Appendix 4E

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary final report

For the 53 week financial period ended 3 July 2016
Compared to the 52 week financial period ended 28 June 2015

Results for announcement to the market

				$A'000
Sales revenue from continuing operations	up	5.7%	to	799,958
Profit from continuing operations after tax attributable to members	up	20.1%	to	17,100
Net profit for the period attributable to members	up	20.1%	to	17,100

Dividends	Amount per share	Franked amount per share
Interim dividend (paid 11 April 2016)	25.0 cents	100%
Final dividend	19.0 cents	100%

Record date for determining entitlements to final dividend	30 September 2016
Dividend payment date	17 October 2016

Commentary on the Company's trading results is included in the media release and on pages 23 to 27 of the annual report enclosed.

THE REJECT SHOP
ANNUAL REPORT
2015/16

THE REJECT SHOP

CONTENTS

Notice Of Annual General Meeting

3.30pm Wednesday 19 October 2016
Crowne Plaza, Bridge Room No. 2
1-5 Spencer Street
Melbourne, Vic 3000

The Reject Shop Limited is a company limited by shares, incorporated and domiciled in Australia. The address of the company's registered office is 245 Racecourse Road, Kengsington VIC 3031. The financial statements are presented in Australian currency and were authorised for issue by the directors on 24 August 2016. The company has the power to amend and re-issue these financial statements.

KEY OPERATIONAL INDICATORS

OVER 6000 TEAM MEMBERS

FY16 STORES 341

OVER $60M ANNUAL TRANSACTIONS

SALES UP $800M

14 NEW STORES IN 2016

CHAIRMAN'S REPORT

Dear Shareholder,

At the last couple of Annual General Meetings, I have discussed various elements of the retail economy, and the likely timelines of required process improvement following our rapid store opening programs of 2012-2014. The discussions also included the changes in the Management Team to help your Company move into the next phases of its growth and development, and our belief that our direction remained appropriate.

Following on from those conversations, and after the very strong start to the 2015-2016 financial year which was reflected in the financial report for the first-half, I am pleased to report that the second half has continued the work towards those improved operating financial outcomes. The potential identified some years ago is coming to fruition, through the continuing action of Ross Sudano and his team. We remain on the journey. As we continue through this period of consolidation, process change and improvement; I would particularly like to thank all of our present and our past employees who have contributed to the development of the Company.

Ross's team includes a number of recent arrivals, and they continue to pursue further opportunities for improvements in the financial outcomes. These will supplement the steady growth of the Company of the past twelve years which has been due to the efforts of many.

The Net Profit after Tax for the year was $17.1 million. The Company's balance sheet remains strong, and the cash flows allow a balanced allocation between returns to shareholders, and re-investment into the Company's future. While this year's Net Profit includes approximately $2.4 million from the results of a cyclical fifty-third week of trading, it also includes $6.3 Million (after tax) of costs associated with the forthcoming cessation of activity at our Tullamarine Distribution Centre, as previously announced. A full analysis of the results into those associated with 'underlying' trading, and those resulting from structural elements, is set out in detail in the Overview of Financial Statements, and in Ross' commentary.

Significant cash outgoings associated with the expenses incurred this year in respect of the upcoming cessation at Tullamarine (and the move to the new Distribution Centre at Truganina in Melbourne's west) will occur in this current financial year. Full efficiency benefits will not be achieved in its first (part) year of operations. Nonetheless, the solid 2016 operating cash-flow, and 2017 projections, enables us to continue a total annual dividend payout, for the 2015-2016 year, of some 60% of our 'normalised' operating result. A final dividend of 19.0 cents per share has been declared, to add to the interim dividend of 25.0 cents per share which was paid in April 2016. This combined annual dividend reflects a 46.7% increase over the prior year.

Our Chief Executive Ross Sudano, together with his team, is continuing the development of the operating processes that we expect to sustain the continuing growth and enhanced profitability of the Company. Growth in sales remains vital, however significant attention also continues to be given to steady success in efficiently reducing our Cost of Doing Business, and our support costs. While they believe they still have much to do, our charter, our core values, and our mission remain steadfast.

NET PROFIT AFTER TAX $17.1M

Ross and his team remain committed to our retailing goals, and our growth; but undertaken in a manner which ensures the safety and well-being of our people, and our customers. This year was also free of major health and safety incidents, and the whole team remain committed to an objective of injury free operations.

We will continue the sensible expansion of our store numbers across the country, together with a store refurbishment program to support our existing staff and customers, with a strong and enjoyable retail offer. All of our stores are expected to achieve sound economic outcomes or be closed, and we consider the very vast majority of our stores to be sustainable. The stores also enable us to have ongoing contact with many communities.

We have received resounding support from those communities, and our staff, for our established Reject Shop Foundation. Our Foundation has garnered funds to assist with the provision of support to children with medical difficulties, and the Board thank all involved for their generous engagement.

A great deal of information is set out in the Director's Report, the Annual Report, and its Supplements on our values, our results; and how the Company operates. The results are due to the efforts of Ross, his Management team, and our 6,000 employees. I encourage you to read it, and to engage with us at the Annual General Meeting in October with any of your thoughts.

The Board acknowledges your continuing support, and we remain confident in the Company's outlook.

William J Stevens
CHAIRMAN

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER'S REPORT

Dear Shareholders,

I am pleased to report on a year of major progress at The Reject Shop, during which we made important advances towards our goal of restoring the performance of the business to its true potential.

Fundamentally, we believe that The Reject Shop is a robust business with a great future and we are committed to continuing to develop the business so that it delivers a clear and distinctive value offer to our customers, generates appropriate returns for shareholders and is a safe, rewarding and engaging business to work in for all our team members.

We have articulated a clear path to achieving this in a three phase journey and 2016 has been a year of significant progress.

Our strategy is underpinned by a focus on better understanding our customers, and generating further efficiencies to enable us to reinvest in driving top line sales growth, thereby improving returns to shareholders.

There are four key pillars to this strategy:

1. A clear customer focus to provide our customer with a differentiated offer and continue to target new markets via new stores;
2. Achieving sustainable comparable store sales growth by increasing customer transactions from existing and new customers;
3. Further improving the efficiency of our operations so that by reducing our cost of doing business (CODB) we can fund sales growth and deliver improved returns to shareholders; and
4. Providing a rewarding and challenging environment for our teams that enables them to excel.

The Reject Shop has a powerful and motivating purpose, "To enable and inspire more people to do more with less". This comes to life for our customers via a promise to: "Always get more for your money through the fun and excitement of discovering a new bargain".

When we successfully deliver our customer promise in store we believe we deliver a unique retail experience.

In response to feedback from our customers, we have increased the number of core products available every day while continuing a focus on improving in-store promotional activity to increase the frequency of new products arriving to delight our customers.

We have also refined our approach in terms of our marketing activity to ensure a clear and consistent message for our customers.

Further investment is being made in improving the in-store customer experience through changes to our merchandising standards, store execution and in store navigation.

During the year we have made significant progress in understanding our core customers and delivering against our customer promise. This is a journey that will take time, however when we do get the elements of our offer right our customers have responded positively.

We use a mix of different media to communicate our customer promise in a clear and consistent way. This includes a mix of TV to communicate our customer promise broadly; catalogues to support key selling events; and digital marketing and social media to communicate new and interesting products arriving in our stores on a weekly basis.

We continue to develop a data base of Savvy Shoppers to enable us to communicate directly on a regular basis. We now have over 500,000 Savvy Shoppers on our data base and with more than 250,000 supporters on social media we have the capacity to talk directly to a significant number of our customers. We continue to see this as a critical part of our communication strategy and the development of a data base is the first step in our digital strategy.

With both variety and availability key components of our customer offer, we are investing in new technology and systems to help us improve product availability of our core lines in store. We have established a small project team to ensure we deliver this project effectively.

Once in place this will provide us with a platform to improve our convenience offer to our customers through both variety and availability. This is expected to be fully functional in the second half of FY 17.

During the year, we have been able to achieve sales growth of 3.7% and comparable sales growth of 3.0%, underpinned by both increased transactions and basket growth. While a pleasing result, the focus remains on growing our transaction levels to underpin future sales growth by more reliably meeting our customer promise.

During the year we opened 14 new stores and closed 6 uneconomic stores, continuing our focus on ensuring each of our stores is contributing positively to the financial performance of the business. This will remain an ongoing focus as we continually refine our store portfolio.

To simplify our business and reduce costs we have also invested in number of change projects which are underway. These include:

1. The development of a labour allocation tool to improve the allocation of labour hours to tasks in store as a means to measure and improve productivity.
2. Stock flow from truck to shelf which is a focus on standardising in store operations and creating efficiencies to improve in store productivity.
3. Container freight consolidation which is a project to simplify and maximise the benefit of scale and value added activities off shore by significantly reducing our number of consolidation centres.
4. The Melbourne distribution centre which is a project to improve productivity and reduce complexity via the development of a purpose built DC utilising technology to lower our supply chain costs to stores on the south east of Australia.
5. A cost reduction project that has delivered sustainable savings to the business.

Our people have responded well to these change initiatives and while many of these initiatives are still being implemented, our people are contributing strongly to their development. As a result of these initiatives our team have been able to reduce our costs of doing business by 2.0% of sales during FY16.

We have announced a process to construct a purpose built distribution centre in Melbourne to simplify our operation and utilise technology to improve our productivity. Toyota Tshusho Logistics has been engaged as a third party operator of the site.

The distribution centre is due to be operational early calendar 2017 and is expected to deliver operational cost savings of $2.0 million in the first full year of operation, FY2018.

As a result of this decision, the team at our Tullamarine DC will be made redundant when our current distribution centre closes and full entitlements will be provided for from both operating cash flows and a slight increase in gearing as can be seen from our reported earnings. I would like to thank the team for the many years of service and the way they have delivered ongoing support for our expanding operations through a period of significant personal uncertainty.

Our focus on people and capability to ensure we have the right capability in place to deliver the next phase of growth and change for The Reject Shop continues. Within the executive leadership team I have recently welcomed Allan Molloy as General Manager of Retail Operations, as well as consolidated the planning and supply chain functions under Danielle Aquilina to create improved visibility and accountability for the movement of stock through our total supply chain to our stores.

We have made significant improvements to ensure we have a safe work place for our people, resulting in 36% reduction in lost time incidents. This remains a key area of focus for all within the business to ensure we continue to improve further in this area. We have reduced the level of staff turnover in stores by 10%, increased our level of training on safety and aligned all performance metrics across the business. While there remains much to do to in this area, we are making progress.

I would like to thank all our team at TRS. They have embraced the many changes we are making to the way we do business, and have contributed to a significant improvement in the performance of the business for the benefit of all stakeholders during FY16.

2016 has been a year of considerable progress against our stated objectives, and we are pleased with the momentum that the business is gaining. The steps that we have taken during the period are creating a robust, resilient business. There is still more to do to restore business performance, and the growing relevance of the discount sector underpins our confidence in the prospects for the Company. There is an exciting and challenging opportunity in front of us and we are well positioned to capitalise on it.

Ross Sudano

MANAGING DIRECTOR
AND CHIEF EXECUTIVE OFFICER

THE BOARD OF DIRECTORS

William (Bill) Stevens
FCA, MAICD
NON-EXECUTIVE CHAIRMAN

Bill is a Fellow of the Institute of Chartered Accountants in Australia with an extensive career with KPMG (and Touche Ross) for 37 years. During his career with KPMG he was the client service partner for major clients including BHP Billiton, Santos, Pacific Dunlop/Ansell and Pacific Brands. More recently he was CEO of the Pacific Edge Group. He is also a director of International Healthcare Investments Ltd and a number of private company groups. Bill joined the Board in August 2008 and was appointed Chairman on 14 July 2010.

Kevin Elkington
LLB, B.JURIS, FGIA
NON-EXECUTIVE DIRECTOR

Kevin has had a 29 year career as a corporate lawyer and company secretary in some of Australia's leading public companies including Coles Myer. Kevin currently provides legal services and corporate advice to several large commercial clients and is also a director of the Myer Stores Community Fund Ltd. He is also currently a member and regular lecturer with the Governance Institute of Australia in the area of corporate governance. Kevin joined the Board of The Reject Shop in February 2008.

Denis Westhorpe
NON-EXECUTIVE DIRECTOR

Denis has significant experience in senior executive retail roles including 14 years as an Executive Director of Target Australia Pty Ltd. During this time Denis occupied the roles of Store Operations Director, Buying Director and 2 years as Managing Director of Target Specialty Stores. Denis has previously been Chairman of Charles Parsons (Holdings) Pty Ltd where he was a Director for 8 years. Denis joined the Board of The Reject Shop Limited on 19 August 2010.

Melinda Conrad

MBA, FAICD
NON-EXECUTIVE DIRECTOR

Melinda has significant experience in business strategy and marketing to consumer facing organisations in a range of sectors including retail, FMCG, healthcare and government. In her career she was founder and CEO of a retail store chain, Conrads Warehouse. Melinda's professional qualifications include an MBA from the Harvard Business School. She is currently a Non-Executive Director of ASX Limited, OFX (formerly OzForex) Group Limited, The George Institute of Global Health, and the Centre for Independent Studies. Melinda was previously a Non-Executive Director of APN News and Media Limited and David Jones Limited. Melinda joined the Board of The Reject Shop Limited on 19 August 2011.

Ross Sudano

MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

Ross has 20 years experience in retail with a range of companies, including: Little World Beverages, Anaconda Adventure Stores, Foodland Associated Limited, Coles and BP Australia. Ross was CEO of ASX-listed Little World Beverages where he delivered impressive growth in both revenue and earnings while building a solid leadership team, successfully introducing adjoining brands, and implementing new merchandising systems. As Joint Chief Executive Officer of Anaconda Adventure Stores (a subsidiary of Spotlight Retail Group), Ross led the Company's rapid growth through a deep understanding of customer's needs and the ability to develop products to meet them. Ross also held senior management roles at Foodland Associated Limited (now IGA Distribution), including General Manager Group Buying & Marketing, and General Manager Franchising and Supply. Ross was appointed CEO of The Reject Shop in September 2014 and Managing Director on 19 November 2014

THE REJECT SHOP FOUNDATION

June 2014 marked the launch of The Reject Shop Foundation, a not-for-profit foundation committed to helping kids in need. Since its establishment, The Reject Shop Foundation has donated in excess of $370,000 to our inaugural charity partner, Good Beginnings Australia.

This has been made possible by the generosity of our customers and team members through the cash collection boxes available across the Company's entire store network and voluntary work place giving program. The Company thanks its customers and team members for their ongoing support.

Whilst our two year partnership with Good Beginnings Australia proved to be an outstanding success, we have recently conducted a process to select a new national charity partner. We look forward to announcing The Reject Shop Foundation's new national charity partner and continuing to focus on helping kids in need.

The Reject Shop Foundation is administered by Good2Give.

the reject shop foundation
HELPING KIDS IN NEED

OUR *promise*

AFTER EXTENSIVE CUSTOMER RESEARCH, WE HAVE A FOCUS FOR OUR BUSINESS TO DELIVER A UNIQUE SHOPPING EXPERIENCE TO OUR SAVVY CUSTOMER. OUR PROMISE TO THEM IS "YOU'LL ALWAYS GET MORE FOR YOUR MONEY THROUGH THE FUN AND EXCITEMENT OF DISCOVERING A NEW BARGAIN."

THE MANGEMENT TEAM

Darren Briggs

BCOM, CA, ACIS
CHIEF FINANCIAL OFFICER
& COMPANY SECRETARY

Darren spent over ten years working with Deloitte in Australia and the United States. Darren then spent the next thirteen years working in senior finance roles at large corporations, most recently ten years at Skilled Group Limited. Darren joined The Reject Shop and was appointed Company Secretary in May 2008 and was promoted to Chief Financial Officer in October 2009.

Ed Tollinton

CHIEF INFORMATION OFFICER

Ed has over 20 years international blue chip experience in conceiving, sourcing and implementing whole of business technology programs within large customer centric organisations, including periods with Hewlett Packard (UK, USA and Australia) and Coles Supermarkets.

Dani Aquilina

MBUS (LOGMGT)
GENERAL MANAGER - SUPPLY CHAIN AND PLANNING

Dani has more than 14 years experience in retail including 8 years with K-Mart. Since joining The Reject Shop in 2007, Dani played a key role in the development of the Ipswich Distribution Centre and managing the National Logistics operation. Dani has a Masters of Business in Supply Chain and Logistics Management. Dani was appointed General Manager – Distribution in January 2013 and was promoted to General Manager – Supply Chain and Planning in June 2016.

Kelvin Chand

GENERAL MANAGER – PROPERTY

Kelvin has over 20 years experience in the Australian and New Zealand property market having worked for companies such as Westpac Properties, Telecom New Zealand and Ernst & Young as well running a successful property consulting business prior to joining GPC Asia Pacific (Repco) in 2011 as their GM, Property. During Kelvin's tenure at GPC Asia Pacific he managed a national retail property portfolio that comprises of 380 plus stores and 9 Distribution Centres.

Robert d'Andrea
GENERAL MANAGER – HUMAN RESOURCES

Robert has significant experience in Human Resources across a number of industry sectors including Retail, Supply Chain and Financial Services. Holding senior HR roles with Coles, Linfox and the National Australia Bank, Robert's background covers the full range of HR management disciplines as well as project and change management. Robert's experience includes working in major business turnarounds and change programs. Robert joined The Reject Shop in May 2015.

Allan Molloy
GENERAL MANAGER - OPERATIONS

Allan has 25 years' experience in retail working with a range of companies, including Marks & Spencer, Primark and Target Australia. Allan's experience includes major turnarounds and change programs. He has also lead teams through rapid growth including entering new markets in Europe and US. Allan joined The Reject Shop in July 2016.

Colleen Grady
B.COM, B.SC, MBA
GENERAL MANAGER - BUYING

Colleen has 20 years global professional experience including senior leadership positions at Woolworths in Australia and Tesco in the UK. Colleen's commercial experience includes setting the 5 year strategy for supermarkets and establishing new growth categories. Colleen holds an MBA from INSEAD and commenced her career in strategy consulting for Bain & Co (Australia and the USA) and Partners in Performance. Her experience in these roles include corporate turnarounds, change programmes and step change improvement. Colleen joined The Reject Shop in April 2015.

Allan Penrose
GENERAL MANAGER - MARKETING

Allan has over 20 years retail marketing experience, having held senior marketing roles at Kmart, Target, Grey Advertising and George Patterson Y&R. Prior to joining The Reject Shop Allan spent 5 years at The Solomon Partnership where he developed a number of successful integrated brand campaigns for Coles Supermarkets. Allan joined The Reject Shop in August 2010.

CORPORATE GOVERNANCE ENVIRONMENTAL *Social Statement* AND FINANCIAL REPORT

— FOR THE FINANCIAL PERIOD ENDED 3 JULY 2016 —

CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT

The Company and the Board have set and maintained high standards of corporate governance. The Company has complied with the Principles and Recommendations released by the ASX Corporate Governance Council in March 2014 and any subsequent amendments.

A summary of the Company's main corporate governance practices are outlined below and were in place for the entire period, unless otherwise stated. A full copy of the Company's corporate governance, environmental and social policies and charters can be found in the investors section of the Company's website at **www.rejectshop.com.au**

THE BOARD OF DIRECTORS

The Board operates in accordance with the Board Charter, which establishes the composition of the Board and its overall responsibilities, as summarised below:

Composition of the Board

Under the Company's Constitution and the Board Charter the following criteria must always be met:

- The Board must be comprised of at least 3 directors;
- The Board must be comprised of a majority of independent directors;
- The Chairman must be an independent director; and
- The Managing Director and the Chairman are separate roles and undertaken by separate people.

There are currently four non-executive directors and one executive director. Each non-executive director is individually assessed, on an annual basis, for independence based on the following criteria:

- They must not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- They have not, within the last three years, been employed in an executive capacity by the Company, or been a director after ceasing to hold any such employment;
- They have not, within the last three years, been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with a service provider;
- They must not be a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- They must have no material contractual relationship with the Company or another group member other than as a director of the Company;
- They have not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Company; and
- They must be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Company.

Materiality is assessed on both qualitative and quantitative bases.

The Managing Director position is not considered an independent director based on the above criteria. All current non-executive directors satisfy all criteria above and are considered independent directors.

The directors considered as independent are as follows:

William J Stevens
Kevin Elkington
Denis R Westhorpe
Melinda Conrad

All directors have entered into written contracts of employment.

Details of each directors' experience is contained on page 8 and 9 and their attendance at Board and Committee meetings is contained in the Directors' Report on page 21 in this annual report.

Responsibilities of the Board

The Board delegates responsibility for the day-to-day management of the Company to the Managing Director and senior management, however retains responsibility for:

- Establishing and reviewing the implementation of strategy;
- Monitoring senior management's performance and approving remuneration;
- Ensuring appropriate resources are available to achieve the Company's objectives; and
- Promoting best practice corporate governance, including overseeing the Company's risk management policies.

To enable the directors to fulfil their responsibilities, each director may, at the Company's expense and after consultation with the Chairman, seek independent professional advice.

To assist in meeting its responsibilities the Board has established the Audit and Risk Committee and Remuneration Committee, each with their own separate charter and structure. Significant matters arising from these Committee meetings are tabled at the subsequent Board meeting. Having regard to the size of the Board, it has not been considered necessary to appoint a separate Nomination Committee at this time.

BOARD SKILLS AND EXPERIENCE MATRIX

To assist in identifying areas of focus and maintining an appropriate and diverse mix, the Board has developed a 'Board Skills and Experience Matrix' ('Board Matrix') which is represented in the table below. The Company's Board Matrix sets out the mix of skills, experience and expertise that the Board currently has. The Board benefits from the combination of Director's individual skills, experience and expertrise in the areas identified below:

TRS – Board Skills and Experience Matrix (out of 5 directors)

Legal, Governance & Compliance	
Legal	4
Corporate Governance	5
Compliance	3
Operations	
Marketing	3
Retail, buying, sales & distribution	4
General management experience	5
Business Development	3
Strategy	5
CEO	3
Property/ store development	2
Supply chain/ off shore procurement	1
Finance and Risk	
Accounting	3
Finance	3
OH&S/ Risk Management	4
People	
Human Resources	5
Remuneration	5
Technology	
Technology	2
Digital	1

Annual Performance Reviews

The Company conducted an annual performance evaluation of all directors in September 2015 with the current review scheduled for September 2016. Results of these reviews are announced at the Annual General Meeting each year.

Rotation of Directors

Under the Company's constitution at least one third of the Company's directors must retire at each annual general meeting, as well as any director who has served for more than three years since their last election, excluding the Managing Director.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee operates under the Audit and Risk Committee Charter which outlines the composition and responsibilities of the Audit and Risk Committee as outlined below:

Composition of the Audit and Risk Committee

The Audit and Risk Committee Charter, in line with the recommendations outlined by the Corporate Governance Council, states that the Committee should consist of at least three members, all of whom are non-executive directors and the majority being independent directors. The chairperson must be an independent director and not the Chairman of the Board. In addition, the members of the Committee must have a working familiarity with basic finance and accounting practices, and at least one member of the Committee must have accounting or related financial management expertise. The Audit and Risk Committee currently comprises the following members:

Kevin J Elkington (Chairman)
William J Stevens
Denis R Westhorpe
Melinda Conrad

Role of the Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in:

- Overseeing the reliability and integrity of financial and asset management;
- Ensuring compliance with the Company's accounting policies, financial reporting and disclosure practices;
- Monitoring internal controls including financial systems integrity and risk management; and
- Maintaining the relationship and reviewing the work of the external auditors.

Responsibilities of the Audit and Risk Committee

- Reviewing the integrity of accounting principles adopted by management in the presentation of financial reports;
- Regularly reviewing, assessing and updating internal controls, risk management and regulatory compliance;
- Reviewing, monitoring and assessing related party transactions; and
- Monitoring the effectiveness and independence of the external auditor.

Role of the External Auditor

PricewaterhouseCoopers was appointed auditor effective 2 July 2001, and provides an annual declaration of their independence to the Audit and Risk Committee. Whilst not a member of the Audit and Risk Committee, they are invited to attend all meetings. In addition, they will attend the Annual General Meeting to answer shareholder questions with regard to the conduct of their audit.

CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT CONTINUED

RISK MANAGEMENT AND ASSESSMENT

The Board has delegated to the Audit and Risk Committee the responsibility for overseeing the implementation of policies and procedures aimed at ensuring that the Company conducts its operations in a manner that manages risk to protect its people, its customers, the environment, Company assets and reputation as well as to realise business opportunities.

Risk identification and management is a key focus of the General Management team. Accordingly, the General Management team have designed and implemented a risk management and internal control system to manage the Company's material risks, with a comprehensive analysis of the material risks being prepared for review by the Audit and Risk Committee at the end of each half.

In addition, the Company's Internal Audit and Loss Prevention, and Product Compliance functions provide ongoing assurance to the Board and management that established procedures and requirements are being met.

The Chief Executive Officer and the Chief Financial Officer have made the following certifications to the Board:

- The Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards; and
- The above statement is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board, and ensures that the Company's risk management and internal compliance is operating efficiently and effectively in all material respects.

To enable these certifications to be made, all functional General Managers have provided similar certifications to the Chief Executive Officer and Chief Financial Officer.

CONTINUOUS DISCLOSURE POLICY

The Company has a Continuous Disclosure Policy which establishes the framework by which the Company will satisfy its continuous disclosure obligations as required by the Listing Rules of the Australian Stock Exchange and the Corporations Act. This policy ensures information is disclosed in a full and timely manner to enable all shareholders and the market to have an equal opportunity to obtain and review information about the Company.

The Company has a Shareholder Communication Policy which recognises the right of Shareholders to be informed of matters, in addition to those required by law, which affect their investment. In conjunction with the Company's Continuous Disclosure Policy, this policy ensures that Shareholder and financial markets are provided with information about the Company's activities in a balanced and understandable way. In addition the Company is committed to communicating effectively with Shareholders and making it easier for Shareholders to communicate with the Company. Link Market Services (our Registrar) provide the ability to have these services provided electronically.

Annual and half year reports, media and analysts' presentations, press releases together with the broader continuous disclosure policy are available on the Company's website.

CODE OF CONDUCT

The Company has an established corporate code of conduct which forms the basis for a shared view of the Company, its mission and its ethical standards and code of conduct by senior management and employees. After approval by the Board this code has been adopted by all senior executives.

The Company has a Share Trading Policy which restricts the trading of securities by directors and employees to specified windows during the period, namely between 24 hours and 30 working days after announcement of the Company's half yearly results, and between 24 hours after the announcement of the Company's period-end result and 30 working days after the close of the Company's annual general meeting. In addition, with prior approval of the Chairman, a trading window may be opened for a period commencing 24 hours after and not exceeding 30 working days after any formal announcement to the Australian Stock Exchange.

DIVERSITY POLICY

The Company recognises the importance of diversity and values the competitive advantage that is gained from a diverse workforce at all levels of the organisation. Accordingly the Company has developed a Diversity Policy which focuses on respecting the unique differences that individuals can bring to the business. This policy ensures the Company will continue to foster an environment that respects differences in age, gender, ethnicity, religion, sexual orientation and cultural background. The Company will continue to ensure that all employment opportunities are filled and remunerated on the basis of merit and performance and not due to any known bias.

The Company is committed to building a diverse workforce, with a particular focus on gender and gender equality, and to support this focus, the following objectives have been set:

- Communication of the Company's Gender Diversity Statement to internal and external stakeholders;
- Review the means by which the Company recruits, develops and retains females across the organisation;
- Continue to build from our current workplace flexibility options including job sharing and/or part-time employment;
- Conduct and report a gender audit to measure progress from baseline data and identify and review any specific areas of gender inequality; and
- Report to the Board on a twice yearly basis.

In accordance with this policy the following table represents the level of gender diversity within the Company and changes from the prior year.

	NO OF EMPLOYEES – FEMALE 3 JULY 2016	NO OF EMPLOYEES – TOTAL 3 JULY 2016	% OF FEMALES	NO OF EMPLOYEES – FEMALE 28 JUNE 2015	NO OF EMPLOYEES – TOTAL 28 JUNE 2015	% OF FEMALES
Board/ CEO	1	5	20.0%	1	5	20.0%
Senior Executives	2	8	25.0%	3	9	33.3%
Middle Management	11	29	37.9%	11	32	34.4%
All Team Members	3,562	5,578	63.9%	3,643	5,806	62.7%

Senior Executives includes the General Management team reporting to the Managing Director (excludes Board & Managing Director).

Middle Management includes Management reporting to the General Management team or equivalent (excludes Board & Senior Executives).

All Team Members as included in the table above includes all employees of The Reject Shop with the exception of the Board.

On Friday 27 May 2016, The Reject Shop lodged its annual public report with the Workplace Gender Equality Agency. A copy of this report can be found on the Company's website at **www.rejectshop.com.au**

REMUNERATION COMMITTEE

The Remuneration Committee Charter outlines the composition and responsibilities of the Remuneration Committee.

Composition of the Remuneration Committee

Under the Remuneration Charter, and consistent with the Corporate Governance Council recommendations, the Committee consists of at least three members, a majority of which must be non-executive directors, with the chairperson of the Committee being a non-executive director.

Each member of the Committee must also be independent of the management of the Company and free from any relationship that, in the business judgement of the Board, would interfere with the exercise of their independent judgement as a member of the Committee.

CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT CONTINUED

The Remuneration Committee currently comprises the following members:

Melinda Conrad (Chairman)
William J Stevens
Kevin J Elkington
Denis R Westhorpe

Role of the Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the Board regarding:

- The remuneration and appointment of Senior Executives and Non-Executive Directors;
- Policies for remuneration and compensation programs of the Company; and
- All equity based compensation plans.

To adequately fulfil their role, the Remuneration Committee obtains and considers all relevant advice and information including industry trends in remuneration policy, market rates for the positions of Managing Director, other senior executives and non-executive directors, and movements in general wage rates.

Information regarding director and key management personnel remuneration is provided in the Directors' Report and on pages 69 to 71 of this annual report.

ENVIRONMENTAL AND SOCIAL STATEMENT

The Company is committed to being responsible for the impact it has on our environment and also wherever possible engaging with our community, to research and implement positive environmental outcomes.

The Company is committed to reducing our environmental footprint and our greenhouse gas emissions. Our focus is on the provision of a more sustainable and holistic approach to energy usage, waste disposal, recycling and the positive education of our team members in relation to the environment.

Energy Efficiency Initiative

Lighting

The Company has reviewed its electricity usage and is implementing an optimisation program designed to significantly reduce electricity usage and drive savings. At this early stage, the program is achieving its energy and financial targets through the centralised management of its nationwide usage. The program is currently being implemented in the eastern states and this is expected to be finished by June 2017 with benefits starting to accrue from January 2017.

Air Conditioning

The Company continues with a stringent maintenance plan to ensure all equipment is running efficiently and to Australian Standards. The Company also continues to work with Landlords to maximise servicing within any contractual agreements. Integration of company-controlled air-conditioning units with the nationwide electricity optimisation program is also driving some significant benefits.

Reducing Waste and Recycling

The Company is increasing its engagement with its contracted waste company in order to improve its recycling capabilities. Increased plastic and cardboard recycling across the store network has been a focus. Further reductions in the usage of plastic is also being sought further up the supply chain.

Sustainable Awarenss and Fit-out

The Company continues to review more sustainable material options for use in building, fitting out and refurbishing our stores. Multiple programs to increase the efficiency of stock delivery and reducing packaging wastage are currently being reviewed.

The Reject Shop Charity Foundation

The Reject Shop Foundation is a not-for-profit foundation committed to helping kids in need. Since our establishment in June 2014, The Reject Shop Foundation has donated in excess of $370,000 to our inaugural charity partner, Good Beginnings Australia, which has brought us one step closer of being a community-focused Company.

The success of The Reject Shop Foundation has been made possible by the generous support of our customers and team members. Cash collection boxes have been placed across the Company's entire store network to facilitate customer donations. A voluntary work place giving program has been implemented to allow team members to donate on a regular basis. The Company thanks its customers and team members for their ongoing support.

Whilst our two year partnership with Good Beginnings Australia proved to be an outstanding success, we have recently conducted a comprehensive selection process to select a new national charity partner. We look forward to announcing The Reject Shop Foundation's new national charity partner and continuing to focus on helping kids in need.

The Reject Shop Foundation is administered by Good2Give.

Local Community Support

The Company allocates funds from its annual budgets which are used to support local charities and sporting organisations, either by way of cash or gift card donations.

ETHICAL SOURCING POLICY

The Company has developed an Ethical Sourcing Policy which is available within the Investors (Corporate Governance) Section of the Company website **www.rejectshop.com.au**

The policy incorporates both environmental and socioeconomic criteria for all imported products sourced directly or through agents. The policy encourages trade partners and agents to improve their social and environmental practices, and protect our corporate reputation and that of our individual businesses and brands.

DIRECTORS' REPORT

Your directors present their report on the Company and its subsidiaries for the financial period ended 3 July 2016.

DIRECTORS

The directors of The Reject Shop Limited during the whole of the financial period and up to the date of this report, unless otherwise stated below, were:

William J Stevens *Non-executive Director*

Chairman of the Board, Member of the Remuneration Committee and Member of the Audit and Risk Committee.

Ross Sudano *Executive Director*

Managing Director and Chief Executive Officer

Kevin J Elkington *Non-executive Director*

Chairman of the Audit and Risk Committee and Member of the Remuneration Committee.

Denis R Westhorpe *Non-executive Director*

Member of the Audit and Risk Committee and Member of the Remuneration Committee.

Melinda Conrad *Non-executive Director*

Chairman of the Remuneration Committee and Member of the Audit and Risk Committee.

Details of the experience and expertise of the directors and the Company Secretary are outlined on pages 8, 9 and 12 of this annual report.

RETIREMENT OF DIRECTORS

In accordance with the Company's Constitution, KJ Elkington and DR Westhorpe will retire as directors at the Annual General Meeting and being eligible, will offer themselves for re-election.

MEETINGS OF DIRECTORS

The number of meetings of the Board of directors and Committees held during the period ended 3 July 2016 and the number of meetings attended by each director were:

DIRECTOR	DIRECTOR MEETINGS		AUDIT AND RISK COMMITTEE MEETINGS		REMUNERATION COMMITTEE MEETINGS	
	A	B	A	B	A	B
WJ Stevens	12	13	4	4	3	3
R Sudano	13	13	XX	XX	XX	XX
KJ Elkington	13	13	4	4	3	3
DR Westhorpe	13	13	4	4	3	3
M Conrad	13	13	4	4	3	3

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the period

XX - Not a member of relevant Committee

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial period were the retailing of discount variety merchandise and no significant change in the nature of these activities occurred during the period.

OPERATING AND FINANCIAL REVIEW

The Operating and Financial Review forms part of the Directors' Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company announced on the 17th March 2016 the selection of Toyota Tsusho Logistics (Toyota) as the operator of the company's new Victorian Distribution Centre which is currently under construction. Toyota will be providing a turnkey solution to manage all of the operations at the new Victorian Distribution Centre. The decision to outsource the operations of the Victorian Distribution Centre will result in one-off redundancy costs of approximately $7.65M which has been provided for within the 2016 financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

No other matters or circumstances have arisen since the end of the financial period which significantly affect or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the consolidated entity and the expected results of those operations in future financial periods are contained in the Operating and Financial Review on pages 23 to 27 of this annual report.

ENVIRONMENTAL REGULATION

The Company is not involved in any activities that have a marked influence on the environment within its area of operation. As such, the directors are not aware of any material issues affecting the Company or its compliance with the relevant environmental agencies or regulatory authorities.

DIVIDENDS – THE REJECT SHOP LIMITED

Dividends paid to members during the financial period were:

A final ordinary dividend for the financial year ended 28 June 2015 of 13.5 cents per share totalling $3,894,710 was paid on 12 October 2015.

An interim ordinary dividend for the financial period ended 3 July 2016 of 25.0 cents per share totalling $7,212,406 was paid on 11 April 2016.

Since the end of the financial period the directors have declared the payment of a final ordinary dividend of 19.0 cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on 17 October 2016.

The Company's dividend reinvestment plan is not currently active.

INSURANCE OF OFFICERS

The Company has paid premiums to insure all directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

During the financial period, the Company paid a premium of $55,850 to insure the directors and officers of the Company.

PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in on behalf of the company with leave of the court under section 237 of the *Corporations Act 2001*.

ROUNDING OF AMOUNTS

The Company is a kind referred to in *ASIC Corporations (rounding in financial/directors report) Instrument 2016/191*, issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the directors' and financial reports. Amounts in these reports have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain specified cases, to the nearest dollar.

OVERVIEW OF OPERATIONS

The company operates in the discount variety retail sector in Australia, a segment of the market that continues to gain relevance with consumers.

The company's strategy is focussed on building on the core strengths of the business that have been put in place over time to maximise the leverage of the existing assets to provide an appropriate level of return for all stakeholders. The four major goals that the company is measuring itself on are;

1. Provide our customers with a clearly differentiated customer offer that is delivered conveniently via our existing store network, new stores and new store formats,
2. Sustainable comparable store sales growth driven by increasing customer transactions,
3. A focus to improve our efficiency of operations to reduce our Cost of Doing Business (CODB) to fund our sales growth and to deliver improved returns to shareholders,
4. To provide a safe, challenging and rewarding environment to attract and retain great people and to engage and support the communities in which we serve.

The achievement of these goals are aspirational; we are not consistently delivering on these objectives today. However, we have developed out waves of organisational improvements that will assist us in achieving these goals over time.

Our customer focus is built on extensive work done with customers and non-customers to better understand who our key customers are and what they are looking for from TRS. This work is ongoing and forms the basis of all our thinking as we develop out our customer promise of;

"Always get more for your money through the fun and excitement of discovering a bargain".

The second element of our focus on customers is developing our capability to communicate key messages, both in and out of store. We are focussed on developing a mix of media for out of store communication that is a blend of traditional media such as TV and catalogues as well as an increasing focus and reliance on the development and use of a data base of loyal customers. In store we are focussed on communicating a sense of urgency, discovery and regular convenience to our customers.

We are also working on improving the in store experience for our customers to enhance their shopping experience. We have made some early changes to the way we present our stores with early positive feedback from customers. These changes have been incorporated in the 14 new stores opened during the year and the business continues to receive positive feedback from customers. We are continuing to innovate and build on the current new store format.

The delivery of these customer focussed initiatives is dependent on an efficient and effective supply chain to service our stores across Australia. Work continues on improving our efficiency and productivity to reshape our cost of doing business, with the development of a new purpose built distribution centre in Melbourne well underway and a number of efficiency projects currently being progressed.

Property is one of the key strengths of the company providing our customers with convenient access to our offer. We expect to continue to open new stores in locations that provide access to new customers on a normalized rate of between 10 and 15 new store openings per annum. We continue to focus on capturing improved lease terms and new store locations for the company to ensure we are well positioned to meet the needs of our customers into the future. The company expects to relocate a number of stores where we are currently paying rent above what our business model can afford. Where an alternative site is not available and/or the store profitability is at risk we will consider closing these stores.

The company opened 14 new stores during the year and closed 6, resulting in a National store footprint totalling 341 stores by the end of the year.

DIRECTORS' REPORT
CONTINUED

OVERVIEW OF FINANCIAL PERFORMANCE

$ AMOUNTS ARE IN '000'S / %'S ARE TO SALES	FY16	FY15
Sales	799,958	756,800
Gross Profit (i)	42.6%	44.5%
Cost of Doing Business (i)	37.1%	39.1%
EBITDA	44,246	40,800
Depreciation and Amortisation	19,457	19,127
EBIT	24,789	21,673
Net Interest Expense	558	1,475
Profit Before Tax	24,230	20,198
Income Tax Expense	7,130	5,959
Net Profit After Tax	17,100	14,239

RECONCILIATION OF EBIT	FY16
EBIT as reported	24,789
Excl. DC Exit Costs	9,060
Excl. Impact of 53rd Week (ii)	(3,490)
Underlying EBIT	30,359

(i) Non IFRS measure
(ii) Unaudited

INTERPRETATION OF FY2016 FINANCIAL REPORTED RESULTS

There have been two significant events that have had an impact on the reported results of the Company in FY2016, namely:

1. Closure / Relocation of the Melbourne Distribution Centre

The Company decided to close its Distribution Centre at Tullamarine, where the lease is due to expire at the end of February 2017. The Company has signed a ten-year lease on a new purpose built Distribution Centre at Truganina in Melbourne's Western Suburbs.

As part of the transition to the new Distribution Centre, the Company has also announced the selection of Toyota Tsusho Logistics (Toyota Tsusho) as the operator of the facility. Toyota Tsusho provide logistics services to a number of major companies throughout Australia and will be providing a turnkey solution to manage all of the operations at the new DC.

The decision to outsource the operations of the DC will result in redundancy costs of approximately $7.6 million which has been recorded in the FY2016 accounts. In addition, the Company has also recorded an asset write-off of $0.8 million, and a provision for make good of approximately $0.6 million, in relation to the exit of the Tullamarine facility.

The revised DC operating model will deliver compelling long term efficiencies with estimated cost savings of $2.0 million in the first full year of operation (FY18) alone. This builds on the efficiencies already being achieved at the Company's automated Distribution Centre at Ipswich, Queensland.

2. 53rd Trading Week

The FY2016 reported results include the positive effects of a 53rd trading week. The Company has determined that the positive impact on its reported Earnings before Interest and Tax is approximately $3.49 million, reflecting the net of:

- Additional Gross Profits associated with the Sales in Week 53 of $15.3 million;
- Additional variable costs associated with generating such Sales which primarily include Wages to operate stores, variable store operating expenses and the advertising costs of a catalogue that was launched in Week 53.

Sales Performance

Overall sales increased in FY2015 by 5.7% against the prior year. This primarily reflects the effect of improved comparable stores sales growth for the year of 3.0% (First half: positive 4.4%; Second half: positive 1.3%), the positive effect of the 53rd trading week sales, and the net positive effect of the openings and closed stores over FY2015 and FY2016.

Gross Margin

Gross margin, as a percentage of sales, was down 1.9% to sales on the prior year.

This was primarily the result of:

(i) The non-recurring impact of the $9.06 million in costs to exit the Tullamarine DC (all DC Costs are reported within the Gross Profit line); and

(ii) The combination of managing a 10% decline in the Australian Dollar versus the US Dollar whilst still maintaining everyday low prices for our value conscious customer base.

Excluding the DC Exit Costs, the underlying Gross Profit for FY2016 was approximately 43.7% (FY15: 44.5%).

Cost of Doing Business (CODB)

CODB (excluding depreciation and amortisation) as a percent to sales fell by 2.0% of sales in FY2016, reflecting the early benefits of the Company's drive to more efficiently deliver its value offering to customers.

This reduction in CODB was underpinned by a reduction in its Store Expenses, which fell by 2.1% to 32.1%.

Other than the improved comparable store sales performance of the business, some of the key elements behind this improved in-store efficiency included:

Store Wages (incl. on-costs) reduced by 0.35% to sales which was primarily the reflection of:

- improved budgeting and rostering at stores; and
- a continued reduction in workers' compensation premiums across most states due to improved claims management processes over recent years.

Occupancy costs reduced by 0.62% to sales which reflected the continuing positive effect of closing uneconomic stores which could not be improved during both FY2015 and FY2016 and moving other challenged stores to a more sustainable footing.

The Company's Store Expenses have also benefited from a more normalised level of new store opening and refurbishment costs in FY2016 compared to the prior period. In addition, the improved performance by a number of the underperforming stores within the portfolio has meant the Company has not had to book any impairment charges or onerous lease provisions in FY2016, a significant positive compared to the past two years.

Administrative Expenses have risen slightly on prior year to 4.9% of Sales, primarily reflecting the impact of the operational costs of a number strategic projects that have been launched throughout FY2016.

Depreciation and amortisation, as a percentage of sales, remained relatively flat when compared to the prior year.

Earnings

The Company has a reported EBIT of $24.8m, an increase of 14.4% on the prior year, which primarily reflects a combination of the improved comparable store sales in FY2016 and the significant reduction in the CODB as a % to sales during the period.

Excluding the impact of both the 53rd Trading Week and the Melbourne DC Exit Costs, the Company's underlying EBIT was $30.4 million, which represents an EBIT to Sales ratio of 3.9%. The Company has set itself a target over the next few years of returning to an EBIT to Sales ratio of 5.0% and this underlying result demonstrates the Company is progressing well towards this operational objective.

DIVIDENDS

Total dividends declared of 44.0 cents per share (FY15: 30.0 cents per share) represents a payout ratio of 60% of the Company's underlying full year earnings per share of 72.8cps (i.e. excluding 53rd Trading Week and DC Exit Costs). An interim ordinary dividend of 25.0 cents per share has been paid and a final dividend of 19.0 cents per share will be paid on 17 October 2016. All dividends are fully franked.

The Board intends to maintain a minimum dividend payout ratio of 60% of Net Profit after Tax. Consideration of the appropriate payout ratio is assessed each half based on the underlying profitability and financial needs of the business going forward.

Financial Position and Capital Investment

The Company's Gearing has remained in a consistent healthy Net Cash position at year-end of $3.1m (Net Cash: $5.3m in FY15).

The Company's operational performance has resulted in a significant improvement in all its gearing ratios and covenant measures, with the business having in excess of $11.0 million in EBITDA Headroom over its fixed-charge cover covenant at year-end.

The Company expects to increase its Net Debt slightly during FY2017, particularly in the second half, once the cash payments for all redundancy and other employee entitlements for the Melbourne DC workforce have been settled.

Net interest expense decreased by $0.9m on FY2015 which reflects a combination of the reduced net debt position of the business and the more moderate interest rates ruling in the market during the year.

DIRECTORS' REPORT
CONTINUED

INVESTMENTS FOR FUTURE GROWTH

The Company has long stated that Australian demographics should allow it to operate around 400 stores nationally. It has invested early to support such planned growth with distribution and IT capacity in place to support 400 stores and an organisational structure in place to support an ever increasing business.

The Company will continue to increase its store portfolio and anticipates by the end of FY2017 to have at least 350 stores open and trading.

While continuing to open new stores and close uneconomic stores, the business is also planning to increase its Capital Spend on the existing store network in two main ways:

- An increased level of refurbishments, which will include new fixturing layouts and POS marketing initiatives, with stores selected being those expected to have the most upside in sales; and
- A continuation of the roll-out of the National Energy System Optimisation Program, where new lighting and energy monitoring systems will continue to see reduced spend on electricity across our Store network.

These initiatives will assist in providing a better experience for our customers.

During the early months of FY2017, the Company's new Melbourne Distribution Centre at Truganina will commence its fit-out process, although this facility is not expected to be fully servicing the southern stores until early in calendar 2017, after a well-planned transitioning process has been completed.

In addition to the investment in the new stores and Distribution Centres, the Company continues to invest in areas of strategic importance to support future growth, including:

- Enhancing its merchandise planning processes and systems, with an advanced Demand Planning and Replenishment tool currently being trialled;
- The Truck to Shelf project, which includes investments in fixed assets aimed at making the process of getting stock from our DC Network onto shelf more efficient
- Investing in marketing initiatives as well as its social media and digital platforms to support brand awareness; and
- Reviewing its overseas sourcing practices to improve visibility in supply and flow to its Distribution centres.

OVERVIEW OF RETAIL INDUSTRY TRENDS

The Discount Variety sector remains very competitive, with many regionally based chains as well as single owner-operator businesses.

The availability of stores previously occupied by Dick Smith, has provided the opportunity to the Company and Discount Variety competitors based in Western Australia and South Australia, to expand their store network over the last twelve months. Nonetheless, this has been challenging as those markets have generally been the least buoyant during that period.

Price competition continues to be a challenge, particularly with the larger National supermarket chains and some of the larger National Discount Department stores often engaging in direct competition with the Company on certain product offerings. Notwithstanding, the Company remains determined to be a leader on providing everyday low prices on its core merchandise offerings.

The Company is finding its performance in the Eastern Seaboard and in Tasmania is outperforming the West Coast, which has been for some time battling to maintain the growth levels experienced during the resources boom.

OUTLOOK

Underlying Trading

Sales momentum in Q1 FY2017 has continued in line with Q4 FY2016, with the positive comparable store sales trends across the Eastern Seaboard and Tasmania being moderated by the relative underperformance across the lesser Company populated Store Networks in Western and South Australia.

During FY2016, the Company has commenced a number of further initiatives designed to reduce its cost of doing business. Whilst some of the early successes of these initiatives are evident within the reduced CODB reported in the FY2016 financial results, there are a number of cost-out initiatives that are only just starting to land, the benefits of these are expected to build during the first half of FY2017.

The Australian Dollar continues to be a challenge, though the company remains confident that its current hedge book which extends out well over six months will put it in a reasonable position to manage margins during FY2017.

The Company remains steadfast in its stated aim to improving its profitability each reported half and notwithstanding the challenges presented by the busy pre-Christmas peak seasonal trading period. The Company is planning to achieve an improved level of profit for the first half of FY2017 compared to the prior corresponding period, while continuing to provide a most competitive offer to our customers.

Changes to the Store Portfolio

The Company will continue with its stated intention of having a more moderated new store rollout strategy and as such has identified and already secured opening dates for 10 new stores in the first half of FY2016, and is working towards securing a handful of other sites for the second half. In addition, the Company will be relocating another few stores early in FY2017 either due to redevelopments, or because nearby sites have been secured at more commercial rent levels.

The Company continues to work with landlords on mutually sensible rental outcomes and will continue to consider exiting stores where suitable terms cannot be reached. Wherever possible, and where the business has taken the decision to close a store, it will look to relocate to a store nearby, in order to ensure its diverse geographic customer base is not disappointed.

Business Risks

There are a number of factors, both specific to the Company and of a general nature, which may threaten both the future operating and financial performance of the Company and the outcome of an investment in the Company. There can be no guarantee that the Company will achieve its stated objectives, that it will meet trading performance expectations, or that any forward looking statements contained in this report will be realised or otherwise eventuate.

The operating and financial performance of the Company is influenced by a variety of general economic and business conditions, including levels of consumer spending, inflation, interest and exchange rates, access to debt and capital markets and government fiscal, monetary and regulatory policies. A prolonged deterioration in general economic conditions, including increases in interest rates or a decrease in consumer and business demand, may have an adverse effect on the Company's business or financial position.

The specific material business risks faced by the Company, and how the Company manages these risks, are set out below.

- Competition – The Company operates a retail model where price and value are critical to the customers it serves. The Company closely monitors price and quality against a range of retailers to ensure it maintains its competitive stance.
- Consumer Discretionary Spending – The Company is exposed to consumer spending patterns but operates an everyday low price proposition and positions itself in convenient locations to maximise sales potential at all times.
- Increased Cost of Doing Business – The Company has established Enterprise Agreements for its store and distribution centre staff and also has lease agreements for both stores and DC's – all of which have inbuilt annual cost escalations. The Company's increasing scale as well as improving operating efficiencies and strong lease negotiations have to some extent offset some of these cost increases.
- Property Portfolio Management – The Company's stores are leased and therefore subject to negotiation at the end of each lease term. The Company actively manages its portfolio against established financial and operational criteria which must be met for both new and existing stores. There is no guarantee any store will be renewed at the end of each lease on terms acceptable to the Company, however the potential impact of a single store closure is mitigated by the number of stores the Company now operates. The Company has demonstrated during the past two years that it is prepared to either close or relocate a store that it believes it cannot operate at an acceptable level of commercial return.
- Exchange Rate – The Company relies significantly on imported products (either directly purchased by the Company or indirectly through local or overseas wholesalers) and as a result the cost of product and retail sales price can be subject to movements in Exchange Rates. The Company mitigates against movements in exchange rates through the use of forward cover.
- Product Liability Exposure – The Company purchases and sells over 7,000 different products on an annual basis, all of which must be fit for purpose and in compliance with Australian Consumer Legislation. The Company has a National Product Compliance function that has the responsibility of ensuring all products sold by the Company adhere to legal requirements. The Company is subject to an external review of its Compliance function by an independent Compliance firm on an annual basis, with any recommendations noted and implemented as soon as possible. In addition, the Company's legal advisors run an annual update session at which changes to relevant Consumer law are discussed.
- Occupational Health & Safety (OH&S) – The Company has over 5,500 employees across its stores and distribution centre network, as well as thousands of customers who visit its stores nationwide. The Company has a National OH&S function, supported by OH&S representatives in appropriate geographic locations (including in all Distribution Centres) to oversee the application of OH&S policies and Worksafe procedures across the Company. The Company's focussed attention on returning injured workers back to the workplace more quickly has resulted in reduced levels of workers' compensation premium during the past two years.

DIRECTORS' REPORT CONTINUED

REMUNERATION REPORT

The remuneration report is set out in the following sections and includes remuneration information for The Reject Shop Limited's non-executive directors, executive directors and key management personnel:

A – Principles used to determine the nature and amount of remuneration

B – Details of remuneration

C – Service agreements

D – Share-based compensation

E – Additional information

The information provided in this remuneration report has been audited as required by section 308 (3C) of the *Corporations Act 2001*.

A – PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objective of the Company's Remuneration Committee is to ensure that directors and executives are remunerated fairly and within accepted market and industry ranges. The composition, role and responsibility of this Committee is outlined in the Corporate Governance Statement on page 16 of this annual report.

Officers and executive remuneration structure

The executive remuneration and reward framework has four components:

- Base pay and benefits;
- Other remuneration such as superannuation payments;
- Short term cash rewards;
- Long-term rewards via participation in the Company's Performance Rights Plan.

The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders and emphasises cross-functional collaboration. The objective of the Company's executive reward framework is to ensure every payment, either monetary or in the form of equity, is on the basis of reward for performance and is appropriate for the results delivered. The Board ensures the Company follows appropriate corporate governance in establishing executive remuneration including reference to external remuneration consultants and/or available market information.

Base pay and benefits

Executive salaries are structured as a total employment cost package which may be delivered as a mix of cash and non-monetary benefits at the executive's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure competitiveness with the market. There are no guaranteed base pay increases in any senior executive's contracts. The Company has a formal process by which the performance of all senior executives is reviewed. An executive's pay is also reviewed on promotion.

Executive benefits made available are car allowances, private use of Company owned vehicles (disclosed as non-monetary benefits) and salary sacrifice superannuation arrangements.

Short term cash rewards (STR)

STR for key management personnel is a weighting of 90% of the STR on offer for achievement of budgeted EBIT, and an additional 10% of the STR based on the achievement of improved safety metrics.

If these STR targets are achieved, payments of between 22% - 30% of total Fixed Remuneration (varying by executive) are made. The audited financial report remains the basis for measuring achievement against the financial performance targets.

For FY2016 the Remuneration Committee has determined that 100% of contracted short-term rewards will be payable to Key Management Personnel on the basis that Key Management Personnel achieved and exceeded budgeted EBIT and safety metrics. These amounts are included as remuneration in the 2016 remuneration tables. The Board has also awarded the nine member Executive KMP group additional discretionary amounts (totalling $375,000 for the nine members), and these amounts are also included in the 2016 Remuneration table data.

Long Term Rewards

Performance Rights Plan

The Company implemented the Performance Rights Plan on 27 April 2004, to form the basis of The Reject Shop's ongoing long-term incentive scheme for selected senior employees. These performance rights involve the payment of a $1.00 exercise price per exercise on a particular day, regardless of the number of rights exercised on that day.

The financial criteria upon which the performance rights are eligible to vest consist of the following hurdles measured over a three year period:

- Weighting of 50% – Earnings Per Share compound growth of at least 10% per annum;
- Weighting of 25% – Improved Earnings Before Interest, Income Tax, Depreciation and Amortisation (EBITDA) of at least 0.15% to sales per annum; and
- Weighting of 25% – Return on Average Capital Employed of at least 20% per annum.

The Board retain the right to assess all aspects of the vesting conditions for future performance rights grants.

The number of performance rights issued if hurdles are met is based on a percentage of between 22.5% and 30% of the total fixed remuneration (varying by executive) divided by the weighted average share price for the period 30 days before and 31 days after the end of the financial period in which the rights are granted. For financial reporting purposes the value of each right granted at grant date is measured using a Black-Scholes option pricing model. The audited financial report is the basis for measuring achievement against the financial performance target.

In respect of the performance rights tranche granted in respect of the 2012 and 2013 financial years and due to vest 1st July 2016, the Remuneration Committee has determined in July 2016 that an amount equivalent to 25% of the performance rights available at 'Target Performance' be issued to the remaining participants on the basis that a number of elements of the non-financial criteria were achieved. This saw an issue of 9,925 shares, 5,425 of which were issued to Key Management Personnel.

Use of Remuneration Consultants

KPMG were engaged to provide remuneration benchmarking data (fee for service of $20,000).

B – DETAILS OF REMUNERATION

Directors' fees

The current aggregate limit for directors' fees is $950,000 per annum with a base fee payable (including superannuation) to the Chairman of $195,315 p.a. (FY2015: $190,551) and to a non-executive director currently $114,022p.a. (FY2015: $111,241). The Chairman's remuneration is inclusive of Committee fees while non-executive directors who take on additional responsibilities receive additional fees (Chairman of Audit and Risk Committee $6,000 (FY2015: $6,000), Chairman of Remuneration Committee $5,000 (FY2015: $5,000)). The Managing Director does not receive directors' fees.

Directors' fees are reviewed annually, with external remuneration consultants providing advice, as the need arises, to ensure fees reflect market rates. There are no guaranteed annual increases in any director's fees. Any increase in the aggregate limit for directors' fees must be approved at the company's Annual General Meeting.

Non-executive directors do not participate in the short or long term incentive schemes.

The following persons along with the directors, as detailed on page 21 of the Directors' report, were the key management personnel with the authority and responsibility for planning, directing and controlling the activities of the Company and consolidated entity, directly or indirectly, during the financial period.

Executive Remuneration

The following executives along with the Directors (as detailed on page 21) were the Key Management Personnel with the responsibility and authority for planning, directing and controlling activities of the company, during the financial period.

Colleen Grady
General Manager, Merchandise Buying

Darren R Briggs
Chief Financial Officer and Company Secretary

Danielle Aquilina
General Manager, Supply Chain and Planning

Ed Tollinton
Chief Information Officer

Michael Robertson
General Manager, Retail Operations (Resigned on 31 May 2016)

Allan J Penrose
General Manager, Marketing

Kelvin Chand
General Manager, Property

Robert d'Andrea
General Manager, Human Resources

Allison Batten
General Manager, Merchandise Planning (Resigned on 1 July 2016)

Geoff W Pearce
General Manager, Business Transformation (Resigned on 1 July 2015)

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 3 July 2016 and the period ended 28 June 2015 unless otherwise stated.

Details of the remuneration of the directors and other key management personnel of The Reject Shop Limited and the consolidated entity, including related parties, for the current and prior financial periods are set out in the following tables:

DIRECTORS' REPORT
CONTINUED

2016	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS		OTHER BENEFITS	SHARE-BASED PAYMENTS			
NAME	CASH SALARY AND FEES $	CASH REWARDS $	NON-MONETARY BENEFITS $	SUPER-ANNUATION $	RETIREMENT BENEFIT $	OTHER $	PERFORMANCE RIGHTS $	OTHER $	TOTAL $	PROPORTION ON OF ANNUALISED REMUNERATION AS PERFORMANCE RELATED %
Non-executive Directors										
WJ Stevens	178,370	–	–	16,945	–	–	–	–	195,315	–
KJ Elkington	109,914	–	–	10,442	–	–	–	–	120,356	–
DR Westhorpe	104,130	–	–	9,892	–	–	–	–	114,022	–
M Conrad	108,949	–	–	10,350	–	–	–	–	119,299	–
Total Non-executive Directors	**501,363**	**–**	**–**	**47,629**	**–**	**–**	**–**	**–**	**548,992**	**–**
Executive Directors										
R Sudano	646,942	298,661	43,555	19,308	–	–	260,452		1,268,918	44.1
Total Directors	**1,148,305**	**298,661**	**43,555**	**66,937**	**–**	**–**	**260,452**		**1,817,910**	**–**
Other Key Management Personnel										
C Grady (i)	349,492	123,992	–	19,308	–	–	62,203	30,000	584,995	31.8
DR Briggs	310,692	110,947	615	19,308	–	–	99,549	–	541,111	38.9
D Aquilina	280,692	100,861	2,255	19,308	–	–	86,962	–	490,078	38.3
E Tollinton	300,693	107,585	–	19,308	–	–	53,955	–	481,541	33.5
M Robertson (ii)	322,631	–	24,554	19,308	–	58,368	(33,670)	–	391,191	–
AJ Penrose	235,692	85,732	6,556	19,308	–	–	78,502	–	425,790	38.6
K Chand	287,567	94,767	4,482	19,308	–	–	46,312	–	452,436	31.2
R d'Andrea	269,567	97,121	3,227	19,308	–	–	48,582	–	437,805	33.3
A Batten (iii)	320,158	114,077	–	19,308	–	–	(32,474)	–	421,069	19.4
GW Pearce (iv)	–	–	–	–	–	53,099	–	–	53,099	–
Total Other Key Management Personnel	**2,677,184**	**835,082**	**41,689**	**173,772**	**–**	**111,467**	**409,921**	**30,000**	**4,279,115**	
Total	**3,825,489**	**1,133,743**	**85,244**	**240,709**	**–**	**111,467**	**670,373**	**30,000**	**6,097,025**	

The remuneration in the table above only reflects the amounts paid to the individuals for the time they were key management personnel.

- (i) The Company has agreed to pay C Grady a LTI to the value of $90,000, payable in either shares or cash (at the discretion of the Company) over a three year period. As a result, $30,000 has been included in the above table.
- (ii) M Robertson was General Manager, Operations until 31 May 2016. As a result, M Robertson was paid in cash $32,846 of annual leave entitlements which are excluded from the table above and $58,368 in lieu of a three month notice period paid out upon his resignation which is included in 'other benefits' above.
- (iii) A Batten was General Manager, Planning until 1 July 2016. As a result, A Batten was paid in cash $2,494 of annual leave entitlements which are excluded from the table above.
- (iv) GW Pearce was General Manager, Business Transformation until 1 July 2015. As a result, GW Pearce was paid in cash $47,138 of annual leave entitlements, $47,922 of long service leave entitlements which are excluded from the table above and a redundancy of $53,099 paid out upon his resignation which is included in 'other benefits' above.

2015		SHORT-TERM BENEFITS		POST-EMPLOYMENT BENEFITS		OTHER BENEFITS	SHARE-BASED PAYMENTS			
NAME	CASH SALARY AND FEES $	CASH REWARDS $	NON-MONETARY BENEFITS $	SUPER-ANNUATION $	RETIREMENT BENEFIT $	OTHER $	PERFORMANCE RIGHTS $	OTHER $	TOTAL $	PROPORTION ON OF ANNUALISED REMUNERATION AS PERFORMANCE RELATED %
Non-executive Directors										
WJ Stevens	174,019	–	–	16,532	–	–	–	–	190,551	–
DR Westhorpe (i)	151,878	–	–	14,428	–	–	–	–	166,306	–
KJ Elkington	107,233	–	–	10,187	–	–	–	–	117,420	–
M Conrad	106,292	–	–	10,098	–	–	–	–	116,390	–
Total Non-executive Directors	**539,422**	**–**	**–**	**51,245**	**–**	**–**	**–**	**–**	**590,667**	**–**
Executive Directors										
R Sudano	507,400	–	11,381	15,653	–	–	85,270	–	619,704	13.8
Total Directors	**1,046,822**	**–**	**11,381**	**66,898**	**–**	**–**	**85,270**	**–**	**1,210,371**	
Other Key Management Personnel										
M Robertson	341,717	–	25,703	18,784	–	–	33,670	–	419,874	8.0
DR Briggs	280,370	–	466	18,784	–	–	8,179	–	307,799	2.7
D Aquilina	218,734	–	3,065	18,784	–	–	19,179	–	259,762	7.4
AJ Penrose	205,453	–	6,124	18,784	–	–	6,858	–	237,219	2.9
GW Pearce	230,105	–	–	18,784	–	–	(43,154)	–	205,735	–
DJ O'Connor (iii)	228,211	–	2,775	14,088	–	–	(67,857)	–	177,217	–
K Chand (iv)	138,965	–	–	9,392	–	–	–	–	148,357	–
J Pileio (v)	141,054	–	2,481	10,957	–	–	(29,145)	–	125,347	–
MJ Shields (vi)	136,070	–	1,505	7,827	–	96,488	(50,878)	–	191,012	–
E Tollinton (vii)	69,910	–	–	5,202	–	–	–	–	75,112	–
C Grady (viii)	65,109	–	–	3,781	–	80,505	–	10,000	159,395	6.3
A Batten (ix)	64,252	–	–	3,781	–	–	32,474	–	100,507	10.1
R d'Andrea (x)	49,170	–	–	3,131	–	–	–	–	52,301	–
P Nutbean (xi)	66,330	–	16,905	7,827	–	58,263	(48,944)	–	100,381	–
Total Other Key Management Personnel	**2,235,450**	**–**	**59,024**	**159,906**	**–**	**235,256**	**(139,618)**	**10,000**	**2,560,018**	
Total	**3,282,272**	**–**	**70,455**	**226,804**	**–**	**235,256**	**(54,348)**	**10,000**	**3,770,389**	

- The remuneration in the table above only reflects the amounts paid to the individuals for the time they were key management personnel.
- (i) DR Westhorpe took on additional duties as the Chief Executive Officer from 30 June 2014 to 11 September 2014 and was paid

an amount of $50,288 for this which is included in his cash salary and fees above.

- (ii) R Sudano was appointed Chief Executive Officer on 11 September 2014.
- (iii) DJ O'Connor was Chief Information Officer until his resignation on 27 March 2015. As a result, DJ O'Connor was paid in cash $35,566 of annual leave entitlements and $60,871 of long service leave entitlements which are excluded from the above table.
- (iv) K Chand was appointed General Manager, Property on 5 January 2015.
- (v) J Pileio was General Manager, Human Resources until her resignation on 30 January 2015. As a result, J Pileio was paid in cash $20,151 of annual leave entitlements which are excluded from the table above.
- (vi) MJ Shields was General Manager, Merchandise Buying until 7 November 2014. As a result, MJ Shields was paid in cash $53,782 of annual leave entitlements which are excluded from the table above and $96,488 in lieu of a three month notice period which is included in 'other benefits' above.
- (vii) E Tollinton was appointed Chief Information Officer on 23 March 2015.
- (viii) C Grady was appointed General Manager, Merchandise Buying on 20 April 2015. The Company has agreed to pay C Grady a LTI to the value of $90,000, payable in either shares or cash (at the discretion of the Company) over a three year period. As a result, $10,000 has been included in the above table. C Grady also received a $65,000 sign on bonus and a $15,505 relocation allowance which is included in the above table.
- (ix) A Batten was appointed General Manager, Merchandise Planning on 20 April 2015. Prior to this appointment, A Batten was employed as a contractor. Amounts shown above include all remuneration received from 20 April 2015.
- (x) R d'Andrea was appointed General Manager, Human Resources on 27 April 2015.
- (xi) P Nutbean was General Manager, Property until 13 October 2014. As a result, P Nutbean was paid in cash $14,305 of annual leave entitlements, $52,210 of long service leave entitlements which are excluded from the table above and $58,263 in lieu of a three month notice period which is included in 'other benefits' above.
- (xii) G Pearce was General Manager, Business Transformation until 1 July 2015.

For Remuneration report purposes, the amount reported as "Share Based Payments" represents the expenses recognised under the following basis:

- The percentage of the fair value of the Performance Rights granted in a particular year for each of the years in the vesting period to the extent that such Performance Rights remain available for vesting; less
- Any value previously reflected as remuneration in regard to Performance Rights, where those Performance Rights have lapsed or have been forfeited and will not vest with the employee.

The 'fair value' is determined using a Black Scholes model and will generally be different to the "volume weighted average market price (VWAP)" which is used to determine the number of rights that are granted. No adjustment to the reported remuneration amounts is made in the event that actual market price of shares on the vesting of Performance Rights exceeds the fair value of those Performance Rights on their grant date. Similarly, no reduction is made to remuneration where the market price of shares on the vesting of Performance Rights is lower than the market price of shares on the date that performance Rights are granted.

No other long term or remuneration benefits were paid or are payable with respect to the current and prior period.

C - SERVICE AGREEMENTS

All key management personnel are on employment terms consistent with the remuneration framework outlined in this note.

In addition, all key management personnel have service agreements which provide that a period of notice of 3 months is required by the Company or the senior executive to terminate employment.

D – SHARE-BASED COMPENSATION

The number of performance rights over shares in the Company granted to executive directors and other key management personnel during the current financial period, together with prior period grants which vested during the period is set out below:

2016	GRANT DATE	NUMBER OF RIGHTS GRANTED DURING THE PERIOD	DATES EXERCISABLE	EXPIRY DATE	TOTAL FAIR VALUE OF PERFORMANCE RIGHTS AT GRANT DATE $	NUMBER OF PERFORMANCE RIGHTS GRANTED IN PRIOR PERIODS VESTED DURING THE PERIOD
Executive Directors						
R Sudano	14 Oct 2015	62,400	1 Jul 2018	14 Oct 2019	537,874	–
Other Key Management Personnel						
C Grady	14 Oct 2015	27,400	1 Jul 2018	14 Oct 2019	236,182	–
DR Briggs	14 Oct 2015	22,200	1 Jul 2018	14 Oct 2019	191,359	1,225
D Aquilina	14 Oct 2015	22,300	1 Jul 2018	14 Oct 2019	192,221	–
E Tollinton	14 Oct 2015	23,700	1 Jul 2018	14 Oct 2019	204,289	–
M Robertson	14 Oct 2015	26,700	1 Jul 2018	14 Oct 2019	230,148	–
AJ Penrose	14 Oct 2015	18,900	1 Jul 2018	14 Oct 2019	162,914	825
K Chand	14 Oct 2015	20,400	1 Jul 2018	14 Oct 2019	175,843	–
A Batten	14 Oct 2015	25,100	1 Jul 2018	14 Oct 2019	216,356	–
R d'Andrea	14 Oct 2015	21,400	1 Jul 2018	14 Oct 2019	184,463	–
Total		**270,500**			**2,331,649**	**2,050**

The fair value of performance rights granted on 14 October 2015 (grant date) with an expiry date of 14 October 2019 was $8.62.

All performance rights granted during the current period will vest on the exercise dates above provided the required performance hurdles are achieved and the employee remains employed with the Company at the vesting date. In the event an employee leaves the company prior to the vesting date the performance rights will lapse. The total payable on the exercise of one or more performance rights on a particular day is $1.00 regardless of the number exercised on that day. The minimum possible value to be received by executive directors or other key management personnel under each grant of performance rights is $Nil.

Subsequent to period end there has been no grant of performance rights to key management personnel, however, 5,425 performance rights granted to key management personnel in prior years vested subsequent to period end, of which 5,425 have been exercised. These performance rights were vested on the basis that a number of elements of the non-financial criteria relevant to that tranche were achieved. The remaining performance rights issued in that tranche were forfeited.

Shares Issued to Directors and Other Key Management Personnel on Exercise of Options or Performance Rights

The number of shares issued to Executive Directors and other key management personnel on exercise of performance rights during the current financial period are outlined in the following tables:

2016	TYPE	DATE GRANTED	DATE VESTED AND EXERCISED	NUMBER OF SHARES ISSUED	EXERCISE PRICE
Executive Directors					
R Sudano	–	–	–	–	–
Other Key Management Personnel					
C Grady	–	–	–	–	–
DR Briggs	Rights	18 Oct 2011	1 Jul 2015	1,225	–
D Aquilina	–	–	–	–	–
E Tollinton	–	–	–	–	–
M Robertson	–	–	–	–	–
AJ Penrose	Rights	18 Oct 2011	1 Jul 2015	825	–
K Chand	–	–	–	–	–
A Batten	–	–	–	–	–
R d'Andrea	–	–	–	–	–
Total				**2,050**	

No shares were issued to non-executive directors as a result of an exercise of performance rights in the current or prior period.

E – ADDITIONAL INFORMATION

Cash Incentives and Performance Rights

For each cash incentive and grant of performance rights included in the table below, the percentage of the grant that vested, in the financial period, and the percentage that was forfeited because the performance criteria were not achieved or the person did not meet the service criteria is as listed. The performance rights vest over several years provided the vesting conditions are met. No performance rights will vest if the conditions are not satisfied, hence the minimum value of each performance right yet to vest is $Nil. The maximum value of performance rights yet to vest has been determined as the total number of performance rights still to vest multiplied by the fair value of each performance right at grant date. The fair value for accounting purposes is determined using the Black-Scholes option pricing model.

	CASH INCENTIVE		PERFORMANCE RIGHTS						
NAME	PAID %	FORFEITED %	DATE GRANTED	VESTED %	NO.	FORFEITED# %	FINANCIAL PERIODS IN WHICH RIGHTS MAY VEST	MAXIMUM TOTAL NUMBER OF RIGHTS MAY VEST	MAXIMUM TOTAL VALUE OF GRANTS YET TO VEST $
Executive Directors									
R Sudano	100	0	FY2016	0	0	0	FY2019	62,400	537,874
			FY2015	0	0	0	FY2018	42,800	322,853
Other Key Management Personnel									
C Grady	100	0	FY2016	0	0	0	FY2019	27,400	236,182
DR Briggs	100	0	FY2016	0	0	0	FY2019	22,200	191,359
			FY2015	0	0	0	FY2018	13,900	104,806
D Aquilina	100	0	FY2016	0	0	0	FY2019	22,300	192,221
			FY2015	0	0	0	FY2018	10,600	79,924
M Robertson	0	100	FY2016	0	26,700	100	FY2019	–	-
			FY2015	0	16,900	100	FY2018	–	-
A J Penrose	100	0	FY2016	0	0	0	FY2019	18,900	162,914
			FY2015	0	0	0	FY2018	10,100	76,154
K Chand	100	0	FY2016	0	0	0	FY2019	20,400	175,843
E Tollinton	100	0	FY2016	0	0	0	FY2019	23,700	204,289
R d'Andrea	100	0	FY2016	0	0	0	FY2019	21,400	184,463
A Batten	100	0	FY2016	0	25,100	100	FY2019	–	-
			FY2015	0	16,300	100	FY2018	–	-

Performance rights vesting conditions are tested each year and to the extent that the conditions are not expected to be met, the Committee has the discretion to cancel or forfeit the performance rights yet to vest.

Performance Rights Holdings

The number of performance rights over shares in the Company held during the current and prior financial period by each director and other key management personnel of The Reject Shop Limited and the consolidated entity, including related parties, are set out below:

2016	BALANCE AT THE START OF THE PERIOD	PERFORMANCE RIGHTS GRANTED DURING THE PERIOD	PERFORMANCE RIGHTS VESTED & EXERCISED DURING THE PERIOD	OTHER CHANGES DURING THE PERIOD	BALANCE AT END OF THE PERIOD
Directors					
WJ Stevens	–	–	–	–	–
KJ Elkington	–	–	–	–	–
DR Westhorpe	–	–	–	–	–
M Conrad	–	–	–	–	–
Executive Director					
R Sudano	42,800	62,400	–	–	105,200
Other Key Management Personnel					
M Robertson (i)	16,900	26,700	–	(43,600)	–
DR Briggs	18,425	22,200	(1,225)	(900)	38,500
D Aquilina	12,550	22,300	–	(600)	34,250
AJ Penrose	13,250	18,900	(825)	(650)	30,675
K Chand	–	20,400	–	–	20,400
E Tollinton	–	23,700	–	–	23,700
C Grady	–	27,400	–	–	27,400
A Batten (i)	16,300	25,100	–	(41,400)	–
R d'Andrea	–	21,400	–	–	21,400
Total	**120,225**	**270,500**	**(2,050)**	**(87,150)**	**301,525**

(i) M Robertson and A Batten resigned during the year and all non-vested performance rights were lapsed prior to June 2016.

Non-executive directors do not participate in long term incentives and have not been granted performance rights in any period.

Subsequent to period end there have been no performance rights granted to key management personnel. However, during the period ended 3 July 2016, 9,925 performance rights vested, of which 9,925 have been exercised since year end; 5,425 of these performance rights related to key management personnel.

Share Holdings

The number of shares in the Company held during the current and prior financial period by each director and other key management personnel of The Reject Shop Limited and the consolidated entity, including related parties, is set out below:

2016	BALANCE AT THE START OF THE PERIOD	RECEIVED DURING THE PERIOD ON THE EXERCISE OF PERFORMANCE RIGHTS	OTHER CHANGES DURING THE PERIOD	BALANCE AT END OF THE PERIOD
Non-executive Directors				
WJ Stevens	3,500	–	1,000	4,500
KJ Elkington	6,000	–	2,500	8,500
DR Westhorpe	3,000	–	–	3,000
M Conrad	–	–	4,000	4,000
Executive Director				
R Sudano	–	–	–	–
Key Management Personnel				
M Robertson (i)	–	–	–	–
DR Briggs	–	1,225	(1,225)	–
D Aquilina	–	–	890	890
AJ Penrose	1,200	825	(1,424)	601
GW Pearce (i)	3,037	–	(3,037)	–
K Chand	–	–	–	–
E Tollinton	–	–	–	–
C Grady	–	–	–	–
A Batten	–	–	–	–
R d'Andrea	–	–	–	–
Total	**16,737**	**2,050**	**2,704**	**21,491**

(i) M Robertson and GW Pearce's share holdings have been shown as nil at the end of the period as they are no longer key management personnel of the Company.

2015	BALANCE AT THE START OF THE PERIOD	RECEIVED DURING THE PERIOD ON THE EXERCISE OF PERFORMANCE RIGHTS	OTHER CHANGES DURING THE PERIOD	BALANCE AT END OF THE PERIOD
Non-executive Directors				
WJ Stevens	3,500	–	–	3,500
KJ Elkington	4,615	–	1,385	6,000
DR Westhorpe	–	–	3,000	3,000
M Conrad	–	–	–	–
Executive Director				
R Sudano	–	–	–	–
Key Management Personnel				
M Robertson	–	–	–	–
DR Briggs	–	1,700	(1,700)	–
D Aquilina	–	–	–	–
AJ Penrose	666	1,200	(666)	1,200
GW Pearce	2,137	900	–	3,037
DJ O'Connor (i)	–	1,700	(1,700)	–
K Chand	–	–	–	–
J Pileio (i)	270	–	(270)	–
MJ Shields	–	–	–	–
E Tollinton	–	–	–	–
C Grady	–	–	–	–
A Batten	–	–	–	–
R d'Andrea	–	–	–	–
S Blakeney (i)	–	900	(900)	–
P Nutbean (i)	2,260	1,100	(3,360)	–
Total	**13,448**	**7,500**	**(4,211)**	**16,737**

(i) DJ O'Connor, J Pileio, S Blakeney and P Nutbean's share holdings have been shown as nil at the end of the period as they are no longer key management personnel of the Company.

Loans to or other transactions with Key Management Personnel

No loans were made to or from directors of The Reject Shop Limited or to or from other key management personnel of the consolidated entity, including related parties or are outstanding as of 3 July 2016 (FY2015 – $Nil).

No other transactions were undertaken with directors or other key management personnel, including related parties during the period (FY2015 – $Nil).

Company Performance

The Managing Director and other key management personnel have an at risk component of their remuneration based on a number of performance rights criteria including the Company's overall financial performance and shareholder returns. Refer to the performance rights plan on page 28 for the performance rights criteria.

The following table outlines the Company's earnings and share performance since its listing on 1 June 2004:

PERIOD	NPAT	NPAT GROWTH	EPS CENTS PER SHARE	EPS GROWTH	SHARE PRICE AT START OF PERIOD	SHARE PRICE AT END OF PERIOD	SHARE PRICE GROWTH	ORDINARY & SPECIAL DIVIDENDS PAID OR DECLARED PER SHARE
FY2005	$6.5m	21.4%	26.7	16.2%	$2.00	$2.99	49.5%	$0.17
FY2006(i)	$9.1m	38.7%	35.9	34.5%	$2.99	$5.95	99.0%	$0.31
FY2007	$12.3m	35.8%	48.1	34.0%	$5.95	$12.80	115.1%	$0.31
FY2008(ii)	$16.7m	35.6%	64.9	34.9%	$12.80	$9.37	(26.8)%	$0.48
FY2009	$19.0m	13.9%	73.6	13.4%	$9.37	$11.62	24.0%	$0.55
FY2010	$23.4m	22.9%	90.0	22.3%	$11.62	$16.42	41.3%	$0.67
FY2011	$16.2m	(30.8%)	62.1	(31.0%)	$16.42	$11.66	(29.0%)	$0.31
FY2012(ii)(iii)	$21.9m	35.6%	84.1	35.4%	$11.66	$9.15	(21.5%)	$0.42
FY2013	$19.5m	(11.0%)	73.4	(12.7%)	$9.15	$17.19	87.9%	$0.37
FY2014	$14.5m	(25.4%)	50.3	(31.5%)	$17.19	$8.82	(48.7%)	$0.30
FY2015	$14.2m	(1.9%)	49.4	(1.8%)	$8.82	$5.40	(38.8%)	$0.30
FY2016(ii)	$17.1m	20.1%	59.3	20.0%	$5.40	$12.45	130.6%	$0.44

(i) In FY2006 a special dividend of 7.5 cents was also paid.

(ii) 53 week period.

(iii) In FY2012 a special dividend of 8.5 cents was also paid.

A detailed review of performance and operations can be found in the Operating and Financial review on pages 23 to 27 of this annual report.

Shares under performance rights

Unissued ordinary shares of the Company under performance rights at the date of this report are as follows:

DATE OF GRANT	EXPIRY DATE	VESTING DATE	VALUE AT GRANT DATE $	EXERCISE* PRICE $	NUMBER ON ISSUE	NUMBER ON ISSUE TO KEY MANAGEMENT PERSONNEL
13 Oct 2014	13 Oct 2018	1 Jul 2017	7.54	–	77,400	77,400
14 Oct 2015	14 Oct 2019	1 Jul 2018	8.62	–	218,700	218,700

*Nominal exercise price of $1.00 is payable each exercise.

Subsequent to period end, the Board has not granted any further performance rights under the Performance Rights Plan.

Shares issued and the exercise of options and performance rights

The following shares of the Company were issued during the period ended 3 July 2016 and to the date of this report on the exercise of options and performance rights:

DATE GRANTED	VESTING DATE	ISSUE PRICE OF SHARES	TOTAL NUMBER OF SHARES ISSUED	NUMBER OF SHARES ISSUED TO KEY MANAGEMENT PERSONNEL
17 October 2013	1 Jul 2016	–	3,700	2,150
10 January 2013	1 Jul 2016	–	750	750
18 October 2012	1 Jul 2016	–	5,475	2,525
18 October 2011	1 Jul 2015	–	4,975	2,050
Total		**–**	**14,900**	**7,475**

No amounts are unpaid on any of these shares.

Remuneration of Auditors

	CONSOLIDATED ENTITY	
	2016 $	2015 $
During the period the following fees for services were paid or payable to PricewaterhouseCoopers and its related parties as the auditor:		
Audit and Accounting Related Services		
Audit and review work	**303,892**	286,206
	303,892	286,206
Tax Compliance and Consulting Services		
Tax compliance	35,712	42,500
Tax consulting advice	25,000	35,500
	60,712	78,000
Other Services		
Other assurance services	**25,060**	20,406
Total Remuneration	**389,664**	384,612

DIRECTORS' REPORT
CONTINUED

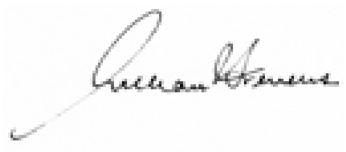
Independence of Auditors

PricewaterhouseCoopers was appointed auditor in FY2002 and whilst their main role is to provide audit services to the Company, the Company does employ their specialist advice where appropriate. In each instance, the Board has considered the nature of the advice sought in the context of the audit relationship and in accordance with the advice received from the Audit and Risk Committee, does not consider these services compromise the auditor's independence requirements of the Corporations Act for the following reasons:

- No non-audit services provided to the Company and reviewed by the Board were considered to impact upon the impartiality and objectivity of the auditor; and
- None of the services undermined the general principles relating to auditor independence as set out in APES 110 – *Code of Ethics for Professional Accountants*, including not reviewing or auditing the auditor's own work, not acting in a management or a decision making capacity for the Company, not acting as advocate for the Company or not jointly sharing economic risk or rewards.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is contained on page 42 of this annual report.

This report is made in accordance with a resolution of the directors:



WJ Stevens
Chairman

24 August 2016

AUDITORS INDEPENDENCE DECLARATION

pwc

Auditor's Independence Declaration

As lead auditor for the audit of The Reject Shop Limited for the year ended 3 July 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of The Reject Shop Limited and the entities it controlled during the year.

Daniel Rosenberg
Partner
PricewaterhouseCoopers

Melbourne
24 August 2016

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 1300 799 615, F: 1300 799 618, www.pwc.com.au

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE 53 WEEK FINANCIAL PERIOD ENDED 3 JULY 2016

		CONSOLIDATED ENTITY	
	Note	**2016 $'000**	2015 $'000
Revenues from continuing operations			
Sales revenue	2	**799,958**	756,800
Other revenue	2	**105**	57
		800,063	756,857
Expenses			
Cost of sales		**461,938**	422,922
Store expenses		**270,911**	273,111
Administrative expenses		**42,320**	39,094
		775,169	735,127
Finance costs	3	**664**	1,532
Profit before income tax		**24,230**	20,198
Income tax expense	4	**7,130**	5,959
Profit for the period attributable to shareholders of The Reject Shop Limited		**17,100**	14,239
Other comprehensive income			
Items that may be reclassified to Profit or Loss			
Changes in the fair value of cash flow hedges		**(8,831)**	10,627
Income tax relating to components of other comprehensive income		**2,649**	(3,188)
Other comprehensive income for the period, net of tax		**(6,182)**	7,439
Total comprehensive income attributable to shareholders of The Reject Shop Limited		**10,918**	21,678
Earnings per Share		**Cents**	Cents
Basic earnings per share	27	**59.3**	49.4
Diluted earnings per share	27	**58.8**	49.2

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

AS AT 3 JULY 2016

		CONSOLIDATED ENTITY	
	Note	**2016 $'000**	2015 $'000
CURRENT ASSETS			
Cash	5	**15,068**	17,326
Inventories	6	**98,515**	100,240
Derivative financial instruments	22	**–**	5,433
Other	7	**10,983**	1,477
TOTAL CURRENT ASSETS		**124,566**	124,476
NON CURRENT ASSETS			
Property, plant and equipment	8	**89,942**	94,132
Deferred tax assets	9	**16,087**	9,700
TOTAL NON CURRENT ASSETS		**106,029**	103,832
TOTAL ASSETS		**230,595**	228,308
CURRENT LIABILITIES			
Payables	10	**33,118**	43,004
Borrowings	11	**12,000**	-
Tax liabilities		**2,479**	1,534
Provisions	12	**22,416**	12,981
Derivative financial instruments	22	**3,398**	-
Other	13	**10,394**	11,677
TOTAL CURRENT LIABILITIES		**83,805**	69,196
NON CURRENT LIABILITIES			
Borrowings	14	**–**	12,000
Provisions	12	**1,832**	1,995
Other	15	**9,616**	10,444
TOTAL NON CURRENT LIABILITIES		**11,448**	24,439
TOTAL LIABILITIES		**95,253**	93,635
NET ASSETS		**135,342**	134,673
EQUITY			
Contributed equity	16	**46,247**	46,247
Reserves	17	**2,857**	8,180
Retained profits	18	**86,238**	80,246
TOTAL EQUITY		**135,342**	134,673

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 53 WEEK FINANCIAL PERIOD ENDED 3 JULY 2016

CONSOLIDATED ENTITY 2016	CONTRIBUTED EQUITY $'000	CAPITAL PROFITS $'000	SHARE BASED PAYMENTS $'000	HEDGING RESERVE $'000	RETAINED EARNINGS $'000	TOTAL $'000
Balance as at 29 June 2015	46,247	739	3,638	3,803	80,246	134,673
Profit for the period	–	–	–	–	17,100	17,100
Other comprehensive income	–	–	–	(6,182)	–	(6,182)
Transaction with owners in their capacity as owners:						
Dividends Paid	–	–	–	–	(11,108)	(11,108)
Share based remuneration	–	–	681	–	–	681
Current tax – credited directly to equity	–	–	178	–	–	178
Balances as at 3 July 2016	46,247	739	4,497	(2,379)	86,238	135,342

CONSOLIDATED ENTITY 2015	CONTRIBUTED EQUITY $'000	CAPITAL PROFITS $'000	SHARE BASED PAYMENTS $'000	HEDGING RESERVE $'000	RETAINED EARNINGS $'000	TOTAL $'000
Balance as at 29 June 2014	46,247	739	3,705	(3,636)	73,217	120,272
Profit for the period	–	–	–	–	14,239	14,239
Other comprehensive income	–	–	–	7,439	–	7,439
Transaction with owners in their capacity as owners:						
Dividends Paid	–	–	–	–	(7,210)	(7,210)
Share based remuneration	–	–	(189)	–	–	(189)
Current tax – (debited) directly to equity	–	–	122	–	–	122
Balances as at 28 June 2015	46,247	739	3,638	3,803	80,246	134,673

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 53 WEEK FINANCIAL PERIOD ENDED 3 JULY 2016

		CONSOLIDATED ENTITY	
	Note	**2016 $'000**	2015 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		**878,732**	831,083
Payments to suppliers and employees (inclusive of goods and services tax)		**(842,813)**	(776,276)
Interest received		**105**	57
Borrowing costs paid		**(672)**	(1,545)
Income tax paid		**(9,744)**	(6,467)
Net cash inflow from operating activities	21	**25,608**	46,852
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**3**	231
Payments for property, plant and equipment		**(16,761)**	(17,119)
Net cash outflow from investing activities		**(16,758)**	(16,888)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**63,800**	141,000
Repayment of borrowings		**(63,800)**	(154,000)
Dividends paid	18	**(11,108)**	(7,210)
Net cash inflow/ (outflow) from financing activities		**(11,108)**	(20,210)
Net (decrease) /increase in cash held		**(2,258)**	9,754
Cash at the beginning of the financial period		**17,326**	7,572
Cash at the end of the period	21	**15,068**	17,326

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity, consisting of The Reject Shop Limited and its subsidiaries.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Reject Shop Limited is a for-profit entity for the purpose of preparing financial statements.

Compliance with IFRS

The financial report of The Reject Shop Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed further in note 1 (aa).

(b) Principles of Consolidations

(i) Subsidiaries

The consolidated financial statements incorporate all the assets and liabilities of the subsidiary of The Reject Shop Limited as at 3rd July 2016 and the results of the subsidiary for the period. The Reject Shop Limited and its subsidiary are referred to in this financial report as the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The Reject Shop Limited has a 100% owned non-operating subsidiary, TRS Trading Group Pty Ltd, which has not traded since 2003.

(ii) Employee Share Trust

The Reject Shop Limited has formed a trust to administer the Company's Performance Rights Plan. This trust is consolidated, as it is controlled by the group.

(c) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the senior management personnel. The Reject Shop Limited has only one operating business segment. Refer to note 30 for information.

(d) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets and liabilities are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The head entity, The Reject Shop Limited, and the controlled entity in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone tax payer in its own right.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a moving average basis and include an appropriate proportion of freight inwards, logistics, discounts and supplier rebates.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(f) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

The depreciable amount of all fixed assets including capitalised leased assets, is depreciated on a straight line basis over their estimated useful lives. The useful life for each class of asset is:

CLASS OF FIXED ASSET	USEFUL LIFE
Leasehold Improvements and Office Equipment	5-12 years
Fixtures and Fittings	5-12 years
Motor Vehicles	3-5 years
Computer Equipment	3 years

(g) Leases

Leases of property, plant and equipment where the consolidated entity has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in long term borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the lease term and the asset's useful life.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Leases containing fixed escalation clauses require the escalation amounts to be determined on lease inception and expensed evenly over the lease term, generally between 3 and 8 years.

Lease incentives received under operating leases are recognised in the balance sheet as deferred income and are recognised as a reduction of expenses over the initial term of the lease.

Onerous Contracts

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

AASB 137 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

The amount of the liability shall be recognised as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. It should be based on the excess of the cash flows for the unavoidable costs in meeting the obligations under the lease over the unrecognised estimated future economic benefits from the lease.

(h) Employee Benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, annual leave and vested sick leave are recognised in respect of employees' services up to the reporting date, and are measured at the amounts expected to be settled.

(ii) Long service leave

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Superannuation

Contributions are made by the consolidated entity to employee personal superannuation funds and are charged as expenses when incurred. The consolidated entity does not have any Defined Benefit Fund obligations.

(iv) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised when there is a contractual or constructive liability and at least one of the following conditions are met:

- There are formal terms in the plan for determining the amount of the benefit;
- The amounts to be paid are determined before the time of completion of the financial report; or
- Past practice has created a constructive obligation.

Liabilities for short term cash incentives are expected to be settled within 12 months and are measured at amounts expected to be paid when settled.

(v) Equity-based compensation benefits

Equity-based compensation benefits are provided to selected employees via the Performance Rights Plan.

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares, adjusted for the fair value of any rights which do not ultimately vest.

The fair value at grant date is determined using a Black-Scholes options pricing model that takes into account:

- the exercise price;
- the term of the Performance Rights;
- the vesting and performance criteria;
- the impact of dilution;
- the non-tradeable nature of the Performance Rights;
- the share price at grant date and expected price volatility of the underlying share;
- the expected dividend yield; and
- the risk-free interest rate for the term of the Performance Rights.

The fair value of the Performance Rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of rights that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of Performance Rights that are expected to become exercisable, net of any Performance Rights that have lapsed throughout the period. The employee benefit expense recognised each period takes into account the most recent estimate.

(i) Cash

For presentation of statement of cash flows, cash includes cash on hand and at call, short-term deposits with banks and financial institutions, and investments in money market instruments maturing within two months, net of bank overdrafts. Bank overdrafts are shown with borrowings in current liabilities on the balance sheet.

(j) Revenue Recognition

Revenue from the sale of goods is recognised at the point of sale. All revenue is stated net of the amount of goods and services tax (GST), returns and staff discounts.

(k) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The entity designates derivatives as hedges of the cash flows of highly probable forecast transactions (cash flow hedges).

The consolidated entity documents at the inception of the transaction the relationship between the hedging instrument and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are transferred out of equity and included in the cost of the hedged item when the forecast purchase that is hedged takes place.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(l) Foreign Currency Translation

(i) Functional and presentation currency

Items included in the financial statements of the consolidated entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is The Reject Shop Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

(m) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs incurred for the construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

(o) Impairment of Property, Plant and Equipment

Assets that are subject to amortisation are reviewed for impairment at each reporting date when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(p) Dividends

Provision is made for the amount of any dividends declared, determined or publicly recommended by the Directors on or before the end of the financial period but not distributed at balance date.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate.

(r) Contributed Equity

Ordinary shares are classified as equity.

(s) Earnings per Share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during financial period, adjusted for bonus elements in ordinary shares issued during the period.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares (including performance rights) and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(t) Software Costs

Costs in relation to software development, including website costs, are charged as expenses in the period in which they are incurred unless they relate to the acquisition or development of an asset, in which case they are capitalised and amortised over the useful life which is generally three years.

(u) Restoration Costs

An expense is provided for in the period in which the legal or constructive obligation arises, usually on lease inception. The provision is measured at the present value of management's best estimate of make-good costs with a corresponding asset added to the cost of the fitout.

(v) Store Opening Costs

Non-capital costs associated in the setup of a new store are expensed in the period in which they are incurred.

(w) Training Subsidies

Government subsidies for employees undertaking external traineeships are treated as income in the period they are received and after all costs to which they relate have been incurred.

(x) Cost of Sales

The Company includes the full amount of its warehousing and logistics costs as part of its "Cost of Sales" line in the Consolidated Statement of Comprehensive Income.

The Company considers that all costs associated with getting stock to stores ready for sale is a cost attributable to the sale of such inventory.

(y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(z) Rounding of Amounts

The Company is a kind referred to in *ASIC Corporations (rounding in financial/ directors report) Instrument 2016/191*, issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the directors' and financial reports. Amounts in these reports have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(aa) Critical Accounting Estimates and Judgements

For the 3 July 2016 reporting period certain accounting estimates and judgements were made in relation to outstanding insurance claims and provisioning for shrinkage expense.

(i) Provisioning for shrinkage expense

The Company provides for shrinkage expense for the period since a store last completed a stock take. Management estimates this provision based on the actual stock take results recorded during the period. The assumptions made in relation to the current period are consistent with those in the prior year. Factors that could impact the estimated provision include the length of the time period since a store last completed a stock take or a change in the actual stocktake results ultimately recognised. As at 3 July 2016 this particular provision had a carrying amount of $8,317,511 (FY2015 – $6,011,970).

(ii) Impairment

The assessment of impairment on store assets is a critical judgement. A test for impairment is triggered by a change in a number of indicators, both internal and external. These indicators include, but are not limited to, physical damage to the asset, declining economic performance of the asset, technological changes, market or economic changes and plans to discontinue or restructure operations.

Impairment testing can only be done for an individual asset that generates cash inflows that are largely independent of cash inflows from other assets. A 'cash generating unit' is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has defined each individual store as a cash generating unit as the cash inflows from an individual store are largely independent from the inflows of any other store. Accordingly, the assessment of the carrying value of the relevant assets is on an individual store basis for store fixtures and fittings.

The recoverable amount is defined as the higher of the assets fair value less costs of disposal or its value in use. The Company determines value in use by making certain assumptions including forcast future cash flows and discount rates. The assumptions on future cash flows have been developed based on past performance and expectations in relation to the future. The discount rate has been determined using market information relevant to the industry in which the Company operates.

Impairment assessments are sensitive to the judgements made in the impairment test and assumptions outlined above. Changes to these assumptions could result in a different outcome or impairment of assets for other cash generating units in the future. Refer to Note 8 for details.

(iii) Onerous lease provisions

Onerous lease provisions have been recognised for the excess of the unavoidable cost, being the least of the cost to fulfil the contract and compensation or penalties for early exit, over the economic benefits expected to be received. The Company uses a discounted cash flow model to determine the estimated future economic benefits. For some leases the estimated exit costs could be dependent on the outcome of negotiations.

(iv) Net realisable value of inventory

The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell. The key assumptions require the use of management judgement. These key assumptions are the variables affecting the expected selling price. Any reassessment of the selling price in a particular period will affect the cost of goods sold.

There are no other accounting estimates or judgements within these accounts which have a significant effect on the amounts recognised in the financial report.

(ab) New and amended standards adopted by the group

The Reject Shop Limited has applied the following standards and amendments for the first time for their annual reporting period commencing 29 June 2015:

- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*
- AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*
- Interpretation 21 *Accounting for levies*
- AASB 2014-1 *Amendments to Australian Accounting Standards*

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 3 July 2016 reporting period and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below:

TITLE OF STANDARD	NATURE OF CHANGE	IMPACT	MANDATORY APPLICATION DATE
AASB 9 *Financial Instruments*	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.	There is no expected impact on The Reject Shop Limited's accounting for financial assets and liabilities. The new hedging rules align hedge accounting more closely with The Reject Shop Limited's risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.	Must be applied for financial years commencing on or after 1 January 2018. The Reject Shop Limited does not plan to early adopt any parts of AASB 9.
AASB 15 *Revenue from Contracts with Customers*	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 July 2017), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.	Management is not expecting the new rules to have a material impact on The Reject Shop as revenue from the sale of goods is recognised at the point of sale.	Mandatory for financial years commencing on or after 1 January 2017. Expected date of adoption by the group: 1 July 2017

TITLE OF STANDARD	NATURE OF CHANGE	IMPACT	MANDATORY APPLICATION DATE
AASB 16 *Leases*	AASB 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short- term and low-value leases. The accounting for lessors will not significantly change.	The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments, see note 20. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low- value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.	Mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

NOTE 2: REVENUE FROM CONTINUING OPERATIONS AND OTHER INCOME

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Revenue from continuing operations		
Sales of goods	**799,958**	756,800
Interest	**105**	57
	800,063	756,857

NOTE 3: EXPENSES

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Profit before income tax expense includes the following expenses:		
Interest and finance charges paid/payable	**664**	1,532
Depreciation & amortisation expenses are included in:		
Cost of sales	**2,701**	2,616
Store expenses	**13,761**	13,580
Administrative expenses	**2,995**	2,931
	19,457	19,127
Impairment of store assets	**–**	1,291
Foreign exchange loss/(gain)	**589**	(3,956)
Asset write offs on store closures	**684**	1,214
(Gain)/ Loss on disposal of property, plant and equipment	**3**	(139)
Rental expenses relating to operating leases		
Minimum lease payments	**109,412**	107,269
Provision for onerous leases	**(900)**	845
Provision for rent escalation	**(481)**	1,077
Rent paid on percentage of sales basis	**256**	641
Employee benefits expense	**171,678**	158,562
New store opening costs	**571**	2,199
Melbourne Distribution exit costs		
Redundancy costs	**7,650**	–
Make good costs	**600**	–
Asset write off	**810**	–

NOTE 4: INCOME TAX EXPENSE

		CONSOLIDATED ENTITY	
		2016 $'000	2015 $'000
(a) Income tax expense			
Current tax		**10,729**	7,279
Deferred tax		**(3,560)**	(1,320)
(Over) / Under provided in prior years		**(39)**	
		7,130	5,959
Deferred income tax expense included in income tax expense comprises:			
(Increase) in net deferred tax assets	9	**(3,560)**	(1,320)
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit before income tax expense		**24,230**	20,198
Tax at the Australian tax rate of 30% (2015 – 30%)		**7,269**	6,059
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Research and Development		**(100)**	(100)
Income tax expense		**7,169**	5,959
(Over) / Under provided in prior years		**(39)**	-
Income Tax Expense		**7,130**	5,959
(c) Amounts recognised directly in equity			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited in equity			
Current tax – credited/ (debited) directly to equity		**178**	122
(d) Tax income relating to items of other comprehensive income			
Cash flow hedges		**2,649**	(3,188)

NOTE 5: CURRENT ASSETS - CASH

		CONSOLIDATED ENTITY	
		2016 $'000	2015 $'000
Cash on hand	21	**1,600**	1,472
Cash at bank	21	**13,468**	15,854
		15,068	17,326

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

NOTE 6: CURRENT ASSETS - INVENTORIES

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Inventory at cost	**96,636**	99,115
Inventory at net realisable value	**1,879**	1,125
	98,515	100,240

Inventories recognised as an expense during the year ended 3 July 2016 amounted to $384,837,543 (FY2015: $357,267,572). These were included in the cost of sales. Writedowns of inventories to net realisable value amounted to $2,247,232 (FY2015: $1,675,867) These were recognised as an expense during the year ended 3 July 2016 and included in cost of sales.

NOTE 7: CURRENT ASSETS - OTHER

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Prepayment	**10,049**	969
Other current assets	**934**	508
	10,983	1,477

NOTE 8: NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Leasehold improvements		
At cost	**68,541**	63,016
Less accumulated depreciation	**(32,831)**	(26,329)
	35,710	36,687
Plant and equipment*		
At cost	**135,327**	126,366
Less accumulated depreciation	**(81,095)**	(68,921)
	54,232	57,445
Total Property, Plant and Equipment	**89,942**	94,132

* Plant & equipment includes fixtures, fittings and motor vehicles as well as $4,819,978 (FY2015: $1,577,657) of work in progress costs ($3.1m relates to the new Melbourne Distibution centre at Truganina).

Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial period are as follows:

	LEASEHOLD IMPROVEMENTS	PLANT AND EQUIPMENT	TOTAL
	$'000	$'000	$'000
Balance at 29 June 2015	36,687	57,445	94,132
Additions at cost	6,269	10,492	16,761
Asset write offs for store closures	(297)	(387)	(684)
Asset write offs for DC closure	–	(810)	(810)
Depreciation/amortisation expense	(6,949)	(12,508)	(19,457)
Balance at 3 July 2016	35,710	54,232	89,942

	LEASEHOLD IMPROVEMENTS	PLANT AND EQUIPMENT	TOTAL
	$'000	$'000	$'000
Balance at 29 June 2014	36,298	62,440	98,738
Additions at cost	8,038	9,081	17,119
Impairment of store assets	(503)	(788)	(1,291)
Asset write offs for store closures	(573)	(641)	(1,214)
Asset disposals	(39)	(54)	(93)
Depreciation/amortisation expense	(6,534)	(12,593)	(19,127)
Balance at 28 June 2015	36,687	57,445	94,132

In FY2016, the Company recognised a total of $0 (FY2015: $1,291,129) of impairment losses. The losses relate to fixed assets within the store such as fixtures and fittings, store fitout and computer equipment. The poor trading performance has resulted in the carrying value of the assets being greater than the recoverable amount. The recoverable amount has been determined as the value in use of the assets which is the estimated future cash flows discounted back to the present value. The discount rate used was 15.61% (FY2015: 16.43%).

In addition to store impairment three stores were closed and associated costs with carrying amount of $684,277 (FY2015: $1,213,993) were written off.

NOTE 9: NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Employee benefits	**7,322**	4,083
Lease escalation	**3,068**	3,212
Inventories	**1,548**	1,455
Lease incentives	**628**	617
Depreciation	**2,350**	1,668
Other provisions and accruals	**1,073**	1,343
Employee share trust	**441**	66
Equity raising costs	**65**	131
Hedging reserve	**1,019**	-
Sundry items	**(300)**	(403)
	17,214	12,172
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:		
Depreciation	**(1,127)**	(842)
Hedging reserve	**–**	(1,630)
Net deferred tax assets	**16,087**	9,700
Net deferred tax assets expected to be recovered within 12 months	**10,426**	4,084
Net deferred tax assets expected to be recovered after more than 12 months	**5,661**	5,616
Net deferred tax assets	**16,087**	9,700

MOVEMENTS CONSOLIDATED	EMPLOYEE BENEFITS	INVENTORIES	HEDGING RESERVE	OTHER	TOTAL
	$'000	$'000	$'000	$'000	$'000
At 29 June 2014	3,586	1,281	1,558	4,882	11,307
(Charged) / credited					
- to profit or loss	497	174	-	-	671
- to other comprehensive income	-	-	(3,188)	-	(3,188)
- direct to equity	-	-	-	910	910
At 28 June 2015	4,083	1,455	(1,630)	5,792	9,700
(Charged) / credited					
- to profit or loss	**3,239**	**93**	**–**	**228**	**3,560**
- to other comprehensive income	**–**	**–**	**2,649**	**–**	**2,649**
- direct to equity	**–**	**–**	**–**	**178**	**178**
At 3 July 2016	**7,322**	**1,548**	**1,019**	**6,198**	**16,087**

NOTE 10: CURRENT LIABILITIES – PAYABLES

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Unsecured liabilities		
Trade payables	**27,516**	35,893
Sundry payables and accruals	**5,602**	7,111
	33,118	43,004

NOTE 11: CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Secured liabilities(i)		
Bank Overdraft	**–**	–
Cash advance(ii)	**12,000**	–
	12,000	–

(i) Commercial Bill – rolling 12 months
(ii) Cash advance will be settled within six months. A fixed interest rate of 2.9% (2015: 3.5%) is applied to the cash advance.

NOTE 12: LIABILITIES – PROVISIONS

	CONSOLIDATED ENTITY					
	2016 $'000			2015 $'000		
	CURRENT	**NON-CURRENT**	**TOTAL**	**CURRENT**	**NON-CURRENT**	**TOTAL**
Make good (i)	600	–	**600**	–	–	–
Restructuring costs (ii)	7,650	–	**7,650**	–	–	–
Onerous leases	355	335	**690**	1,261	329	**1,590**
Employment entitlements	13,811	1,497	**15,308**	11,720	1,666	**13,386**
	22,416	**1,832**	**24,248**	**12,981**	**1,995**	**14,976**

(i) An estimate of the make good costs relating to the exit from the Melbourne Distribution Centre.

(ii) An estimate of the redundancy costs relating to the outsourcing of operations at the Melbourne Distribution Centre.

Amounts not expected to be settled within the next 12 months

The current provision for employee entitlements includes accrued annual leave, long service leave and bonus accruals. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision for annual leave is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. The provision for long-service leave has both a current and non-current portion. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. Expected future payments are discounted using appropriate market yields at the end of the reporting period that match, as closely as possible, the estimated future cash outflows. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Leave obligations expected to be settled after 12 months	**3,339**	3,175

NOTE 13: CURRENT LIABILITIES - OTHER

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Accrued expenses	**6,929**	8,137
Deferred income (note 1(g))	**851**	815
Rent escalation	**2,614**	2,725
	10,394	11,677

NOTE 14: NON-CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Secured liabilities		
Cash advance (i)	**–**	12,000

(i) A fixed interest rate of 3.5% (FY2015) is applied to the cash advance.

All secured liabilities listed within note 11, 14 and 21 including Bank overdraft and bank loans, finance purchases and hire purchase agreements are secured by a Cross Guarantee and Indemnity between The Reject Shop Limited and TRS Trading Group Pty Ltd supported by:

First Registered Company Charge (Mortgage Debenture) over all the assets and undertakings of The Reject Shop Limited. This is a fixed and floating charge over all present and future assets, undertakings (including goodwill); and unpaid/uncalled capital of the Company.

First Registered Company Charge (Mortgage Debenture) over all the assets and undertakings of TRS Trading Group Pty Ltd. This is a fixed and floating charge over all present and future assets, undertakings (including goodwill); and unpaid/uncalled capital of the Company.

Letter of Set Off by and on account of The Reject Shop Limited and TRS Trading Group Pty Ltd.

NOTE 15: NON-CURRENT LIABILITIES – OTHER

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Deferred income (Note 1(g))	**2,004**	2,462
Rent escalation	**7,612**	7,982
	9,616	10,444

NOTE 16: CONTRIBUTED EQUITY

Movements in ordinary share capital:

DATE	DETAILS	NUMBER OF ISSUED SHARES	ISSUE PRICE PER SHARE $	CONTRIBUTED EQUITY $'000
29 June 2014	**Balance**	**28,826,248**		**46,247**
1 July 2014	Exercise of performance rights	18,400	–	–
28 June 2015	**Balance**	**28,844,648**		**46,247**
21 July 2015	Exercise of performance rights	4,975	–	–
3 July 2016	**Balance**	**28,849,623**		**46,247**

All shares carry one vote per share and rank equally in terms of dividends and on winding up. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

NOTE 17: EQUITY – RESERVES

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Capital profits reserve	**739**	739
Share based payments reserve	**4,497**	3,638
Hedging reserve – cash flow hedges	**(2,379)**	3,803
	2,857	8,180
Movements:		
Share based payments reserve		
Balance at beginning of period	**3,638**	3,705
Performance Rights expense	**681**	(189)
Deferred tax – share based payments	**178**	122
Balance at end of period	**4,497**	3,638
Hedging reserve – cash flow hedges		
Balance at beginning of period	**3,803**	(3,636)
Transfer to inventory	**(3,803)**	3,636
Revaluation of cash flow hedges	**(2,379)**	3,803
Balance at end of period	**(2,379)**	3,803

Nature and purpose of reserves

(i) Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 22. Amounts accumulated in equity are included in the cost of the hedged item when the forecast purchase that is hedged takes place.

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of performance rights issued.

NOTE 18: EQUITY – RETAINED PROFITS

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Retained profits at the beginning of the financial period	**80,246**	73,217
Net profit attributable to members of the consolidated entity	**17,100**	14,239
Dividends provided for or paid	**(11,108)**	(7,210)
Retained profits at reporting date	**86,238**	80,246

Since the end of the financial period the directors have declared the payment of a final ordinary dividend of 19.0cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on 17 October 2016.

NOTE 19: COMMITMENTS

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Operating Lease Commitments		
Non cancellable operating leases contracted for but not capitalised in the financial statements payable:		
Not later than one year	**108,613**	85,630
Later than one year and not later than five years	**191,008**	196,641
Later than five years	**29,984**	15,898
	329,605	298,169

Operating leases primarily relate to retail stores over a two to eight year time period and contain varying terms and escalation clauses.

This does not include any rental payments payable as a percentage of sales contingent on achieving sales thresholds contained within existing operating leases ('percentage rent') as these amounts cannot be reliably measured for future periods. The amount expensed during the current period for percentage rent was $256,036 (FY2015: $641,490).

Capital Commitments

The consolidated entity has capital commitments totalling $8,805,806 (FY2015: $690,000), all payable within one year.

NOTE 20: CONTINGENT LIABILITIES

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Estimates of the maximum amount of contingent liabilities that may become payable:		
Letters of credit established for acquisition of goods for resale	–	-

NOTE 21: STATEMENT OF CASH FLOW INFORMATION

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Reconciliation of Cash Flow from operating activities with profit after income tax from ordinary activities		
Profit from ordinary activities after Income Tax	**17,100**	14,239
Non cash items in profit from ordinary activities		
Depreciation	**19,457**	19,127
Impairment of store assets	–	1,291
Asset write offs on store closures	**684**	1,214
Asset write offs on DC closure	**810**	-
(Gain)/Loss on disposal of property, plant and equipment	**3**	(139)
Provision for onerous leases	**(900)**	845
Non cash share based expense	**681**	(189)
Changes in assets and liabilities:		
(Increase)/Decrease in receivables and other assets	**(9,507)**	1,919
Decrease in inventories	**1,725**	1,020
Increase in trade, other creditors and other provisions	**997**	5,081
Increase in income tax payable	**945**	957
(Increase)/Decrease in deferred tax assets	**(6,387)**	1,487
Net cash provided by operations	**25,608**	46,852
Reconciliation of cash		
Cash at the end of the financial period as shown in the statements of cash flows is reconciled to the related items in the balance sheets as follows:		
Cash on hand	**1,600**	1,472
Cash at bank	**13,468**	15,854
	15,068	17,326
Less: Bank overdraft	–	-
	15,068	17,326

Credit standby arrangement and loan facilities

The ongoing funding requirements of the Company, renewed annually, are provided under the terms of a facility agreement. The key facilities and their utilisation are as follows:

	2016		2015	
	Limit $'000	**Utilised $'000**	Limit $'000	Utilised $'000
Interchangeable Working Capital Facility	**40,005**	**12,000**	40,005	-
Foreign Currency Settlement	**850**	**-**	850	-
Other Facilities	**1,600**	**1,354**	23,600	13,391
Total Facilities	**42,455**	**13,354**	64,455	13,391

A seasonal facility of $20,000,000 was utilised from 1 October 2015 and repaid in full by 31 December 2015. Other facilities include an ANZ Bank indemnity guarantee of $1,600,000 of which $1,354,051 was utilised in relation to property leases at 3 July 2016.

NOTE 22: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Derivative Financial Instruments		
Current assets and (liabilities)		
Forward foreign exchange contracts – cash flow hedges	**(3,398)**	5,433

Forward exchange contracts – cash flow hedges

The consolidated entity imports product from overseas. In order to protect against exchange rate movements, the consolidated entity enters into forward exchange contracts to purchase foreign currency for all overseas purchases. These contracts are hedging contracts for highly probable forecast purchases for the ensuing financial period. The contracts are timed to mature when payments for shipments of products are scheduled to be made.

At balance date, the details of outstanding forward exchange contracts to be settled within 12 months are:

				AVERAGE EXCHANGE RATE	
SELL	**BUY**	**2016 $'000**	2015 $'000	**2016 $**	2015 $
Australian Dollars	United States Dollars	**174,712**	136,156	**0.73**	0.81
Australian Dollars	Euro	**5,168**	5,087	**0.66**	0.69
Australian Dollars	Pounds Sterling	**3,629**	1,585	**0.50**	0.51

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. When the cash flows occur, the consolidated entity adjusts the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity.

At the balance date the revaluation of these contracts to fair value resulted in a liability of $3,398,327 (FY2015 – asset of $5,433,153).

During the period $3,803,207 (FY2015 – $3,635,855) was removed from equity and included in the acquisition cost of goods and a net gain of $nil (FY2015 – net $Nil) was transferred to the profit and loss.

Exposure to Foreign Currency Risk

The Company's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollar was as follows:

DATE	2016	2015
	$'000	$'000
Cash at bank	34	2,783
Trade payables	4,920	3,782

Forward exchange contracts – Balance Date Sensitivity Analysis

The following table summarises the sensitivity of the consolidated entity as at balance date to movements in the value of the Australian dollar compared to the United States dollar, the principal currency that the consolidated entity has an exposure to. The sensitivity analysis as at balance date relates to the conversion of the United States Dollar foreign currency bank account and foreign currency payables and the impact on other components of equity arises from foreign forward exchange contracts designated as cash flow hedges as follows:

	CONSOLIDATED ENTITY	
	2016 $'000	2015 $'000
Sensitivity Analysis – foreign exchange AUD/USD		
For every 1c increase in AUD:USD rate, total exposures (decrease) by		
Income Statement	(62)	(13)
Equity	(2,284)	(556)
For every 1c decrease in AUD:USD rate, total exposures increase by		
Income Statement	64	13
Equity	2,346	573

Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

2016	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	FLOATING INTEREST RATE $'000	FIXED INTEREST RATE MATURING WITHIN 1 YEAR $'000	FIXED INTEREST RATE MATURING WITHIN 1 TO 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL $'000
Financial Assets						
Cash	1.50	15,068	–	–	–	15,068
Receivables and other debtors	–	–	–	–	–	-
Total Financial Assets	–	15,068	–	–	–	15,068
Financial Liabilities						
Bank loans and overdrafts	2.90	–	12,000	–	–	12,000
Trade, sundry and other creditors	–	–	–	–	37,904	37,904
Total Financial Liabilities	–	–	12,000	–	37,904	49,904

NOTES TO THE FINANCIAL STATEMENTS
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2015	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	FLOATING INTEREST RATE $'000	FIXED INTEREST RATE MATURING WITHIN 1 YEAR $'000	FIXED INTEREST RATE MATURING WITHIN 1 TO 5 YEARS $'000	NON-INTEREST BEARING $'000	TOTAL $'000
Financial Assets						
Cash	1.14	17,326	–	–	–	17,326
Receivables and other debtors	–	–	–	–	–	–
Total Financial Assets	–	17,326	–	–	–	17,326
Financial Liabilities						
Bank loans and overdrafts	3.48	–	–	12,000	–	12,000
Trade, sundry and other creditors	–	–	–	–	48,941	48,941
Total Financial Liabilities	–	–	12,000	12,000	48,941	60,941

The following table summarises the sensitivity of the consolidated entity to movements in interest rates by applying changes in interest rates to the average levels of financial assets and liabilities carried by the consolidated entity over the last two reporting periods. The table illustrates the impact of a change in rates of 100 basis points, a level that management believes to be a reasonably possible movement.

	CONSOLIDATED	
	2016 $'000	2015 $'000
Sensitivity Analysis – Interest Rates		
For every 100 basis points increase in interest rates		
Income Statement	(42)	(350)
Equity	–	-
For every 100 basis points decrease in interest rates		
Income Statement	42	350
Equity	–	-

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in respect of recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts of those assets, as disclosed in the balance sheet and notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts is the net fair value of these contracts.

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity.

Capital Risk Management

The consolidated entity's objectives when managing capital are to safeguard the ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2016, the company's strategy, which was unchanged from 2015, was to maintain a gearing ratio at or below 30%. The gearing ratio at 3 July 2016 and 28 June 2015 were as follows:

	2016 $'000	2015 $'000
Net debt/(cash)	**(3,068)**	(5,326)
Total equity	**135,342**	134,673
Net debt to equity ratio	**(2.27%)**	(3.95%)

Liquidity Risk

The consolidated entity manages liquidity risk by continuously monitoring forecast and actual cashflow and matching the maturity profiles of financial assets and liabilities. Such cashflow forecasting ranges from daily to weekly to monthly, with an annual forecast to ensure funding facilities are sufficient to service the business.

The tables below analyse the consolidated entity's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The consolidated and parent entity has no financial liabilities maturing in greater than five years.

CONSOLIDATED – AT 3 JULY 2016	LESS THAN 6 MONTHS $'000	6–12 MONTHS $'000	BETWEEN 1 AND 2 YEARS $'000	BETWEEN 2 AND 5 YEARS $'000	TOTAL CONTRACTUAL CASH FLOWS $'000	CARRYING AMOUNT (ASSETS)/LIABILITIES $'000
Non-derivatives						
Non-interest bearing	37,904	–	–	–	37,904	37,904
Variable rates	–	–	–	–	–	–
Fixed rate	12,000	–	–	–	12,000	12,000
Total non-derivatives	49,904	–	–	–	49,904	49,904
Derivatives						
Net settled	–	–	–	–	–	–
Gross settled						
– (inflow)	(123,963)	(56,148)	–	–	(180,111)	–
– outflow	127,825	55,684	–	–	183,509	3,398
Total derivatives	3,862	(464)	–	–	3,398	3,398

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

CONSOLIDATED – AT 28 JUNE 2015	LESS THAN 6 MONTHS $'000	6-12 MONTHS $'000	BETWEEN 1 AND 2 YEARS $'000	BETWEEN 2 AND 5 YEARS $'000	TOTAL CONTRACTUAL CASH FLOWS $'000	CARRYING AMOUNT (ASSETS)/LIABILITIES $'000
Non-derivatives						
Non-interest bearing	48,941	–	–	–	48,941	48,941
Variable rates	–	–	–	–	–	–
Fixed rate	–	–	12,013	–	12,013	12,013
Total non-derivatives	**48,941**	**–**	**12,013**	**–**	**60,954**	**60,954**
Derivatives						
Net settled	–	–	–	–	–	–
Gross settled						
- (inflow)	(82,716)	(44,488)	–	–	(127,204)	(5,433)
- outflow	81,674	43,403	–	–	125,077	–
Total derivatives	**(1,042)**	**(1,085)**	**–**	**–**	**(2,127)**	**(5,433)**

Net Fair Values

For other assets and other liabilities the net fair value approximates their carrying value.

Fair Value Measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments*: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments, forward exchange contracts and interest rate swaps.

The following table presents the entity's assets and liabilities measured and recognised at fair value at 3 July 2016.

	2016 $'000	2015 $'000
	Level 2	Level 2
Derivatives used for hedging	**(3,398)**	5,433

NOTE 23: KEY MANAGEMENT PERSONNEL DISCLOSURES

Non-Executive Directors

William J Stevens – Chairman
Kevin J Elkington
Denis R Westhorpe
Melinda Conrad

Executive Directors

Ross Sudano – Managing Director

All of the above persons were directors of The Reject Shop Limited for the entire period ended 3 July 2016.

Other Key Management Personnel

The following persons had authority and responsibility for planning, directing, and controlling the activities of the consolidated entity directly or indirectly during the financial period:

Ed Tollinton – Chief Information Officer
Darren R Briggs – Chief Financial Officer and Company Secretary
Colleen Grady – General Manager, Merchandise Buying
Kelvin Chand – General Manager, Property
Geoff W Pearce – General Manager, Business Transformation (Resigned on 1 July 2015)
Robert d'Andrea – General Manager, Human Resources
Danielle Aquilina – General Manager, Supply Chain and Planning
Allan J Penrose – General Manager, Marketing
Allison Batten – General Manager, Merchandise Planning (Resigned on 1 July 2016)
Michael Robertson – General Manager, Retail Operations (Resigned on 31 May 2016)

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 3 July 2016.

Remuneration of Directors and Key Management Personnel

	CONSOLIDATED	
	2016 $	2015 $
Short-term cash rewards	**1,133,743**	–
Short-term employee benefits	**3,910,733**	3,352,677
Post-employment benefits	**240,709**	226,804
Termination benefits	**111,467**	154,751
Other	**–**	80,505
Share-based payments	**700,373**	(44,348)
	6,097,025	3,770,389

No other long term or termination benefits were paid or payable with respect to the current or prior period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

NOTE 24: SHARE-BASED PAYMENTS

Performance Rights Plan (PRP)

The PRP is the basis of The Reject Shop Limited's long term reward scheme for selected senior employees. In summary, eligible employees identified by the Board may be granted performance rights, which is an entitlement to a share subject to satisfaction of exercise conditions on terms determined by the Board.

The details of all grants made outstanding for each financial period are detailed in the tables below:

2016

DATE OF GRANT	EXPIRY DATE	DATE EXERCISABLE	FAIR VALUE AT GRANT DATE $	BALANCE AT START OF PERIOD	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	LAPSED DURING THE PERIOD	BALANCE AT THE END OF THE PERIOD	VESTED AND EXERCISABLE AT THE END OF THE PERIOD
18 Oct 2011	18 Oct 2016	1 Jul 2015	8.92	4,975	–	(4,975)	–	–	–
18 Oct 2012	18 Oct 2017	1 Jul 2016	12.24	5,975	–	–	(500)	5,475	–
10 Jan 2013	10 Jan 2018	1 Jul 2016	14.04	750	–	–	–	750	–
17 Oct2013	17 Oct 2017	1 Jul 2016	16.89	8,050	–	–	(4,350)	3,700	–
13 Oct 2014 (i)	13 Oct 2018	1 Jul 2017	7.54	110,600	–	–	(33,200)	77,400	–
14 Oct 2015 (ii)	14 Oct 2019	1 Jul 2018	8.62	–	270,500	–	(51,800)	218,700	–
Total				**130,350**	**270,500**	**(4,975)**	**(89,850)**	**306,025**	**–**

There were no other changes to performance rights granted during the period.

(i) The performance rights that will vest if targeted criteria are met will be 39,500. The additional 37,900 performance rights will only be issued to key management personnel if targeted criteria are over achieved.

(ii) The performance rights that will vest if targeted criteria are met will be 110,400. The additional 108,300 performance rights will only be issued to key management personnel if targeted criteria are over achieved.

2015

DATE OF GRANT	EXPIRY DATE	DATE EXERCISABLE	FAIR VALUE AT GRANT DATE $	BALANCE AT START OF PERIOD	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	LAPSED DURING THE PERIOD	BALANCE AT THE END OF THE PERIOD	VESTED AND EXERCISABLE AT THE END OF THE PERIOD
15 Sep 2010	15 Sep 2015	1 Jul 2014	15.27	13,600	–	(13,600)	–	–	–
20 Oct 2010	20 Oct 2015	1 Jul 2014	15.49	4,800	–	(4,800)	–	–	–
18 Oct 2011	18 Oct 2016	1 Jul 2015	8.92	53,900	–	–	(48,925)	4,975	–
18 Oct 2012	18 Oct 2017	1 Jul 2016	12.24	99,500	–	–	(93,525)	5,975	–
10 Jan 2013	10 Jan 2018	1 Jul 2016	14.04	6,000	–	–	(5,250)	750	–
17 Oct2013	17 Oct 2017	1 Jul 2016	16.89	63,800	–	–	(55,750)	8,050	–
13 Oct 2014(i)	13 Oct 2018	1 Jul 2017	7.54	–	180,000	–	(69,400)	110,600	–
Total				**241,600**	**180,000**	**(18,400)**	**(272,850)**	**130,350**	

There were no other changes to performance rights granted during the period.

(i) The performance rights that will vest if targeted criteria are met will be 55,500. The additional 55,100 performance rights will only be issued to key management personnel if targeted criteria are over achieved.

The Company, effective from 2 July 2011 and prior to 12 October 2014, changed the vesting conditions for all performance rights grants that had not expired. The proportion of performance rights grants that ultimately vest will be determined by a combination of financial and non-financial criteria.

The financial criteria, which will carry a 60% weighting toward the performance rights vesting, consists of the following hurdles over a three year period:

- Earnings Per Share compound growth of at least 10% per annum;
- Improved Earnings Before Interest, Income Tax, Depreciation and Amortisation (EBITDA) of at least 0.15% to sales per annum; and
- Return on Average Capital Employed of at least 20% per annum.

The non-financial criteria, consists of a number of improvements in operational aspects considered critical to the long-term development of the business. These non-financial criteria include:

- Improved OH&S performance (Lost Time Injury Rate);
- Staff and customer satisfaction measures; and
- Brand development measures.

The Board retain the right to assess all aspects of the vesting conditions for future performance rights grants.

Performance rights, which are an entitlement to a share, had traditionally vested four years after grant date, representing a three year earnings period over which the established financial and non-financial (if applicable) criteria are measured, and an additional one year service period the employee must satisfy prior to vesting of the shares. However, effective from the rights issues in October 2013, vesting of shares will now occur over the three year period over which the established financial and non-financial (if applicable) criteria are measured. Rights participants will no longer have to serve the additional twelve month service period before such rights are able to vest. In respect of performance rights granted after 12 October 2014, a 100% weighting will apply to the achievement of the financial criteria, as set out above.

The total exercise price payable on the exercise of one or more performance rights on a particular day is $1.00, regardless of the number of performance rights exercised on that day.

The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the annual allocation amount is included in remuneration.

For the grants made on 14 October 2015 the fair value was determined using Black-Scholes option pricing model taking into account the following inputs:

(a) Performance rights are granted for no consideration, all grants are exercisable provided the relevant EPS hurdle rate is met and the executive remains employed on the exercise date;

(b) exercise price: $1.00 in total for all performance rights exercised;

(c) share price at grant date: $9.40;

(d) expected volatility of the Company's shares: 37.56%;

(e) expected dividend yield: 3.19%; and

(f) risk-free interest rate: 2.50%

The expected price volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

Performance rights do not carry voting or dividend entitlements.

Subsequent to period end, the Board has not granted any further performance rights under the PRP.

Remuneration Expenses arising from share-based payment transactions

	CONSOLIDATED	
	2016 **$**	2015 $
Performance rights granted	**681,764**	(189,366)

NOTE 25: REMUNERATION OF AUDITORS

	CONSOLIDATED ENTITY	
	2016 **$**	2015 $
During the period the following fees for services were paid or payable to PricewaterhouseCoopers and its related parties as the auditor:		
Audit and Assurance Related Services		
Audit and review work	**303,892**	286,206
Other assurance services	**25,060**	20,406
	328,952	306,612
Tax Compliance and Consulting Services		
Tax compliance	**35,712**	42,500
Tax consulting advice	**25,000**	35,500
	60,712	78,000
Total remuneration	**389,664**	384,612

NOTE 26: DIVIDENDS

	CONSOLIDATED	
	2016 **$'000**	2015 $'000
Since period end the directors have declared the payment of a fully franked final dividend of 19.0 cents per share. The amount of the proposed dividends is to be paid on 17 October 2016 out of retained profits, but not recognised as a liability at period end.	**5,483**	3,895
Balance of franking account at period end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent periods based on a tax rate of 30%	**46,528**	42,313

Dividends recognised during the reporting period:

Dividends paid to members during the financial period was a final ordinary dividend for the financial period ended 28 June 2015 of 13.5 cents per share totalling $3,894,710 paid on 12 October 2015. An interim ordinary dividend for the financial period ended 3 July 2016 of 25.0 cents per share (2015: 16.5 cents per share) totalling $7,212,406 (2015: $4,759,379) was paid on the 11 April 2016 (2015: 13 April 2015).

NOTE 27: EARNINGS PER SHARE

	CONSOLIDATED	
	2016 CENTS	2015 CENTS
Basic earnings per share	59.3	49.4
Diluted earnings per share	58.8	49.2
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	28,849,328	28,844,597
Adjustments for dilutive portion of performance rights	245,531	98,446
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	29,094,846	28,943,043

Performance Rights granted under the Performance Rights Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Details relating to the performance rights are set out in note 24.

NOTE 28: NET TANGIBLE ASSETS

	CONSOLIDATED ENTITY	
	2016 CENTS	2015 CENTS
Net tangible asset backing per ordinary share	469.1	466.9

NOTE 29: PARENT ENTITY FINANCIAL INFORMATION

	PARENT ENTITY	
	2016 $'000	2015 $'000
(a) Summary financial information		
The individual financial statements for the parent entity show the following aggregate amounts:		
Balance Sheet		
Current assets	124,566	124,476
Total assets	230,595	228,308
Current liabilities	84,808	70,199
Total liabilities	96,256	94,638
Shareholders' equity		
Issued capital	46,247	46,247
Reserves	2,857	8,180
Retained earnings	85,235	79,243
	134,339	133,670
Profit for the year	17,100	14,239
Total Comprehensive Income	10,918	21,678

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

	PARENT ENTITY	
	2016 **$'000**	2015 $'000
(b) Guarantees entered into by the parent entity		
Carrying amount included in current liabilities	–	-

Refer to note 19 and 20 for disclosures concerning contingent liabilities and contractual commitments for the parent entity.

NOTE 30: SEGMENT INFORMATION

The Reject Shop operates within one reportable segment (retailing of discount variety merchandise). Total revenues of $799,957,744 all relate to the sale of discount variety merchandise in the Company's country of domicile (Australia), in this single reportable segment. The Company is not reliant on any single customer.

NOTE 31: SUBSIDIARIES

The Reject Shop Limited has a 100% owned non-operating subsidiary, TRS Trading Group Pty Ltd incorporated in Australia. There were no transactions between the parent entity and its subsidiary during the period (FY2015 - Nil).

In addition, The Reject Shop Limited has effective control over The Reject Shop Limited Employee Share Trust which administers shares issued through the Company's Performance Rights Plan. This entity is also consolidated.

NOTE 32: MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

No matters or circumstances have arisen since the end of the financial period which have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

NOTE 33: RELATED PARTY TRANSACTIONS

No related party transactions were entered into during the period ended 3 July 2016.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) The financial statements and notes set out on pages 43 to 74 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

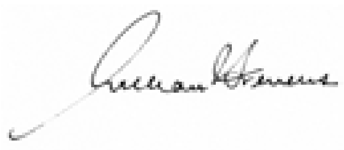
(ii) giving a true and fair view of the consolidated entity's financial position as at 3 July 2016 and of its performance for the financial period ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

The directors draw attention to Note 1(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Managing Director and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors:



WJ Stevens
Chairman

Dated this 24th day of August 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE REJECT SHOP LIMITED

pwc

Independent auditor's report to the members of The Reject Shop Limited

Report on the financial report

We have audited the accompanying financial report of The Reject Shop Limited (the company), which comprises the consolidated balance sheet as at 3 July 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 29 June 2015 to 3 July 2016, a summary of significant accounting policies, other explanatory notes and the directors' declaration for The Reject Shop Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 1300 799 615, F: 1300 799 618, www.pwc.com.au

pwc

Auditor's opinion

In our opinion:

(a) the financial report of The Reject Shop Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 3 July 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 28 to 39 of the directors' report for the year ended 3 July 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of The Reject Shop Limited for the year ended 3 July 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Daniel Rosenberg
Partner

Melbourne
24 August 2016

SHAREHOLDERS' INFORMATION AS AT 28TH JULY 2016

The shareholder information set out below was applicable as at 28 July 2016.

(a) The distribution of shareholding was as follows:

SIZE OF SHAREHOLDING	SHAREHOLDERS
1 – 1,000	4,693
1,001 – 5,000	1,741
5,001 – 10,000	196
10,001 – 100,000	100
100,001 and over	13

(b) 272 shareholders hold less than a marketable parcel of shares, being a market value of less than $1,000

(c) Substantial shareholders based on notifications to the Company were:

SHAREHOLDER	NUMBER	% HELD
Westpac Banking Corporation	1,466,593	5.08%
Vinva Investment Management	1,447,054	5.02%

(d) The fully paid issued capital of the Company consisted of 28,849,623 shares held by 6,743 shareholders. Each share entitles the holder to one vote.

(e) Unquoted Equity Securities

UNQUOTED EQUITY SECURITIES	NUMBER ON ISSUE	NUMBER OF HOLDERS
Performance Rights issued under The Reject Shop Performance Rights Plan	296,100	8

SHAREHOLDERS' INFORMATION AS AT 28TH JULY 2016 CONTINUED

(f) Twenty largest shareholders

SHAREHOLDER	NUMBER	% HELD
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,668,430	16.18%
J P MORGAN NOMINEES AUSTRALIA LIMITED	4,614,687	16.00%
CITICORP NOMINEES PTY LIMITED	3,325,694	11.53%
NATIONAL NOMINEES LIMITED	3,098,006	10.74%
RBC INVESTOR SERVICES AUSTRALIA PTY LIMITED	1,375,580	4.77%
BNP PARIBAS NOMS PTY LTD	737,417	2.56%
BRISPOT NOMINEES PTY LTD	224,411	0.78%
UBS NOMINEES PTY LTD	213,141	0.74%
GRAHGER CAPITAL SECURITIES PTY LTD	195,232	0.68%
BUTTONWOOD NOMINEES PTY LTD	178,343	0.62%
MR ROBERT THOMAS & MRS KYRENIA THOMAS	145,000	0.50%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	140,644	0.49%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	122,470	0.42%
WARBONT NOMINEES PTY LTD	108,261	0.38%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	93,107	0.32%
CASHMERE DELL PTY LTD	76,693	0.27%
MR DANIEL JAMES FITZGERALD & MRS KARINA FITZGERALD	71,800	0.25%
DR ANDREW RICHARD CONWAY & DR VANESSA JOY TEAGUE	70,925	0.25%
ARACAN PTY LTD	65,843	0.23%
MR RICHARD WAITE & MRS SUSAN WAITE	51,500	0.18%

The twenty members holding the largest number of shares together held a total of 67.85% of the issued capital.

(g) Restricted Shares

There are no restricted shares on issue.

CORPORATE DIRECTORY

DIRECTORS

William J Stevens
Chairman

Ross Sudano
Executive Director

Kevin J Elkington
Non-executive Director

Denis R Westhorpe
Non-executive Director

Melinda Conrad
Non-executive Director

COMPANY SECRETARY

Darren R Briggs

PRINCIPAL REGISTERED OFFICE

245 Racecourse Road
Kensington Vic 3031
Phone: (03) 9371 5555

SHARE REGISTRY

Link Market Services Ltd
Tower 4, 727 Collins Street
Melbourne Vic 3008

AUDITORS

PricewaterhouseCoopers
Freshwater Place
2 Southbank Boulevard
Southbank Vic 3006

LAWYERS

Baker McKenzie
Level 39
525 Collins Street
Melbourne Vic 3000

STOCK EXCHANGE LISTING

The Reject Shop Limited shares are listed on the Australian Stock Exchange.

WEBSITE

www.rejectshop.com.au