

1.1 Date of issue

On the date of admission of TRS to the Official List of ASX as part of the initial public offering of shares in TRS in or about April 2004 (“Offer”), TRS will grant Performance Rights (“the First Performance Rights”) to selected Executives.

1.2 Tranches

The First Performance Rights will be divided into separate tranches (“Tranches”).

1.3 Conditions of Exercise

First Performance Rights in each respective Tranche may only be exercised by the Executive if:

- (a) the Earnings Per Share (“EPS”) of the Company in respect of a designated year applicable to that Tranche (“Actual EPS”) meets or exceeds the EPS target in respect of the year applicable to that Tranche (“EPS Target”) as calculated by TRS and notified in writing to the Executive by TRS; and
- (b) the Executive in respect of whom the First Performance Rights are granted remains employed by TRS until a specified date applicable to that Tranche (“Exercise Date”).

1.4 Definitions

For the purposes of, and subject to the other terms of, this Schedule 1:

“Actual EPS” means the actual EPS for the relevant year applicable to the Tranche as calculated from the statement of financial performance of TRS in the relevant year (as adjusted for expensing of the First Performance Rights).

“EPS Forecast” means the benchmark EPS used for determining the EPS Target in respect of each Tranche, as calculated from the Financial Forecast set out in the Prospectus (as adjusted by the Board in its absolute discretion for non recurring or significant items).

“EPS Target” means the EPS target for the relevant year applicable to each Tranche, determined by reference to a benchmark EPS Forecast.

“EPS” has the meaning set out in, and will be calculated in accordance with, Accounting Standard AASB 1027.

Notification Date means the date TRS notifies the Executive whether a Tranche of their Performance Rights has met the EPS Target applicable to that Tranche in accordance with clause 1.3(a).

1.5 **Classes of Tranches**

Subject to paragraph 1.10, TRS will grant:

- (a) A Tranche Performance Rights;
- (b) B Tranche Performance Rights;
- (c) C Tranche Performance Rights; and
- (d) D Tranche Performance Rights,

to each Executive selected by the Board.

1.6 **A Tranche Performance Rights**

The A Tranche Performance Rights may only be exercised by the Executive if:

- (a) Actual EPS for the financial year ending 27 June 2004 meets or exceeds the EPS Target, being the EPS Forecast for the financial year ending 27 June 2004; and
- (b) the Executive remains employed by TRS until one day after the end of the following financial year.

If the A Tranche Performance Rights cannot be exercised because the Actual EPS does not meet or exceed the EPS Target specified in paragraph (a) (and the Executive remains employed by TRS on the Notification Date), the A Tranche Performance Rights convert into B Tranche Performance Rights on 27 June 2004 and are added to any existing B Tranche Performance Rights held by the Executive.

1.7 **B Tranche Performance Rights**

The B Tranche Performance Rights may only be exercised by the Executive if:

- (a) Actual EPS for the financial year ending 26 June 2005 meets or exceeds the EPS Target, being the EPS Forecast for the financial year ending 26 June 2005; and
- (b) the Executive remains employed by TRS until one day after the end of the following financial year.

If the B Tranche Performance Rights cannot be exercised because the Actual EPS does not meet or exceed the EPS Target specified in paragraph (a) (and the Executive remains employed by TRS on the Notification Date), the B

Tranche Performance Rights convert into C Tranche Performance Rights on 26 June 2005 and are added to any existing C Tranche Performance Rights held by the Executive.

1.8 C Tranche Performance Rights

The C Tranche Performance Rights may only be exercised by the Executive if:

- (a) Actual EPS for the financial year ending 25 June 2006 exceeds the EPS Target, being 10% above the EPS Forecast in respect of the financial year ending 26 June 2005; and
- (b) the Executive remains employed by TRS until one day after the end of the following financial year.

If the C Tranche Performance Rights cannot be exercised because the Actual EPS does not meet or exceed the EPS Target specified in paragraph (a) (and the Executive remains employed by TRS), the C Tranche Performance Rights convert into D Tranche Performance Rights on 25 June 2006 and are added to any existing D Tranche Performance Rights held by the Executive.

1.9 D Tranche Performance Rights

The D Tranche Performance Rights may only be exercised by the Executive if:

- (a) Actual EPS for the financial year ending 1 July 2007 exceeds the EPS Target, being 21% above the EPS Forecast in respect of the financial year ending 26 June 2005; and
- (b) the Executive remains employed by TRS until one day after the end of the following financial year.

For the avoidance of doubt, if the D Tranche Performance Rights cannot be exercised because TRS does not meet the EPS Target for the relevant financial year, the D Tranche Performance Rights lapse on the Notification Date.

1.10 First Performance Rights granted to Barry Saunders

If First Performance Rights are granted to Barry Saunders, the terms in paragraphs 1.6-1.9 will not apply to those Performance Rights and the following terms apply:

- (a) the First Performance Rights will be divided into two tranches: the X Tranche Performance Rights and the Y Tranche Performance Rights;
- (b) 60% of the First Performance Rights granted to Mr Saunders will be X Tranche Performance Rights and 40% of the First Performance Rights granted to Mr Saunders will be Y Tranche Performance Rights;
- (c) the X Tranche Performance Rights may only be exercised by Mr Saunders if:

- (i) Actual EPS for the financial year ending 26 June 2005 meets or exceeds the EPS Target, being the EPS Forecast in respect of the financial year ending 26 June 2005; and
- (ii) Mr Saunders remains employed by TRS until one day after the end of the following financial year.

If the X Tranche Performance Rights cannot be exercised because the Actual EPS does not meet or exceed the EPS Target specified in paragraph (i) (and Mr Saunders remains employed by TRS), the X Tranche Performance Rights convert on 26 June 2005 and are added to any existing Y Tranche Performance Rights held by Mr Saunders; and

- (d) the Y Tranche Performance Rights may only be exercised by Mr Saunders if:

- (i) Actual EPS for the financial year ending 25 June 2006 exceeds the EPS Target, being 10% above the EPS Forecast in respect of the financial year ending 26 June 2005; and
- (ii) Mr Saunders remains employed by TRS until 2 July 2006.

If the Y Tranche Performance Rights cannot be exercised because the Actual EPS does not meet the EPS Target specified in paragraph (i), the Y Tranche Performance Rights lapse on 25 June 2006.

1.11 Cessation of Employment due to death or disability

If:

- (a) an Executive who holds First Performance Rights ceases to be employed by TRS due to death or a disability which prevents the Executive from continuing employment with TRS; and
- (b) the Actual EPS in respect of the financial year applicable to a Tranche of the First Performance Rights held by the Executive have met or exceeded the relevant EPS Target for the financial year applicable to that Tranche,

then the First Performance Rights held by the Executive in respect of that Tranche will be exercisable by the Executive or the Executive's estate or legal personal representative (as applicable) for a period of 12 months commencing on the first day immediately after the Executive ceases to be employed by TRS due to the death or disability of the Executive, irrespective of whether the employee ceased employment with TRS prior to or after the Exercise Date applying to that Tranche of First Performance Rights.

1.12 Cessation of employment due to change in control

If:

- (a) an Executive who holds First Performance Rights ceases to be employed by TRS due to a bidder acquiring a relevant interest in

greater than 50% of the Shares in TRS or a sale of all or substantially all the businesses of TRS (“Change in Control Event”); and

- (b) the Actual EPS in respect of the financial year applicable to any Tranches of the First Performance Rights held by the Executive have met or exceeded the relevant EPS Target for the financial year applicable to that Tranche,

then, the First Performance Rights held by the Executive in respect of that Tranche will be exercisable by that Executive for a period of 12 months commencing immediately after the Executive ceases to be employed by TRS due to the Change in Control Event, irrespective of whether the employee ceases to be employed by TRS prior to or after the Exercise Date applying to that Tranche of First Performance Rights.

1.13 Cessation of employment for any other reason

If:

- (a) an Executive who holds First Performance Rights ceases to be employed by TRS for any reason other than the reasons referred to in paragraphs 1.11 and 1.12; and
- (b) the Actual EPS in respect of the financial year applicable to any Tranches of the First Performance Rights held by the Executive have met or exceeded the relevant EPS Target for the year applicable to that Tranche,

then the Board may determine in its absolute discretion, the extent to which the First Performance Rights held by the Executive in respect of that Tranche may be exercisable, having regard to such factors as the Board determines, including the performance of the Executive.