

**CHAIRMAN'S & MANAGING DIRECTOR'S PRESENTATION AT AGM HELD ON 15<sup>th</sup>  
OCTOBER 2008**

**CHAIRMAN'S ADDRESS**

Good afternoon Ladies and Gentlemen.

My name is Brian Beattie 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.

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

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

Gerry Masters, our Managing Director, will then present his report.

Following Gerry's presentation I will formally submit the Annual Report, inclusive of the Director's Report; the Director's Declaration and the Auditors Report for approval and invite questions from registered shareholders or their registered representatives.

We will then proceed with the ordinary resolutions on the agenda.

I would now like to share with you a brief overview of the past year and a summary of the key strategic areas we will focus on over the next 12 months.

This was another successful year for the Company with a number of significant milestones achieved:

- Sales were up 25.8% to \$353m;
- Net Profit After Tax was up 35.6% to \$16.7m;
- Earnings per share were 64.9 cents, up 34.9%;
- Ordinary dividends of 48.0 cents per share were declared and paid.

As in prior years, the Board and Management undertook its annual strategic review of the business and the outcome was a number of initiatives particularly in the areas of Logistics / Supply Chain and IT Infrastructure. Details of progress on these initiatives will be provided in the Managing Directors address shortly.

With regard to Board Composition, we completed the seamless transition of the Managing Director's role with Gerry Masters completing a successful first 20 months in charge of the company. Furthermore, we introduced two new Directors to the Board, namely Mr. Kevin Elkington, appointed in April 2008 to replace the outgoing Mr. John Shuster, and Mr. Bill Stevens, who joined us in August 2008 to replace Mr. Craig McMorrison, who retires at the conclusion of today's meeting.

We thank both John and Craig for their significant contribution over many years at The Reject Shop and welcome both Kevin and Bill who we are sure will prove to be worthy successors.

As part of our annual Board processes, we have undertaken a review of the effectiveness of the Board and its Committees.

The review demonstrated the Board is fulfilling its role appropriately and the Board & Management are continuing to work well together.

I would now like to take the opportunity to thank my fellow Directors, the management team and all our staff for their significant contributions to the Company's success.

Looking ahead, we will continue to implement strategic initiatives in the areas of

- logistics, merchandise planning and forecasting
- occupational health and safety and
- recruitment and training of staff

including bolstering our succession planning so that we can be confident we have the appropriate infrastructure within which our business can continue to grow and prosper.

These various initiatives, along with our robust store expansion program, will result in an increased level of short and long term funding over the medium term.

The Board and management are constantly reviewing our funding requirements to ensure we operate within prudent gearing ratios.

I now invite Gerry Masters to provide more details on the result and our outlook.

### **MANAGING DIRECTOR'S ADDRESS**

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

I am pleased to be able to update you on the company's performance for the 2008 financial year and outline our focus for the year ahead. At this point, I'd like to also say thanks to our 2,700 strong team members and in particular the Executive Management Team, for all their good work and support of what has been a continuing success story here at the Reject Shop.

Since joining The Reject Shop 20 months ago, I have met many of our people and visited most of our stores across Australia. I've also met with many of our suppliers and external partners.

It reaffirms to me that, in The Reject Shop we have a great business with a committed team that continues to focus on improving the customer experience.

On that note I will move onto the main focus of today's presentation. The key areas I want to talk to you about today include:

- Our headline results for the 2008 financial year;
- The key initiatives that have played an instrumental role in helping to build our future success; and
- Finally, I would like to provide some insight into the current financial year.

### **Key Highlights FY 2008**

I am pleased to report another strong trading result for the year, particularly given the market uncertainty during the second half.

The company achieved another record result:

Sales of \$353 m (up 25.8% on last year);  
Comp Growth of 8.7% (a company record); and  
Net Profit After Tax of \$16.7m (up 35.6%).

The full year result incorporates a 53 week trading period compared to 52 weeks for the corresponding period last year, impacting the comparison between the periods on both sales and net profit after tax. Excluding the impact of the additional week's trading the NPAT increase would have been approximately 27%.

This result was underpinned by:

- The continued focus on offering customers quality products at competitive prices;
- Improved performances in our key trading events – Christmas, Easter, Mothers Day, Fathers Day;
- Continued focus on managing and reducing the cost of doing business;
- Delivering the roll out of new stores and the ongoing refurbishment program;
- Continued investment in our people; and
- An improved shopping experience for our customers.

We opened 21 new stores during the year across all states:

- 8 in NSW
- 4 in Victoria
- 5 in Qld
- 2 in SA
- 2 in WA

The new stores are all performing well; and the customer acceptance in Western Australia and Queensland provides great confidence for the opening of our first Tasmanian store this year.

We celebrated our 150th store opening (in Rockingham, WA) during FY2008. This was a significant milestone for us which was well supported by our key suppliers and a great motivator for our team.

### **Stockflow / Product Initiatives Driving Sales**

While our offer remains a balance of everyday basics and variety, we are constantly refining this to drive sales through a combination of stockflow and product initiatives.

During the year:

- We introduced more “branded” merchandise to supplement our basic offering;
- We continued to find alternative sources of product to maintain and enhance our value proposition, passing on FX benefits where possible;
- We increased the use of store replenishment to ensure our stores were in-stock of wanted merchandise; and
- As in every year, we kept a watchful eye on the market to ensure we remain competitive and offer great value to the customer.

Concurrent with our store expansion program we continue to review and enhance our supply chain. This year we focused heavily on the key areas to support our growth:

- Evaluating overseas freight consolidation opportunities; and
- Expanding our distribution capability including:
  - Enhancing our seasonal / catalogue facilities; and
  - Planning for our new Distribution Centre (DC) in Queensland.

We are also currently in the early stages of implementing a new Enterprise Resource Planning or ERP system, having selected SAP early this year. The system is on track to 'Go Live' in late FY09.

I am happy with the progress to date, with significant involvement by senior management which is the key to the success of any project.

### **People**

With our aggressive growth plans and identified strategic initiatives underway we have continued to strengthen our team. This year we have invested more in senior management:

- We have split the CFO role to focus on more strategic initiatives, which has been supplemented by the appointment of a new financial controller & Company Secretary;
- The merchandise team has been bolstered with two new buying controllers and more attention on supply chain and planning with two more key appointments; and
- With the SAP implementation and supply chain developments we have also ensured our project capability too is bolstered.

And to increase our focus on the customer we have been appointed a new GM - Marketing.

### **Looking Ahead**

#### **1) Store Roll-Out Program**

Our National expansion continues.

The outlook for FY09 is exciting:

- We have 20 new stores planned for the 2009 financial year, all with confirmed opening dates (10 stores have already opened, with a further 5 to open before Christmas);
- We will keep the chain 'fresh' through a strong refurbishment program;
- We will open our first Tasmanian store this half year; and
- We are pushing further north into Queensland with Rockhampton which opened on 25 September, complementing our Hervey Bay and Bundaberg stores.

In addition to the store expansion program we will continue to place emphasis on the in-store customer experience by:

- conducting customer focus groups; and
- challenging our in-store environment.

## **2) Increase Customer & Brand Focus**

The aim is to build a distinctive TRS Brand experience.

Customers greatly appreciate our continual stream of new products and the variety of our offer and our expert team of Buyers source domestically and globally (Asia, Europe & the UK) the latest trend on/trend and wanted lines. We are looking to increase our national brands offer and looking at ways to give customers even more value.

National Pricing which is having the same sell prices in all our stores, is an important strategy for us to continue building on the reputation and trust we have with customers.

We also aim to improve the customer experience by having well merchandised, clean, bright and modern stores in the chain as well as undertaking ongoing research programs that track customer perceptions.

We will also introduce store listening groups where we collate and act on customer feedback.

## **3) Supply Chain & ERP Projects Progressing:**

Having established our long term goals we will be introducing some key changes to the way we operate over the next 2 years in preparation for the opening of the new Queensland DC.

Overseas consolidation will allow improved timing of orders into our DC network.

Continuing improvement in our replenishment capabilities has proven more than successful to date, the introduction of sortation and conveying capability in Queensland will be a further quantum leap.

With the development of the Queensland DC:

- We have selected our developer;
- We will commence the project in earnest later this year; and
- We aim to have a fully functional facility by FY2011.

## **4) ERP Implemented:**

The implementation of SAP, as I've said earlier, is a major focus. We are on track, but there is still more work ahead before we 'Go live' later this financial year.

While this will be our focus in this current financial year, there are a number of enhancements already being planned, to complement our supply chain initiatives, in particular introducing enhanced planning and forecasting tools.

These are likely developments for late FY2009 or FY2010.

**FY 2009 Financial Outlook**

Our outlook for FY2009 remains positive.

We are encouraged by the start of the year with 10 new stores already opened and performing well and 10 more stores planned for the remainder of the year. Our sales to date are tracking ahead of plan and we believe we are well prepared for the peak Christmas trade to come.

Like everybody here today we are mindful of the volatility in which we operate which will provide some extra challenges during the year, particularly with the fluctuating Australian dollar. Whilst this may impact on our pricing and margin, we are managing through this keeping a watchful eye on our competitive stance and believe we are well positioned in the marketplace.

Finally, we believe our customer offer remains appealing despite the market volatility and therefore we are confident of meeting our previous guidance of Net Profit After Tax of between \$18.6m and \$18.8m (an increase of approximately 20% on FY08 on a like for like basis).