APPENDIX 4E

THE REJECT SHOP LIMITED

(ABN 33 006 122 676)

Consolidated preliminary final report

For the 52 week financial period ended 02 July 2017
Compared to the 53 week financial period ended 03 July 2016

Results for announcement to the market

				$A'000
Sales revenue from continuing operations	Down	0.7%	to	794,036
Profit from continuing operations after tax attributable to members	Down	27.8%	to	12,346
Net profit for the period attributable to members	Down	27.8%	to	12,346

Dividends	Amount per share	Franked amount per share
Interim dividend (paid 10 April 2017)	24.0 cents	100%
Final dividend	0 cents	N/A

Record date for determining entitlements to final dividend	N/A
Dividend payment date	N/A

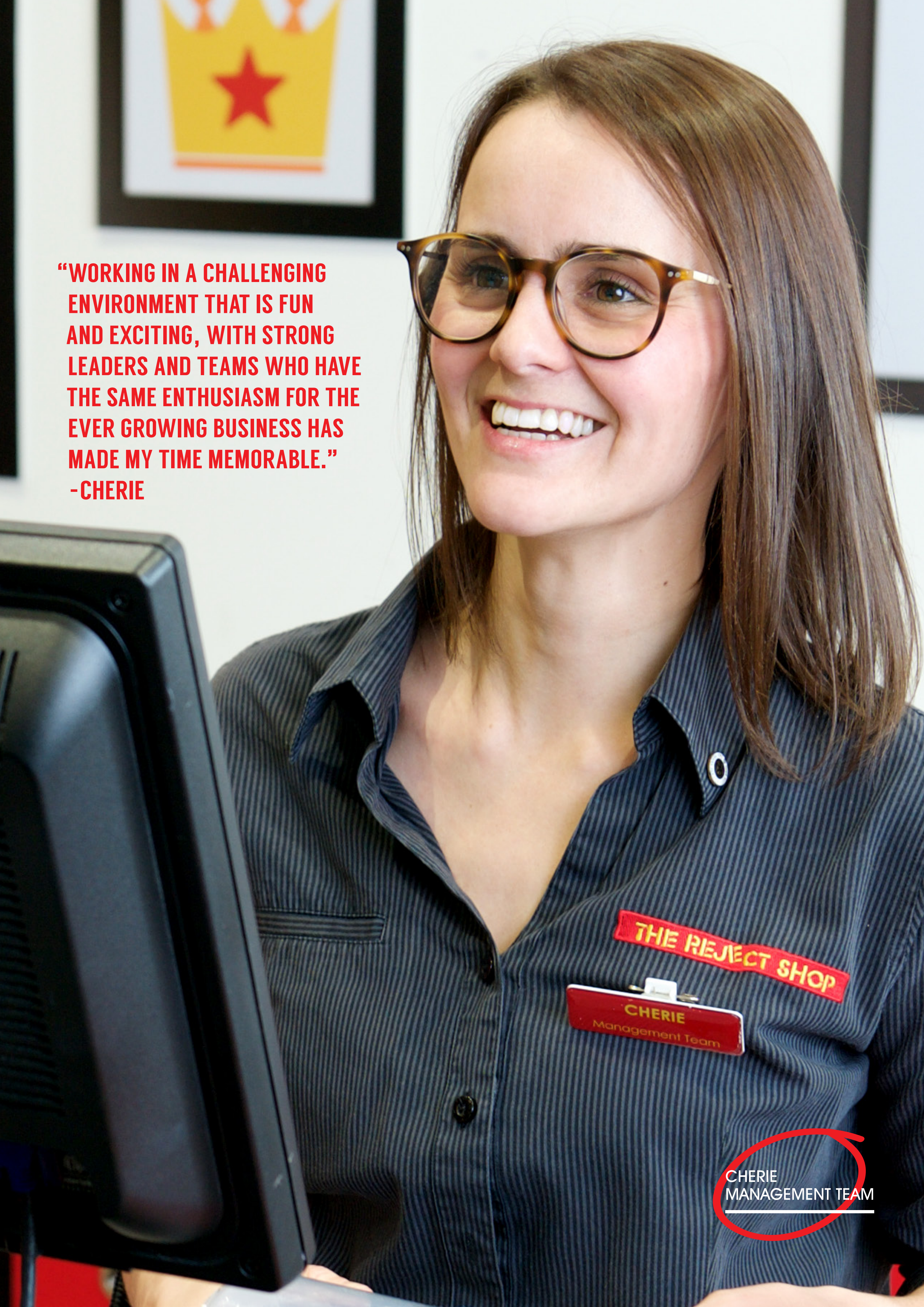
Commentary on the Company's trading results is included in the media release and on pages 27 to 31 of the annual report enclosed.

THE REJECT SHOP

ANNUAL REPORT

2016 / 2017

"WORKING IN A CHALLENGING ENVIRONMENT THAT IS FUN AND EXCITING, WITH STRONG LEADERS AND TEAMS WHO HAVE THE SAME ENTHUSIASM FOR THE EVER GROWING BUSINESS HAS MADE MY TIME MEMORABLE."
-CHERIE



CHERIE
MANAGEMENT TEAM

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Notice Of Annual General Meeting
3.30pm Wednesday 18 October 2017
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 23 August 2017. The company has the power to amend and re-issue these financial statements.

CHAIRMAN'S REPORT

William J Stevens
Chairman

Dear Shareholder,

After a slow start to the 2016-2017 year, but a solid first half result, the financial result for the second half was quite disappointing. This was brought to your attention with our April announcement to the market, and I am pleased to advise that actions taken or in place at that time have ensured that our final profit outcome remained consistent with that advice. Accordingly, your company has continued its history of annual profitable operations, albeit with the immediate objective of returning to more acceptable levels, and growth. It has been a very challenging time, and the Board thank all our staff for their positive attitudes and actions in support of your company and its objectives.

Our Chief Executive and Managing Director, Ross Sudano, has set out further detail in his following report of the plans that he and his team believe will achieve those levels. The Discount Variety sector of the Retail market remains as challenged as most sectors of the retail market. The limited growth in real wages, and the very slow growth in the Australian economy overall will ensure, for Ross and his team, that competition within the sector will remain very sharp indeed.

The Net Profit after Tax of $12.3 million for the full year was disappointing, however the Company's balance sheet remains strong, and the cash flows achieved during the year allowed returns to shareholders, re-investment into the Company's future, as well as settlement of all the costs and obligations associated with our exit from the Tullamarine Distribution Centre.

The operating cash flows, together with strong management by Ross and his team of our inventory, capital expenditure programs and continuing investment in new stores, has ensured that the Company continues to have adequate finance and gearing access in place to support our return to the more expected profitability levels. The Company has been, and remains, compliant with all its debt facility covenants.

As suggested in April, and having regard to the full period result, your Directors have not declared a final dividend for the period. The interim dividend declared and paid during the year of 24 cents per share, and totalling almost $7 million, represents 56% of the net profit for the year. The Board recognise that this return to shareholders for the year, while only slightly lower in percentage terms, is significantly lower in absolute terms. Nonetheless, your Board consider this reduction in dividend payment is prudent for the 2017 year.

Ross, together with his team, are continuing the development of the operating processes that we expect to sustain the return to growth, and the enhanced profitability, of the Company. Growth in sales remains vital, but we continue to devote significant attention to efficiently reducing our Cost of Doing Business, sustaining and developing our team members, and minimising our environmental impacts.

WHILE THE TEAM ACKNOWLEDGE THAT THERE IS STILL MUCH TO DO, THEY AND YOUR BOARD CONSIDER THAT OUR CHARTER, OUR CORE VALUES, AND OUR MISSION REMAIN STEADFAST.

The safety and well-being of our people, and our customers remains paramount. While this year was free of major health and safety incidents, the Board and the whole team remain committed to an objective of injury free operations. We are however a significant cash-based multi-location business, as well as an importer of many pre-packaged products. We remain vigilant to the additional risks which that may invoke for our staff and customers.

While our store numbers remained stable this year, we will continue to seek the sensible expansion of our store numbers across the country, as well as an ongoing store refurbishment program. We will continue to seek new stores in new locations, to support new customers who may not have access to our exciting and value offer. While we have a great many loyal customers, the opportunity to take our offer to new profitable locations, is important in further leveraging our investment in the support services, systems and infrastructure associated with our newer and more automated and efficient Distribution Centres.

All our stores are expected to achieve sound economic outcomes or be closed, and we consider the vast majority of our stores to be sustainable. Store rents are, and will remain, a significant component of our expenses, and operating cash flows. Accordingly, where sustainable rental outcomes cannot be achieved, alternative action will occur.

Lease rental costs of our stores and Distribution Centres are a significant component of our costs. Therefore, it has been disappointing to see ill-informed commentary on the new lease Accounting Standards cause or influence actions which have had negative impacts on the share prices of many retailers, including your shares in TRS. Your Board can assure you that the operations and operating cash-flows of your Company will not be impacted at all by the new Lease Accounting Standard which comes into effect from 2019. We do not consider that there will be any impacts on the Company's debt facilities. Additionally, with the current average remaining contract life of the Company's total store lease portfolio of just over two years, your Board considers that the impact on the company profit-after-tax (PAT) in that period will be de-minimis.

Our extensive store network enables 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 continues to provide support to children with medical difficulties. 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, and how the Company operates. I encourage you to read it, and to engage with us at the Annual General Meeting in October with any of your questions.

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

William J Stevens
Chairman

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER REPORT

Ross Sudano
Managing Director and Chief Executive Officer

Dear Shareholders,

As a business, we continue to focus on executing our customer led strategy. During the financial year, we completed several change projects, and initiated several new projects to further strengthen our business.

As per the market update in April 2017, sales in the 2H of FY17 were challenging for TRS, impacting on profitability for the full year.

There were two main events that impacted on sales;

I. A number of changes we made to the execution of our merchandising strategy which were not well received by our customers. Corrective actions to address these issues have been taken during the second half of the financial year, and

II. A continued decline in consumer spending that impacted broadly on retail sales across a number of sectors of the industry.

From a merchandise perspective, our strategy is built from a deep understanding that value is a key driver of our customer motivation, and that we need to deliver on this every day. Beyond price, our customers are motivated to shop with us because we meet three clear needs:

1. A great, in stock and trusted range of "Everyday items";

2. They are looking to "Save money on brands"; and

3. A wish to be surprised by "New and unexpected products".

We are working on getting the balance right across these identified needs. This is our greatest opportunity to consistently grow sales as a business.

Our focus in FY17 was to improve our performance by increasing the frequency of promotional activity in store, and to ensure new product continued to flow through our stores.

This resulted in overinvesting in delivering "new" products at the expense of everyday value and branded bargains. The impact was a "perceived" loss in value by some of our customers and reduced foot traffic. This occurred at a time when the availability of discretionary income is challenged, and consumer confidence amongst our core customers continued to deteriorate.

In response to feedback, we under took changes to our merchandise activity during the second half of FY17. The early impact of these changes started to appear in stores in late March, with further changes continuing through the remainder of the financial year. These changes were well received by customers.

Consumer confidence continues to impact on retail sales. For TRS, the markets where we performed best during FY17 were Victoria, South Australia and Tasmania. We observed a change in the spending behavior of our customers, with a reduced average spend and a continuing search for value in all categories. While overall sales units were above the prior year, the average sale price and basket value were below the prior year; resulting in lower dollar sales. Customers appeared focused on reducing their discretionary spend and were looking for key value lines and outstanding bargains within our stores.

Whilst the market continues to be challenging for retailers we are working on maximising the strengths of the TRS business model, the growing relevance of the discount shopper and leveraging off the investment in stores and the reach they provide us; in order to improve our overall business performance.

Our first wave of change was focussed on 'back to basics' and a strong focus on our customer, a clear merchandise strategy to grow sales by increasing transactions; as well as a continuing focus on the efficiency of operations and reducing our cost of doing business.

As we come to the end of phase 1 and commence phase 2 of our change program, we have made strong progress in understanding our customers and the further development of our merchandise strategy. At the same time, we have been reducing costs and imbedding operational standards and efficiencies, and taking a structured approach to rebasing our capabilities and the expectations of our teams.

Despite these significant changes and the progress we have made, consistent sales growth in all market conditions remains both our challenge and our key opportunity.

Sustainable sales growth will be driven by increased transactions over time. This will be achieved by consistently improving our merchandise mix and our in-store shopping experience. Our merchandise mix remains a work in progress, but is driven by a clearer understanding of what our customers are looking for from TRS.

There are several merchandise activities we are focused on. They include;

a. Changing to the way we build ranges to ensure we cover off everyday items, branded bargains and then promotional products, to improve product availability and stock turn;

b. Improving underlying performance of categories that have not got the right product balance to meet customer needs. These categories are holding back sales growth;

c. Improved focus on promotional sales forecasting to improve product sell through, and reducing over investment in slow turning stock; and

d. Simplifying the in-store activity for customers and store teams.

We are confident in our merchandise strategy and that the changes we made in the second half of financial year 2017 to rebalance the products and stock to meet the three key needs of our customers are positively impacting on customers. We continue to work on the art of getting this right, and to increase the frequency of visits from our customers. This will ultimately grow sales.

As well as a focus on improving the delivery of our merchandising strategy we continue to work on other sales driving initiatives. These include;

Investigating alternative store layouts – We continue to trial alternative formats with a goal to improve both the customer experience in store, and our space utilization.

Differentiated ranges across different stores – Currently we largely deliver one customer offer across 350 stores, although there is some customization now: for seasonal products such as winter or summer merchandise; or small store formats. We believe there is opportunity to offer differentiated ranges based on a strategic customization by store. The benefits include an improved experience for customers, a higher level of tailored offer across store groups, improved accuracy of stock flow, with an expected improvement in the primary sell through rates of products.

Digital – We have relaunched our website to include product information and search capacity for customers with a view to further enhancing digital as a tool to engage our customers. Customers now can interact with TRS and browse our product offering as well as provide product reviews.

We are in planning for the launch of a loyalty platform that is a reward based program. This will allow TRS to retain and incentivize a customer to frequent TRS more often; and to gain rewards, enter exclusive competitions, or receive personalized product offers. This enables us to maximize the investment in our database of nearly 1 million savvy shoppers.

The next phase of our digital strategy includes increased and instantaneous instore product information. The introduction of Amazon into the Australian marketplace will lift customer expectations. Australian consumers will have an increased expectation of "instant gratification' when it comes to the visibility of products and speed of delivery. We are confident that the combination of access to our 350 store network, and enhanced online communication, will enable us to meet these increased customer expectations.

We continue to look for opportunities to further lower our costs and improve our operating efficiencies. The next phase of our efficiency programs includes;

International sourcing – TRS currently purchases a significant quantity of products from Asia. To focus on reducing our cost of goods sold while at the same time improving direct input to our quality assurance and quality control, we are in the process of setting up a sourcing office based in Hong Kong. We expect that we will have the office functional and operating later this calendar year, with a clear transition plan to support the set up and capture of benefits in a timely manner.

Store efficiency – Roster Guidance Tool (RGT) is a labour scheduling program to equip store managers with tools and standards to efficiently align labour to store activity. This labour management tool has now been successfully implemented in stores and has started to deliver efficiency savings. We have planned efficiency activities over the next 3 financial years to enable TRS to continue to improve the outcomes of our labour spend.

Truck to Customer – Is a fully integrated truck to shelf operating model. It focuses on end to end efficiencies, with an expected improvement in on-shelf availability and an improved customer experience. This will lead to increased productivity.

Truck to Customer has been successfully implemented in 170 stores and will be implemented across all stores during the current half with expected improvements in stock availability, productivity and overall customer experience in stores.

Reduced Power Usage – In mid-2015, with increasing electricity costs and power usage in our store network, we commenced investment into an energy saving project to insure ourselves against ongoing price rises and to reduce our power requirements. By the end of calendar year 2017, 250 stores will have had high-efficiency LED lighting and automated energy management systems installed which will regulate lighting levels, run times, and air conditioning usage. In addition, the energy management systems will allow TRS to individually control power usage at each store and therefore manage its energy costs – and contributions to emissions.

Supply Chain – during the year we successfully constructed and commissioned our new Melbourne Distribution Centre located in Truganina, and closed our Distribution Centre which had been located at Melbourne airport. The new DC was operational in January 2017, on time and on budget. The DC team are now delivering on the planned productivity gains, and we expect to see further improvements over time.

We see further opportunity for increasing productivity, quality and safety to meet our customers' expectations at a lower operating cost through our supply chain. We are initiating action on international freight management, domestic freight and distribution network, and speed-to-stores of our best trading lines.

Our team are critical to delivering for our customers. We want to have the right capability in place to deliver the next phase of growth and change for The Reject Shop.

We continue to see improvement in our safety performance and metrics.

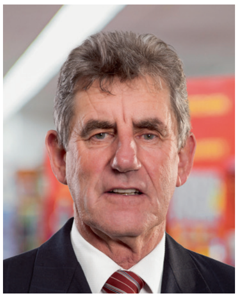
We have put in place a strong operational leadership team at a National and State level, and made key appointments in our Merchandise team. We are making significant investments in training our teams to develop internal talent and provide career opportunities. We have graduated 80 team members from our Retail Leaders Development Program, and will graduate the next group in the second half of this year. These actions, combined with improved team communication, engagement and aligned performance metrics across the business, is delivering a step-change in the way our stores are presented and operating.

In summary, although the financial profit outcome for the FY17 was below what we expected to deliver, we continued to manage our controllable costs and implement many of our change initiatives. Our financial performance was significantly impacted by low sales growth for the year. This was a result of a further decline in consumer confidence and the impact of changes we made to the execution of our merchandise strategy, which we believe we have now addressed.

We continue to see significant opportunity to leverage the strengths of the TRS business model, and in our continued growth in relevance in our discount sector; so as to meet the needs of all of our stakeholders.

Ross Sudano
Managing Director and Chief Executive Officer

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 Community Fund Ltd. Kevin has also been a 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.

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.

MANAGEMENT TEAM

Darren Briggs
BCom, CA, ACIS
Chief Financial Officer & Company Secretary

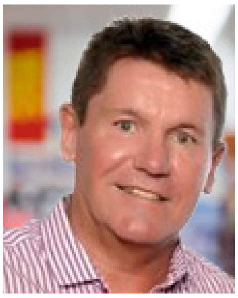
Darren spent over ten years working with Deloitte in Australia and the United States. Darren then spent the next thirteen years working in senior finance roles at large corporations, most recently ten years at Skilled Group Limited. Darren joined The Reject Shop and was appointed Company Secretary in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

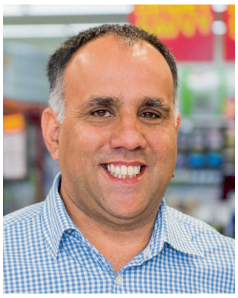
Dani Aquilina
MBus (LogMgt)
General Manager – Supply Chain and Planning

Dani has more than 14 years experience in retail including 8 years with Kmart. Since joining The Reject Shop in 2007, Dani plays a key role in the development of the Ipswich and Truganina Distribution Centres. 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.



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.

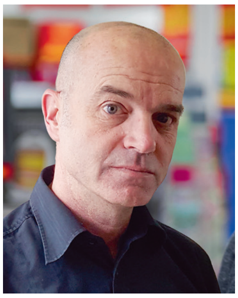


Kelvin Chand
General Manager – Property

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.

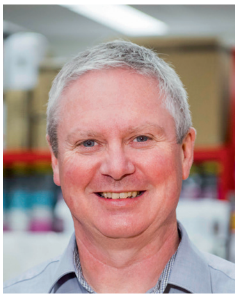
Robert d'Andrea
General Manager – Human Resources

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.



Craig Tomlinson
General Manager – Buying

Craig has over 30 years' experience in retail with a diverse commercial background working in South Africa, Asia, New Zealand and Australia. Starting from a solid base in stores he moved in to the buying function and has been in various senior Merchandise leadership roles including over 10 years' experience at GM level which includes large retail turnarounds as well as business momentum changes. Craig joined the Reject Shop in May 2017.



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.

THE REJECT SHOP FOUNDATION

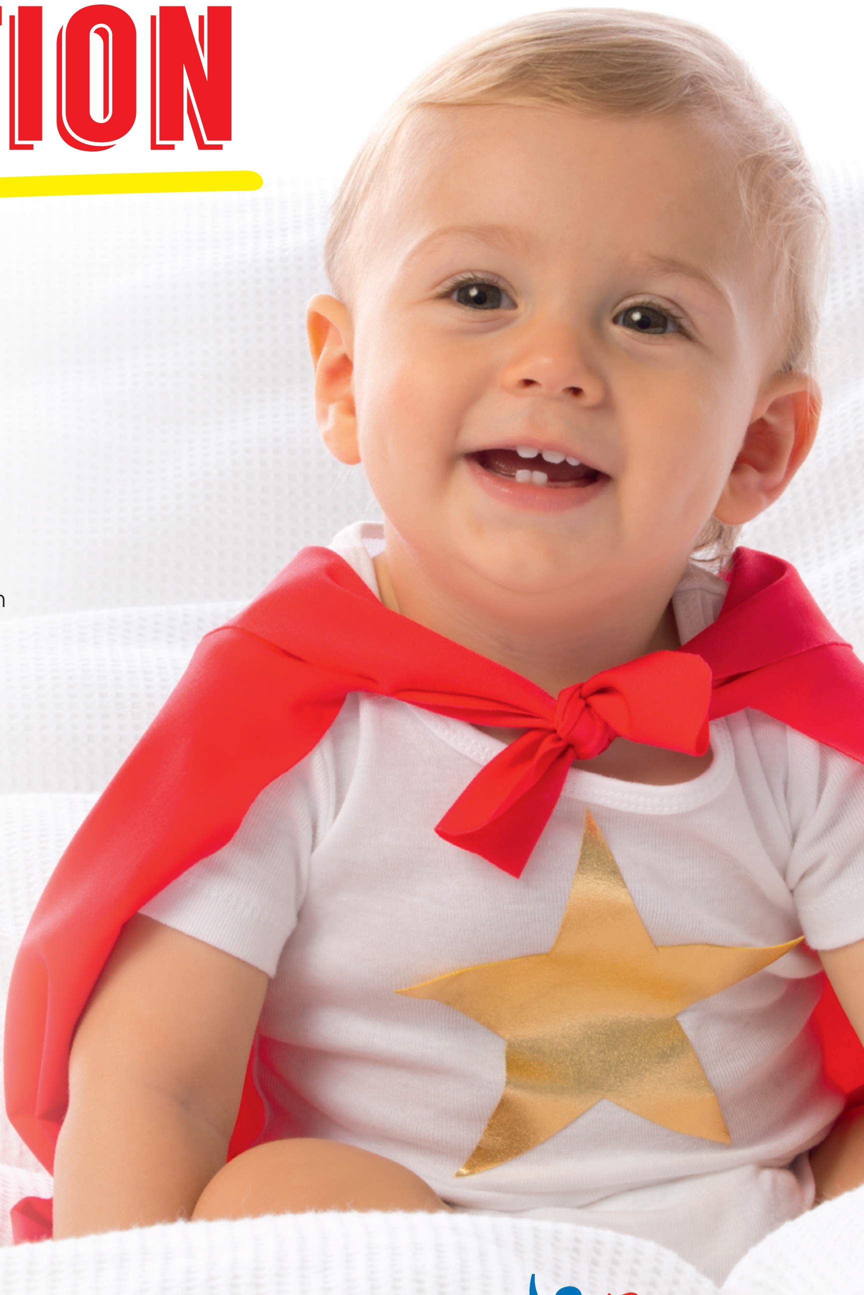
The Reject Shop Foundation is a not-for-profit foundation committed to helping kids in need, by contributing funds to Australia programs that support kids at a time they need it most.

Since our establishment in June 2014, The Reject Shop Foundation has raised in excess of $465,000. This has been possible due to the continuous generosity of our customers and team members through our cash collection boxes available across the Company's entire store network and voluntary work place giving program.

Given our successful partnership with Good Beginnings Australia has come to an end, we recently undertook a rigorous selection process to select a new national charity partner. As such, we are proud to announce our partnership with HeartKids. HeartKids assists in improving the lives and futures for the growing number of kids and their families affected by childhood heart disease through their family support programs and investment into research.

We thank our customers and team members for their ongoing support and look forward to helping more kids in need.

The Reject Shop Foundation is administered by the Good2Give Community Fund.



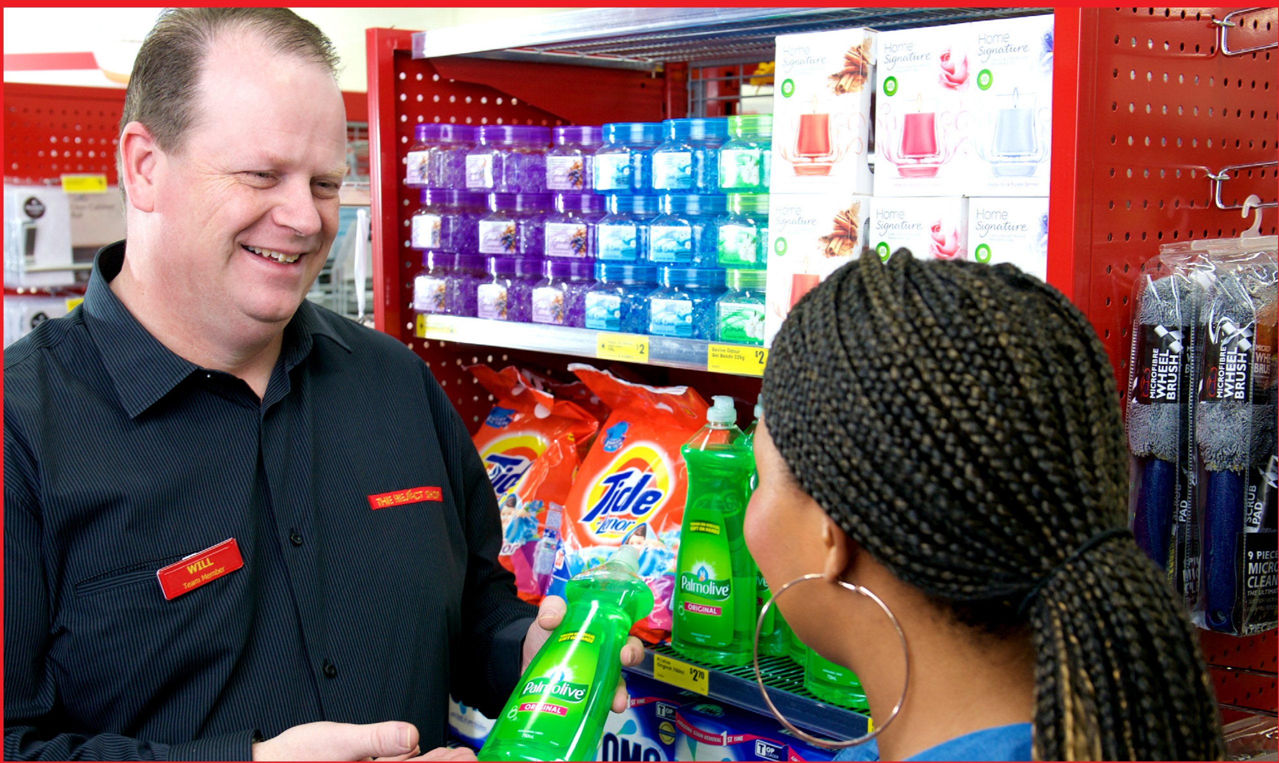
the reject shop foundation

HELPING KIDS IN NEED

HeartKids

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"



345+
STORES NATIONWIDE

SUCCESSFULLY
OPENED
DCTR

WINNER OF DISCOUNT STORE OF THE YEAR
5 YEARS IN A ROW
ROY MORGAN CUSTOMER SATISFACTION AWARD

REDESIGNING CUSTOMER
NAVIGATION
THROUGH OUR STORES

STRENGTHENING PARTNERSHIPS
WITH BIG BRANDS

GREAT VALUE

FOR MORE *customers* EVERYDAY

STREAMLINING AND INTEGRATING OUR

TRUCK TO CUSTOMER

PROCESS TO BETTER MEET THE NEEDS OF OUR GROWING CUSTOMER BASE

INCREASING CONSUMER

CONFIDENCE

1.2% INCREASE

IN TRANSACTIONS

CHANGING CUSTOMERS MINDSET

REAL BARGAINS AND SAVINGS

WE ARE PASSIONATE ABOUT ENABLING OUR CUSTOMERS TO DO MORE WITH LESS.

WE ARE:

FOCUSED ON OUR CUSTOMER NEEDS

REDESIGNING OUR STORE EXPERIENCE

CREATING MORE WAYS FOR THEM TO ENGAGE WITH OUR BRAND

INVESTING IN PLATFORMS TO REWARD THEIR LOYALTY

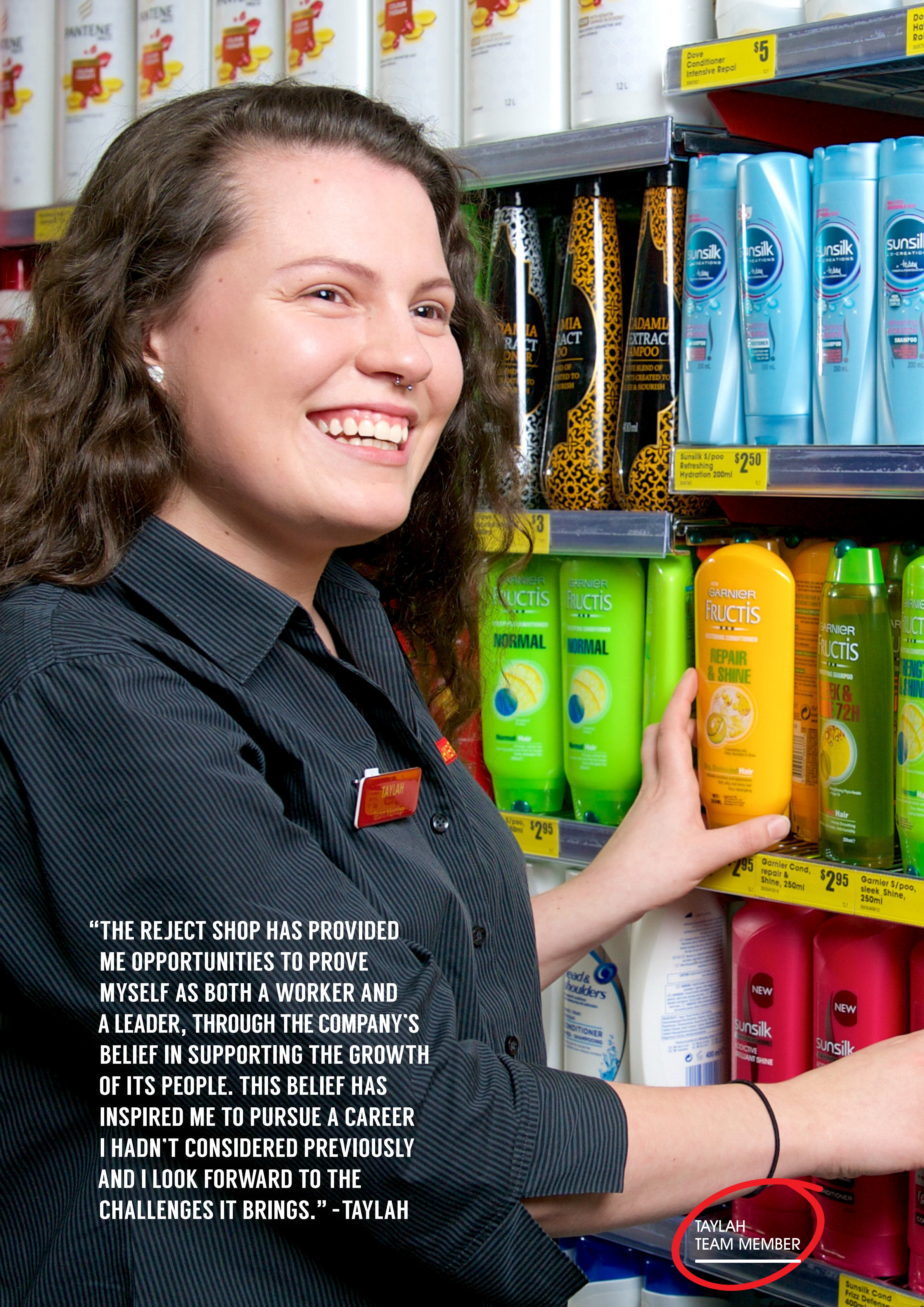
PARTNERING WITH BIG BRANDS TO HELP OUR CUSTOMERS SAVE “DOLLARS NOT CENTS”

PURSUING EFFICIENCIES AND COST SAVINGS TO RE-INVEST

REDUCING BUSINESS COMPLEXITY AND INVESTING FOR THE LONG TERM

"SEEING THE REJECT SHOP GROW FROM 8 STORES TO 347 OVER THE LAST 3 DECADES HAS GIVEN ME THE OPPORTUNITY OF PROGRESSION TO CHALLENGE AND EXPLORE MY DEVELOPMENT, THIS IS KEY TO MY LONGEVITY IN THE COMPANY." - WILL

AARON, CHERIE & WILL
TEAM MANAGEMENT



"THE REJECT SHOP HAS PROVIDED ME OPPORTUNITIES TO PROVE MYSELF AS BOTH A WORKER AND A LEADER, THROUGH THE COMPANY'S BELIEF IN SUPPORTING THE GROWTH OF ITS PEOPLE. THIS BELIEF HAS INSPIRED ME TO PURSUE A CAREER I HADN'T CONSIDERED PREVIOUSLY AND I LOOK FORWARD TO THE CHALLENGES IT BRINGS." - TAYLAH

TAYLAH
TEAM MEMBER

CORPORATE GOVERNANCE, ENVIRONMENTAL SOCIAL STATEMENT AND FINANCIAL REPORT

Financial period ended 2 July 2017.

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 three 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 J Elkington

Denis R Westhorpe

All directors have entered into written contracts of employment.

Details of each directors' experience is contained on page 9 and their attendance at Board and Committee meetings is contained in the Directors' Report on page 25 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.

CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT

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 maintaining 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 expertise in the areas identified below:

TRS – Board Skills and Experience Matrix (out of 4 directors)

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

Annual Performance Reviews

The Company conducted an annual performance evaluation of all directors in September 2016 with the current review scheduled for September 2017.

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 Chairman 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

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.

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 after 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.

CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT CONTINUED

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 2 JULY 2017	NO OF EMPLOYEES - TOTAL 2 JULY 2017	% OF FEMALES	NO OF EMPLOYEES - FEMALE 3 JULY 2016	NO OF EMPLOYEES - TOTAL 3 JULY 2016	% OF FEMALES
Board/ CEO	0	4	0%	1	5	20.0%
Senior Executives	1	8	12.5%	2	8	25.0%
Middle Management	9	33	27.3%	11	29	37.9%
All Team Members	3,536	5,430	65.1%	3,562	5,578	63.9%

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 26 May 2017, 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.

The Remuneration Committee currently comprises the following members:

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 fulfill 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 73 to 75 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 Initiatives

Lighting

In mid-2015 with increasing electricity costs and usage in its store network TRS commenced a multi-million investment into an energy saving project to insure itself against ongoing price rises and to bring down operating costs.

By the end of calendar year 2017, 250 stores will have had high-efficiency LED lighting and an automated energy management systems installed which will regulate lighting levels, run times and air conditioning usage. In addition, the energy management system will allow TRS to individually control power usage at each store and therefore manage its energy costs.

In addition TRS are also actively managing supply contracts with energy retailers on an annual basis to ensure we are obtaining the lowest unit tariff charges to support the above investment.

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 Awareness 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, by contributing funds to Australia programs that support kids at a time they need it most, as set out on page 12.

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 2 July 2017.

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 (Resigned effective 30/06/2017) *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 9 and 10 of this annual report.

RETIREMENT OF DIRECTORS

In accordance with the Company's Constitution, WJ Stevens will retire as director at the Annual General Meeting and being eligible, will offer himself for re-election.

MEETINGS OF DIRECTORS

The number of meetings of the Board of directors and Committees held during the period ended 02 July 2017 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	12	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

There has been no material change in the state of affairs of the Company or the consolidated entity.

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 27 to 31 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 3 July 2016 of 19.0 cents per share totalling $5,483,314 was paid on 17 October 2016.

An interim ordinary dividend for the financial period ended 2 July 2017 of 24.0 cents per share totalling $6,926,292 was paid on 10 April 2017.

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 willful breach of duty in relation to the Company.

During the financial period, the Company paid a premium of $69,394 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.

DIRECTORS' REPORT CONTINUED

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 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 13 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 completed on time and on budget. The expected productivity improvements are now being achieved.

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 an ongoing basis where there is a customer need and the economics of the site make sense.

The company opened thirteen new stores during the year and closed seven, resulting in a National store footprint totalling 347 stores by the end of the year.

OVERVIEW OF FINANCIAL PERFORMANCE

$ Amounts are in '000's / %'s are to Sales	FY17	FY16
Sales	794,036	799,958
Gross Profit (i)	42.7%	42.6%
Cost of Doing Business (i)(ii)	37.9%	37.1%
EBITDA (i)	38,315	44,246
Depreciation and Amortisation	19,742	19,457
EBIT (i)	18,573	24,789
Net Interest Expense	724	558
Profit Before Tax	17,849	24,231
Income Tax Expense	5,503	7,130
Net Profit After Tax	12,346	17,101

Reconciliation of EBIT	FY17	FY16
EBIT as reported	18,573	24,789
Excl. DCMA/DCTR Exit/ Transition Costs (i)	1,171	9,060
Excl. Impact of 53rd Week (i)	-	(3,490)
Underlying EBIT	19,744	30,359

(i) Non IFRS measure

(ii) Details of Cost of Doing Business explained on page 29

DIRECTORS' REPORT CONTINUED

Comparison of FY2017 and FY2016 Financial Reported Results

There have been two significant events that have had an impact on the comparability of the reported results of the Company in FY2017 and FY2016, namely:

1. Closure / Relocation of the Melbourne Distribution Centre

The Company closed its Distribution Centre at Tullamarine, at the end of its ten year lease in February 2017 and relocated to its new purpose built Distribution Centre at Truganina in Melbourne's Western Suburbs, where the Company has committed to a new ten year lease.

As part of the transition to the new Distribution Centre, the Company has appointed Toyota Tsusho Logistics (TTL) as the operator of the facility. Toyota Tsusho provide logistics services to a number of major companies throughout Australia and is now successfully operating the new DC.

The decision to outsource the operations of the DC resulted in redundancy costs of approximately $7.6 million which were recorded in the FY2016 accounts. In addition, the Company incurred an asset write-down of $0.8 million, and a make good charge of approximately $0.6 million, in relation to the exit of the Tullamarine facility, which were both recorded in the FY2016 accounts.

In FY2017 accounts, the Company has incurred approximately $1.17 million in transition costs relating to dual DC Rent, DC to DC freight and training costs for TTL staff.

All of these DC costs form part of the Cost of Sales line in both FY2017 and FY2016.

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; net of
- 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 decreased in FY2017 by $5.9m or 0.7% on the prior year, mainly due to the prior year including a 53rd Trading week, which added $15.3 million in Sales.

Excluding the effect of the 53rd trading week in the prior year, Sales increased by 1.2% which reflects the net of:

- Negative impact of Comparable Store Sales of -1.6% (First half: negative 0.8%; Second half: negative 2.5%), with West Australian and ACT stores dragging on the Comp Store performance; and
- Lift in sales coming from the Net positive effect of the openings and closures in FY2017 and FY2016.

Gross Margin

Gross margin, as a percentage of sales, increased by 0.1% of Sales.

However, if we exclude the effects of the Melbourne DC exit/transition costs from the reported Cost of Sales, Gross Margin actually decreased by 0.8% to Sales.

This was primarily the result of a reduction in the First Margin in Sales by approximately 0.7% to Sales, reflective of the markdown activity required given Sales were significantly below Budget through the year.

Cost of Doing Business (CODB)

CODB (excluding depreciation and amortisation) increased by 0.8% to Sales, in a period where continued successes in controlling CODB elements were undermined by the negative underlying Comp Store sales trends.

The increase in CODB% was primarily reflected in an increase in Store Expenses, which rose from 32.2% to 33.0%, where the major movements were:

- Store Wages increased by 0.27% to Sales;
- Occupancy Costs increased by 0.32% to Sales;
- Advertising Costs increased by 0.16% to Sales, on the back of an increased investment into social and digital marketing and an additional catalogue in FY2017 v FY2016;
- Store Opening/Refurbishment/Relocation Costs increased 0.21% to Sales, mainly due to the 17 Stores re-laid on a North South basis; and
- Store Operating Costs decreased by 0.22% to Sales, reflecting the impact of a number Store related Cost-Out initiatives, including the Energy Optimisation project that continues to be rolled-out across Australia.

Administrative Expenses at 4.9% to Sales declined slightly as a % to Sales mainly due to a reduced level of bonus provisions and share remuneration payable given the fall in underlying profitability against the prior year.

Earnings

The Company has a reported EBIT of $18.6 million, a decrease of 25.0% on the prior year.

However, when the effects of the Melbourne DC Exit/Transition costs are excluded from both FY2017 and FY2016, and the 53rd Trading Week is excluded from FY2016, the EBIT recorded in FY2017 is $19.7 million, reflecting an EBIT to Sales ratio of 2.50%, and a fall in underlying EBIT of approximately 35.0%.

Impact of New Leases Accounting Standard (AASB 16)

AASB 16 leases does not become effective until 1st January 2019 and it will supersede the current lease guidance AASB 117 Leases.

The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's Consolidated Financial Statements.

The Company can advise that it is well advanced in its assessment of AASB 16 on its accounts. The company acknowledges there will be a number of significant changes to the financial statement disclosures. However, the relatively short weighted average remaining period of current operating leases is expected to have a minimal impact on the reported Net Profit After Tax.

Dividends

The fall in total dividends paid/payable to 24.0 cents per share (FY16: 44.0 cents per share) reflects the fact that the Company had a significant decline in its underlying profitability, particularly in the second half of the year.

The Company decided not to declare a final dividend at year-end mainly due to the second half loss but also as the 24.0 cents per share paid as an interim dividend represents 56% of the full year Earnings per Share, just short of the Company's 60% payout ratio in recent years.

Financial Position and Capital Investment

During FY2017, the Company's Average Net Debt position increased due to two main factors:

- The Closure of the Melbourne DC at Tullamarine, which saw a combination of redundancy and other employee entitlement provisions totalling approximately $9.6 million paid out in February 2017; and
- An increased level of Capital Refurbishments, in particular the North South relay of 18 Stores, which saw Capital Expenditure increase by $8.5 million to $25.3 million during the year.

Notwithstanding the above factors, and the challenges caused by the poor Sales performance of the Company, a well-managed Stock position in the second half of the year enabled the business to finish in a Net Cash position of $2.6 million (FY2017: $3.1 million).

In addition, the Company can state that it is in full compliance with all its banking covenants as at June 2017.

Investments for Future Growth

The Company has long stated that Australian demographics should allow it to operate around 400 stores nationally. It has invested sufficiently in its Distribution and IT network capacity to support 400 stores and has an organisational structure in place to support an ever-increasing business.

The Company will continue to restructure its store portfolio and anticipates by the end of FY2018 to have at least 350 stores open and trading, with 15 new stores planned for FY2018, in addition to an expected six closures. The Company will again look to perform selected refurbishments during FY2018 as well as invest in enhancing its core SAP systems to further develop operating efficiencies.

The Company will also continue with 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.

Notwithstanding these ongoing investments for future profit growth, the Company does anticipate a reduced Capital Expenditure program in FY2018, expected to be below Depreciation expense during the period.

In addition, the Company will continue on its path to open its new Hong Kong sourcing office, expected to open in October 2017, where some of the benefits in lower cost of goods are expected to be seen in the second half of FY2018.

Overview of retail industry trends

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

Price competition continues to be a challenge, particularly with the Regional based Discount Variety chains, 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.

Overall, the gap between Business Confidence (High) and Consumer Confidence (Low) remains a challenge for all retailers, meaning that all retailers must be operating at or near their optimums to achieve a respectable Sales outcome.

OUTLOOK

Underlying Trading

Whilst the Company has made progress in improving its underlying sales, the continuation of the trading conditions experienced during the second half of the 2017 financial year, has seen our comparable sales during first seven weeks continue the trend from the previous half. Management is confident that its continuing initiatives to improve sales, along with the positive effects expected from the promotional activities planned from September, will see the Company return to positive Comparable Sales Growth during the half, albeit at a low level.

Notwithstanding the ongoing Sales challenges, there a number of positives to assist in rebuilding the profitability of the business. These include:

- Sound stock flow to sustain improved First Sales Margins;
- Continued in-store efficiencies coming from the Truck to Customer Program and Labour Rostering Opportunities;

DIRECTORS' REPORT CONTINUED

- Continued focus on Occupancy Costs, where we have over 80 stores up for renewal in FY2018;
- Realisation of other Cost-out opportunities, including the continued roll-out of the National Energy System Optimisation Program and the commencement of the Hong Kong Sourcing Office; and
- Improving efficiencies coming from the new Melbourne DC at Truganina.

With the return to positive Comparable Sales Growth planned for the half, the Company expects to report an NPAT in the range of $16 million – $17 million in the first half of FY2018.

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 three 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 a significant number of 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.

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 24 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 and;
- 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 consists of a weighting of 90% 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 FY2017 the Remuneration Committee has determined that 0% of contracted short-term rewards will be payable to Key Management Personnel on the basis that Key Management Personnel did not achieve budgeted EBIT and safety metrics.

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.

DIRECTORS' REPORT
CONTINUED

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

The number of performance rights issued 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 2014 financial year and due to vest 1st July 2017, the Remuneration Committee has determined in July 2017 that no performance rights will vest on the basis that no elements of the qualifying criteria were achieved.

Use of Remuneration Consultants

KPMG were engaged during FY2017 to provide remuneration benchmarking data (fee for service of $22,500).

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 $201,175 p.a. (FY2016: $195,315) and to a non-executive director currently $117,443p.a. (FY2016: $114,022). 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 $6,180 (FY2016: $6,000), Chairman of Remuneration Committee $5,150 (FY2016: $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.

Executive Remuneration

The following executives along with the directors, as detailed on page 25 of the Directors' report, were the key management personnel with the responsibility and authority for planning, directing and controlling the activities of the Company during the financial period.

Allan Molloy
General Manager, Retail Operations
(Commenced on 04 July 2016)

Allan J Penrose
General Manager, Marketing

Colleen Grady
General Manager, Buying
(Resigned on 30 November 2016)

Craig Tomlinson
General Manager, Merchandise Buying
(Commenced on 1 May 2017)

Danielle Aquilina
General Manager, Supply Chain and Planning

Darren R Briggs
Chief Financial Officer and Company Secretary

Ed Tollinton
Chief Information Officer

Kelvin Chand
General Manager, Property

Robert d'Andrea
General Manager, Human Resources

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 2 July 2017 and the period 3 July 2016 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:

2017	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	183,721	-	-	17,454	-	-	-	-	201,175	-
KJ Elkington	113,212	-	-	10,755	-	-	-	-	123,967	-
DR Westhorpe	107,254	-	-	10,189	-	-	-	-	117,443	-
M Conrad (i)	112,218	-	-	10,661	-	-	-	-	122,879	-
Total Non-executive Directors	**516,405**	**-**	**-**	**49,059**	**-**	**-**	**-**	**-**	**565,464**	**-**
Executive Directors										
R Sudano	723,091	-	30,071	19,616	-	-	(142,867)	-	629,911	(22.7)
Total Directors	**1,239,496**	**-**	**30,071**	**68,675**	**-**	**-**	**(142,867)**	**-**	**1,195,375**	
Other Key Management Personnel										
C Grady (ii)	172,305	-	-	17,981	-	180,117	(62,203)	-	308,200	(20.2)
DR Briggs	320,284	-	-	19,616	-	-	(12,895)	-	327,005	(3.9)
D Aquilina	330,385	-	-	19,616	-	-	(3,933)	-	346,068	(1.1)
E Tollinton	309,986	-	-	19,616	-	-	20,940	-	350,542	6.0
AJ Penrose	248,135	-	5,780	19,616	-	-	(7,570)	-	265,961	(2.8)
K Chand	315,447	-	4,549	19,616	-	-	10,484	-	350,096	3.0
R d'Andrea	298,147	-	4,286	19,616	-	-	18,923	-	340,972	5.5
A Batten (iii)	2,494		-	-	-	-	-	-	2,494	-
A Molloy (iv)	398,461	-	-	-	-	-	12,620	-	411,081	3.1
C Tomlinson (v)	58,334	-	-	-	-	-	-	-	58,334	-
Total Other Key Management Personnel	**2,453,978**	**-**	**14,615**	**135,677**	**-**	**180,117**	**(23,634)**	**-**	**2,760,753**	
Total	**3,693,474**	**-**	**44,686**	**204,352**	**-**	**180,117**	**(166,501)**	**-**	**3,956,128**	

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

- (i) M Conrad was a Non executive Director until 30 June 2017.
- (ii) C Grady was General Manager, Merchandise Buying until 30 November 2016. In accordance with contract terms, C Grady was paid $180,117 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 $2,494 of annual leave included in cash salary.
- (iv) A Molloy was appointed General Manager, Operations on 4 July 2016.
- (v) C Tomlinson was appointed General Manager, Merchandise Buying on 1 May 2017.

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.

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.

DIRECTORS' REPORT
CONTINUED

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 financial period, together with prior period grants which vested during the period is set out below:

2017	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	20 Oct 2016	32,700	1 Jul 2019	19 Oct 2020	215,195	-
Other Key Management Personnel						
C Grady	20 Oct 2016	13,600	1 Jul 2019	19 Oct 2020	89,500	-
DR Briggs	20 Oct 2016	12,200	1 Jul 2019	19 Oct 2020	80,287	2,400
D Aquilina	20 Oct 2016	12,900	1 Jul 2019	19 Oct 2020	84,893	1,350
E Tollinton	20 Oct 2016	11,800	1 Jul 2019	19 Oct 2020	77,654	-
AJ Penrose	20 Oct 2016	9,400	1 Jul 2019	19 Oct 2020	61,860	1,675
K Chand	20 Oct 2016	10,400	1 Jul 2019	19 Oct 2020	68,441	-
A Batten	-	-	-	-	-	-
R d'Andrea	20 Oct 2016	10,700	1 Jul 2019	19 Oct 2020	70,415	-
A Molloy	20 Oct 2016	14,800	1 Jul 2019	19 Oct 2020	97,397	-
C Tomlinson	-	-	-	-	-	
Total		128,500			845,642	5,425

The fair value of performance rights granted on 20 October 2016 (grant date) with an expiry date of 19 October 2020 was $6.58.

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. 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, In addition no performance rights granted to key management personnel in prior years vested subsequent to period end. These performance rights were not vested on the basis that the elements of the criteria relevant to that tranche were not achieved.

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 and prior financial period are outlined in the following tables:

2017	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 2012	1 Jul 2016	2,400	-
D Aquilina	Rights	18 Oct 2012	1 Jul 2016	1,350	-
E Tollinton	-	-	-	-	-
AJ Penrose	Rights	18 Oct 2012	1 Jul 2016	1,675	-
K Chand	-	-	-	-	-
A Batten	-	-	-	-	-
R d'Andrea	-	-	-	-	-
A Molloy	-	-	-	-	-
C Tomlinson	-	-	-	-	-
Total				5,425	

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

DIRECTORS' REPORT CONTINUED

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 %	FORFEITED# 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	FY2017	-	-	-	FY2020	32,700	215,195
			FY2016	-	-	-	FY2019	62,400	537,874
			FY2015	-	42,800	100	FY2018	-	
Key Management Personnel									
C Grady	-	100	FY2017	-	13,600	100	FY2020	-	-
			FY2016	-	27,400	100	FY2019	-	-
DR Briggs	-	100	FY2017	-	-	-	FY2020	12,200	80,287
			FY2016	-	-	-	FY2019	22,200	191,359
			FY2015	-	13,900	100	FY2018	-	-
D Aquilina	-	100	FY2017	-	-	-	FY2020	12,900	84,893
			FY2016	-	-	-	FY2019	22,300	192,221
			FY2015	-	10,600	100	FY2018	-	-
AJ Penrose	-	100	FY2017	-	-	-	FY2020	9,400	61,860
			FY2016	-	-	-	FY2019	18,900	162,914
			FY2015	-	10,100	100	FY2018	-	-
K Chand	-	100	FY2017	-	-	-	FY2020	10,400	68,441
			FY2016	-	-	-	FY2019	20,400	175,843
E Tollinton	-	100	FY2017	-	-	-	FY2020	11,800	77,654
			FY2016	-	-	-	FY2019	23,700	204,289
R d'Andrea	-	100	FY2017	-	-	-	FY2020	10,700	70,415
			FY2016	-	-	-	FY2019	21,400	184,463
A Molloy	-	100	FY2017	-	-	-	FY2020	14,800	97,397

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:

2017	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 (i)	-	-	-	-	-
Executive Director					
R Sudano	105,200	32,700	-	(42,800)	95,100
Other Key Management Personnel					
DR Briggs	38,500	12,200	(2,400)	(13,900)	34,400
D Aquilina	34,250	12,900	(1,350)	(10,600)	35,200
AJ Penrose	30,675	9,400	(1,675)	(10,100)	28,300
K Chand	20,400	10,400	-	-	30,800
E Tollinton	23,700	11,800	-	-	35,500
C Grady (ii)	27,400	13,600		(41,000)	-
R d'Andrea	21,400	10,700	-	-	32,100
A Molloy	-	14,800	-	-	14,800
C Tomlinson	-	-	-	-	-
Total	301,525	128,500	(5,425)	(118,400)	306,200

(i) M Conrad was a Non executive Director until 30 June 2017.

(ii) C Grady resigned during the year and all non-vested performance rights, were lapsed prior to June 2017

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 or vested to key management personnel.

DIRECTORS' REPORT
CONTINUED

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:

2017	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	4,500	-	2,000	6,500
KJ Elkington	8,500	-	2,500	11,000
DR Westhorpe	3,000	-	2,000	5,000
M Conrad (i)	4,000	-	(4,000)	-
Executive Director				
R Sudano	-	-	-	-
Key Management Personnel				
DR Briggs	-	2,400	(2,400)	-
D Aquilina	890	1,350	(890)	1,350
AJ Penrose	601	1,675	1,000	3,276
K Chand	-	-	1,600	1,600
E Tollinton	-	-	-	-
C Grady (ii)	-	-	-	-
R d'Andrea	-	-	1,000	1,000
A Molloy	-	-	-	-
C Tomlinson	-	-	-	-
Total	21,491	5,425	2,810	29,726

(i) M Conrad share holdings have been shown as nil at the end of the period as she's no longer a non executive Director of the Company.

(ii) C Grady share holdings have been shown as nil at the end of the period as she's no longer key management personnel of the Company.

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.

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 2 July 2017 (FY2016 - $Nil).

No other transactions were undertaken with directors or other key management personnel, including related parties during the period (FY2016 - $Nil).

DIRECTORS' REPORT
CONTINUED

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 32 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
FY2017	**$12.3m**	**(28.1%)**	**42.8**	**(27.8%)**	**$12.45**	**$4.16**	**(66.6%)**	**$0.24**

(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 27 to 31 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
14 Oct 2015	14 Oct 2019	1 Jul 2018	8.62	-	191,300	191,300
20 Oct 2016	19 Oct 2020	1 Jul 2019	6.58	-	114,900	114,900

*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 2 July 2017 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
Total		**-**	**9,925**	**5,425**

No amounts are unpaid on any of these shares.

Remuneration of Auditors

	CONSOLIDATED ENTITY	
	2017 $	2016 $
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	330,000	303,892
Other Assurance services	43,305	25,060
	373,305	328,952
Tax Compliance and Consulting Services		
Tax compliance	30,000	35,712
Tax consulting advice	25,452	25,000
	55,452	60,712
Total Remuneration	**428,757**	**389,664**

Independence of Auditors

PriceWaterhouseCoopers Australia 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 46 of this annual report.

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

WJ Stevens
Chairman

23 August 2017

AUDITORS INDEPENDENCE DECLARATION

Auditor's Independence Declaration

As lead auditor for the audit of The Reject Shop Limited for the year ended 2 July 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Sam Lobley
Partner
PricewaterhouseCoopers

Melbourne
23 August 2017

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 Week Period Ended 2 July 2017

		CONSOLIDATED ENTITY	
	Note	2017 $'000	2016 $'000
Revenues from continuing operations			
Sales revenue	2	794,036	799,958
Other revenue	2	28	105
		794,064	800,063
Expenses			
Cost of sales		457,759	461,938
Store expenses		275,662	270,911
Administrative expenses		42,042	42,320
		775,463	775,169
Finance costs	3	752	664
Profit before income tax		17,849	24,230
Income tax expense	4	5,503	7,130
Profit for the period attributable to shareholders of The Reject Shop Limited		12,346	17,100
Other comprehensive income			
Items that may be reclassified to Profit or Loss			
Changes in the fair value of cash flow hedges		305	(8,831)
Income tax relating to components of other comprehensive income		(91)	2,649
Other comprehensive income for the period, net of tax		214	(6,182)
Total comprehensive income attributable to shareholders of The Reject Shop Limited		12,560	10,918
Earnings per Share		Cents	Cents
Basic earnings per share	26	42.8	59.3
Diluted earnings per share	26	42.4	58.8

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

CONSOLIDATED BALANCE SHEET

As at 2 July 2017

		CONSOLIDATED ENTITY	
	Note	2017 $'000	2016 $'000
CURRENT ASSETS			
Cash	5	15,616	15,068
Inventories	6	92,906	98,515
Tax assets		434	-
Other	7	2,416	10,983
TOTAL CURRENT ASSETS		111,372	124,566
NON CURRENT ASSETS			
Property, plant and equipment	8	94,586	89,942
Deferred tax assets	9	12,782	16,087
TOTAL NON CURRENT ASSETS		107,368	106,029
TOTAL ASSETS		218,740	230,595
CURRENT LIABILITIES			
Payables	10	31,976	33,118
Borrowings	11	13,000	12,000
Tax liabilities		-	2,479
Provisions	12	9,757	22,416
Derivative financial instruments	21	3,093	3,398
Other	13	10,661	10,394
TOTAL CURRENT LIABILITIES		68,487	83,805
NON CURRENT LIABILITIES			
Provisions	12	1,873	1,832
Other	14	13,227	9,616
TOTAL NON CURRENT LIABILITIES		15,100	11,448
TOTAL LIABILITIES		83,587	95,253
NET ASSETS		135,153	135,342
EQUITY			
Contributed equity	15	46,247	46,247
Reserves	16	2,731	2,857
Retained profits	17	86,175	86,238
TOTAL EQUITY		135,153	135,342

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 Week Period Ended 2 July 2017

CONSOLIDATED ENTITY 2017	CONTRIBUTED EQUITY $'000	CAPITAL PROFITS $'000	SHARE BASED PAYMENTS $'000	HEDGING RESERVE $'000	RETAINED EARNINGS $'000	TOTAL $'000
Balance as at 03 July 2016	**46,247**	**739**	**4,497**	**(2,379)**	**86,238**	**135,342**
Profit for the period	-	-	-	-	12,346	12,346
Other comprehensive income	-	-	-	214	-	214
Transaction with owners in their capacity as owners:						
Dividends Paid	-	-	-	-	(12,409)	(12,409)
Share based remuneration	-	-	(219)	-	-	(219)
Current tax – (debited) directly to equity	-	-	(121)	-	-	(121)
Balances as at 02 July 2017	**46,247**	**739**	**4,157**	**(2,165)**	**86,175**	**135,153**

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 – (debited) directly to equity	-	-	178	-	-	178
Balances as at 03 July 2016	**46,247**	**739**	**4,497**	**(2,379)**	**86,238**	**135,342**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 Week Period Ended 2 July 2017

		CONSOLIDATED ENTITY	
	Note	2017 $'000	2016 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		873,440	878,732
Payments to suppliers and employees (inclusive of goods and services tax)		(830,224)	(842,813)
Interest received		28	105
Borrowing costs paid		(749)	(672)
Income tax paid		(5,324)	(9,744)
Net cash inflow from operating activities	20	37,171	25,608
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		14	3
Payments for property, plant and equipment		(25,228)	(16,761)
Net cash outflow from investing activities		(25,214)	(16,758)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		140,960	63,800
Repayment of borrowings		(139,960)	(63,800)
Dividends paid	17	(12,409)	(11,108)
Net cash inflow/ (outflow) from financing activities		(11,409)	(11,108)
Net (decrease) /increase in cash held		548	(2,258)
Cash at the beginning of the financial period		15,068	17,326
Cash at the end of the period	20	15,616	15,068

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

NOTES TO 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 2nd July 2017 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 two 100% owned non-operating subsidiaries, TRS Trading Group Pty Ltd and TRS Sourcing Limited.

(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 29 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 Lease 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 fulfill 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

NOTES TO FINANCIAL STATEMENTS CONTINUED

- 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.

NOTES TO FINANCIAL STATEMENTS CONTINUED

(aa) Critical Accounting Estimates and Judgements

For the 2 July 2017 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. An assessment is made of the risks of unidentified shrink for those stores which have not been counted prior to finalisation of the financial statements. As at 2 July 2017 this particular provision had a carrying amount of $7,588,350 (FY2016 - $8,317,511).

(ii) Impairment

The Group offers a wide range of discount merchandise through its network of 347 stores and store assets represents one of the largest amounts on Balance Sheet.

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 forecast 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. Refer to Note 12.

(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.

This provision is calculated by applying an assumed percentage markdown to the inventory on hand at year end. The specific write-down amount depends, in part, on the age of the inventory and incorporates information on known loss making products. The judgement on this estimate is further informed by:

- The Group's view of current inventory profile and historical data on the margins achieved
- Inventory items held at year end which have been sold below cost during the period ended 2 July 2017 or after 2 July 2017 and prior to finalising the financial statements
- The impact on estimated selling price of planned mark downs or other strategies to clear slow moving inventory during 2017/18.

There are no other accounting estimates or judgements within these accounts which have a significant effect on the amounts recognised in the financial report. Refer to Note 6.

(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 04 July 2016:

- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets
- 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 2 July 2017 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

NOTES TO FINANCIAL STATEMENTS
CONTINUED

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 18. 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 albeit the Company can confirm that the standard when adopted will have no impact on its outgoing cashflow. Some of the commitments may be covered by the exception within AASB16 for short-term and low-value leases. Some commitments may relate to arrangements that will not qualify as leases under AASB16.	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.

NOTE 2: REVENUE FROM CONTINUING OPERATIONS AND OTHER INCOME

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Revenue from continuing operations		
Sales of goods	794,036	799,958
Interest	28	105
	794,064	800,063

NOTE 3: EXPENSES

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Profit before income tax expense includes the following expenses:		
Interest and finance charges paid/payable	752	664
Depreciation & amortisation expenses are included in:		
Cost of sales	3,039	2,701
Store expenses	13,617	13,761
Administrative expenses	3,086	2,995
	19,742	19,457
Reversal of impairment of store assets	(276)	-
Foreign exchange loss/(gain)	(1,705)	589
Asset write offs on store closures	536	684
(Gain)/ Loss on disposal of property, plant and equipment	14	3
Rental expenses relating to operating leases		
Minimum lease payments	114,764	109,412
Provision for onerous leases	(439)	(900)
Provision for rent escalation	(1,295)	(481)
Rent paid on percentage of sales basis	380	256
Employee benefits expense	165,453	171,678
New store opening costs	2,228	571
Melbourne Distribution exit costs		
Redundancy costs/(reversal of surplus provision)	(404)	7,650
Make good costs	75	600
Asset write off	306	810

NOTES TO FINANCIAL STATEMENTS CONTINUED

NOTE 4: INCOME TAX EXPENSE

		CONSOLIDATED ENTITY	
	Note	2017 $'000	2016 $'000
(a) Income tax expense			
Current tax		2,310	10,729
Deferred tax		3,093	(3,560)
(Over) / Under provided in prior years		100	(39)
		5,503	7,130
Deferred income tax expense included in income tax expense comprises:			
(Decrease / Increase) in net deferred tax assets	9	3,093	(3,560)
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit before income tax expense		17,849	24,230
Tax at the Australian tax rate of 30% (2015 – 30%)		5,355	7,269
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Research and Development		-	(100)
Other		48	-
Income tax expense		5,403	7,169
(Over) / Under provided in prior years		100	(39)
Income Tax Expense		5,503	7,130
(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		(121)	178
(d) Income tax relating to items of other comprehensive income			
Cash flow hedges		(91)	2,649

NOTE 5: CURRENT ASSETS – CASH

		CONSOLIDATED ENTITY	
	Note	2017 $'000	2016 $'000
Cash on hand	20	1,674	1,600
Cash at bank	20	13,942	13,468
		15,616	15,068

NOTE 6: CURRENT ASSETS – INVENTORIES

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Inventory at cost	91,289	96,636
Inventory at net realisable value	1,617	1,879
	92,906	98,515

Inventories recognised as an expense during the period ended 2 July 2017 amounted to $387,175,005 (FY2016: $384,837,543). These were included in the cost of sales. Writedowns of inventories to net realisable value amounted to $2,676,980 (FY2016: $2,247,232) These were recognised as an expense during the period ended 2 July 2017 and included in cost of sales.

NOTE 7: CURRENT ASSETS – OTHER

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Prepayment	589	10,049
Other current assets	1,827	934
	2,416	10,983

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

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Leasehold improvements		
At cost	74,411	68,541
Less accumulated depreciation	(39,363)	(32,831)
	35,048	35,710
Plant and equipment*		
At cost	148,625	135,327
Less accumulated depreciation	(89,087)	(81,095)
	59,538	54,232
Total Property, Plant and Equipment	94,586	89,942

* Plant & equipment includes fixtures, fittings and motor vehicles as well as $1,519,431 (FY2016: $4,819,978) of work in progress costs.

NOTES TO FINANCIAL STATEMENTS
CONTINUED

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 $'000	PLANT AND EQUIPMENT $'000	TOTAL
Balance at 04 July 2016	35,710	54,232	89,942
Additions at cost	6,913	18,315	25,228
Asset write offs for store closures	(241)	(295)	(536)
Asset write offs for DC closure	-	(306)	(306)
Depreciation/amortisation expense	(7,334)	(12,408)	(19,742)
Balance at 2 July 2017	35,048	59,538	94,586

	LEASEHOLD IMPROVEMENTS $'000	PLANT AND EQUIPMENT $'000	TOTAL $'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 03 July 2016	35,710	54,232	89,942

In FY2017, the Company reversed an amount of $276,451 (FY2016: $0) relating to impairment losses recorded in prior periods. These reversals relate to fixed assets within the store such as fixtures and fittings, store fitout and computer equipment. The previous poor trading performance of underperforming stores has improved, resulting in the carrying value of the assets being lower 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 prate used was 15.29% (FY2016: 15.61%).

In addition to store impairment a provision associated with the closure of 8 stores with a carrying amount of $536,523 (FY 2016: $684,277) has been recorded at 2 July 2017.

NOTE 9: NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Employee benefits	3,409	7,322
Lease escalation	2,679	3,068
Inventories	1,627	1,548
Lease incentives	831	628
Depreciation	3,798	2,350
Other provisions and accruals	996	1,073
Employee share trust	208	441
Equity raising costs	-	65
Hedging reserve	928	1,019
Sundry items	(252)	(300)
	14,224	17,214
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:		
Depreciation	(1,412)	(1,127)
Hedging reserve	(30)	-
Net deferred tax assets	12,782	16,087
Net deferred tax assets expected to be recovered within 12 months	6,766	10,426
Net deferred tax assets expected to be recovered after more than 12 months	6,016	5,661
Net deferred tax assets	12,782	16,087

MOVEMENTS CONSOLIDATED	EMPLOYEE BENEFITS	INVENTORIES	HEDGING RESERVE	OTHER	TOTAL
	$'000	$'000	$'000	$'000	$'000
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 03 July 2016	7,322	1,548	1,019	6,198	16,087
(Charged) / credited					
- to profit or loss	(3,913)	79	-	741	(3,093)
- to other comprehensive income	-	-	(91)	-	(91)
- direct to equity	-	-	-	(121)	(121)
At 02 July 2017	3,409	1,627	928	6,818	12,782

NOTES TO FINANCIAL STATEMENTS CONTINUED

NOTE 10: CURRENT LIABILITIES – PAYABLES

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Unsecured liabilities		
Trade payables	28,668	27,516
Sundry payables and accruals	3,308	5,602
	31,976	33,118

NOTE 11: CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Secured liabilities(i)		
Cash advance(ii)	13,000	12,000
	13,000	12,000

(i) Commercial Bill – rolling 12 months

(ii) Cash advance will be settled within six months. A fixed interest rate of 2.66% (2016: 2.9%) is applied to the cash advance.

All secured liabilities listed within note 11 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 12: LIABILITIES – PROVISIONS

	CONSOLIDATED ENTITY					
	2017 $'000			2016 $'000		
	Current	Non-Current	Total	Current	Non-Current	Total
Make good (i)	-	-	-	600	-	600
Restructuring costs (ii)	-	-	-	7,650	-	7,650
Onerous leases	109	142	251	355	335	690
Employment entitlements	9,648	1,731	11,379	13,811	1,497	15,308
	9,757	1,873	11,630	22,416	1,832	24,248

(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	
	2017 $'000	2016 $'000
Leave obligations expected to be settled after 12 months	3,413	3,339

NOTE 13: CURRENT LIABILITIES - OTHER

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Accrued expenses	6,810	6,929
Deferred income (note 1(g))	1,395	851
Rent escalation	2,456	2,614
	10,661	10,394

NOTE 14: NON-CURRENT LIABILITIES – OTHER

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Deferred income (Note 1(g))	6,752	2,004
Rent escalation	6,475	7,612
	13,227	9,616

NOTE 15: CONTRIBUTED EQUITY

Movements in ordinary share capital:

DATE	DETAILS	NUMBER OF ISSUED SHARES	ISSUE PRICE PER SHARE $	CONTRIBUTED EQUITY $'000
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
26 July 2016	Exercise of performance rights	9,925	-	-
02 July 2017	Balance	28,859,548	-	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.

NOTES TO FINANCIAL STATEMENTS
CONTINUED

NOTE 16: EQUITY – RESERVES

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Capital profits reserve	739	739
Share based payments reserve	4,157	4,497
Hedging reserve – cash flow hedges	(2,165)	(2,379)
	2,731	2,857
Movements:		
Share based payments reserve		
Balance at beginning of period	4,497	3,638
Performance Rights expense	(219)	681
Deferred tax – share based payments	(121)	178
Balance at end of period	4,157	4,497
Hedging reserve – cash flow hedges		
Balance at beginning of period	(2,379)	3,803
Transfer to inventory	2,379	(3,803)
Revaluation of cash flow hedges	(2,165)	(2,379)
Balance at end of period	(2,165)	(2,379)

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 21. 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 17: EQUITY – RETAINED PROFITS

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Retained profits at the beginning of the financial period	86,238	80,246
Net profit attributable to members of the consolidated entity	12,346	17,100
Dividends provided for or paid	(12,409)	(11,108)
Retained profits at reporting date	86,175	86,238

NOTE 18: COMMITMENTS

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Operating Lease Commitments		
Non cancellable operating leases contracted for but not capitalised in the financial statements payable:		
Not later than one year	100,630	108,613
Later than one year and not later than five years	171,828	191,008
Later than five years	21,351	29,984
	293,809	329,605

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 $379,956 (FY2016: $256,036).

Capital Commitments

The consolidated entity has capital commitments totalling $0 (FY2016: $8,805,806) all payable within one year.

NOTE 19: CONTINGENT LIABILITIES

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Estimates of the maximum amount of contingent liabilities that may become payable:		
Letters of credit established for acquisition of goods for resale	-	-

NOTES TO FINANCIAL STATEMENTS
CONTINUED

NOTE 20: STATEMENT OF CASH FLOW INFORMATION

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Reconciliation of Cash Flow from operating activities with profit after income tax from ordinary activities		
Profit from ordinary activities after Income Tax	12,346	17,100
Non cash items in profit from ordinary activities		
Depreciation	19,742	19,457
Reversal of impairment of store assets	(276)	-
Asset write offs on store closures	536	684
Asset write offs on DC closure	306	810
Loss on disposal of property, plant and equipment	14	3
Provision for onerous leases	(439)	(900)
Non cash share based expense	(219)	681
Changes in assets and liabilities:		
(Increase)/Decrease in receivables and other assets	8,567	(9,507)
Decrease in inventories	5,609	1,725
Increase / (Decrease) in trade, other creditors and other provisions	(9,407)	997
Increase / (Decrease) in income tax payable	(2,913)	945
(Increase)/Decrease in deferred tax assets	3,305	(6,387)
Net cash provided by operations	37,171	25,608
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	1,674	1,600
Cash at bank	13,942	13,468
	15,616	15,068
Less: Bank overdraft	-	-
	15,616	15,068

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:

	2017		2016	
	Limit $'000	Utilised $'000	Limit $'000	Utilised $'000
Interchangeable Facility (i)	40,000	13,000	40,005	12,000
Foreign Currency Settlement	-	-	850	-
Other Facilities	1,600	471	1,600	1,354
Total Facilities	41,600	13,471	42,455	13,354

A seasonal facility of $20,000,000 was utilised from 1 October 2016 and repaid in full by 31 December 2016. Other facilities include an ANZ Bank indemnity guarantee of $1,600,000 of which $470,897 was utilised in relation to property leases at 2 July 2017.

The Reject Shop Limited has complied with the financial covenants of its borrowing facilities during the period ended 2/7/2017.

(i) The interchangeable facility may be allocated to the following sub-facilities - overdraft facility, documentary credit Issuance/ documents surrendered facility, Foreign currency overdraft facility and Loan facility.

NOTE 21: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

	CONSOLIDATED ENTITY	
	2017 $'000	2016 $'000
Derivative Financial Instruments		
Current assets and (liabilities)		
Forward foreign exchange contracts – cash flow hedges	(3,093)	(3,398)

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	2017 $'000	2016 $'000	2017 $	2016 $
Australian Dollars	United States Dollars	154,365	174,712	0.75	0.73
Australian Dollars	Euro	1,872	5,168	0.67	0.66
Australian Dollars	Pounds Sterling	1,291	3,629	0.58	0.50

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 $3,093,402 (FY2016 – liability – of $3,398,327).

During the period $2,378,828 (FY2016 – $3,803,207) was removed from equity and included in the acquisition cost of goods.

NOTES TO FINANCIAL STATEMENTS
CONTINUED

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	2017	2016
	USD	USD
Cash at bank	**1,164**	34
Trade payables	**5,162**	4,920

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	
	2017 $'000	2016 $'000
Sensitivity Analysis – foreign exchange AUD/USD		
For every 1c increase in AUD:USD rate, total exposures (decrease) by		
Income Statement	(80)	(62)
Equity	(1,935)	(2,284)
For every 1c decrease in AUD:USD rate, total exposures (increase) by		
Income Statement	82	64
Equity	1,986	2,346

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:

2017	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	0.50	15,616	-	-	-	15,616
Receivables and other debtors	-	-	-	-	-	-
Total Financial Assets	**-**	**15,616**	**-**	**-**	**-**	**15,616**
Financial Liabilities						
Bank loans and overdrafts	2.66	-	13,000	-	-	13,000
Trade, sundry and other creditors	-	-	-		36,353	36,353
Total Financial Liabilities	**-**	**-**	**13,000**	**-**	**36,353**	**49,353**

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**

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	
	2017 $'000	2016 $'000
Sensitivity Analysis – Interest Rates		
For every 100 basis points increase in interest rates		
Income Statement	(28)	(42)
Equity	-	-
For every 100 basis points decrease in interest rates		
Income Statement	28	42
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.

NOTES TO FINANCIAL STATEMENTS
CONTINUED

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 2017, the company's strategy, which was unchanged from 2016, was to maintain a gearing ratio at or below 30%. The gearing ratio at 2 July 2017 and 03 July 2016 were as follows:

	2017 $'000	2016 $'000
Net debt/(cash)	(2,616)	(3,068)
Total equity	135,153	135,342
Net debt to equity ratio (i)	0%	0%

(i) The company has no net debt therefore debt to equity ratio is invalid.

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 2 JULY 2017	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	40,035	-	-	-	40,035	40,035
Variable rates	-	-	-	-	-	-
Fixed rate	13,000	-	-	-	13,000	13,000
Total non-derivatives	53,035	-	-	-	53,035	53,035
Derivatives						
Net settled						
Gross settled						
- (inflow)	(130,745)	(23,692)			(154,437)	
- outflow	133,463	24,067			157,530	3,093
Total derivatives	2,718	375			3,093	3,093

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**

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 2 July 2017.

	2017 $'000	2016 $'000
	Level 2	Level 2
Derivatives used for hedging	(3,093)	(3,398)

NOTES TO FINANCIAL STATEMENTS
CONTINUED

NOTE 22: KEY MANAGEMENT PERSONNEL DISCLOSURES

Non-Executive Directors

William J Stevens – Chairman

Kevin J Elkington

Denis R Westhorpe

Melinda Conrad (Resigned on 30 June 2017)

Executive Directors

Ross Sudano – Managing Director

All of the above persons were directors of The Reject Shop Limited for the entire period ended 2 July 2017, unless otherwise stated.

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 (Resigned on 30 November 2016)
Kelvin Chand	General Manager, Property
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)
Allan Molloy	General Manager, Operations (Commenced on 4 July 2016)
Craig Tomlinson	General Manager, Merchandise Buying (Commenced on 1 May 2017)

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 2 July 2017 unless otherwise stated.

Remuneration of Directors and Key Management Personnel

	CONSOLIDATED	
	2017 $	2016 $
Short-term cash rewards	-	1,133,743
Short-term employee benefits	3,738,160	3,910,733
Post-employment benefits	204,352	240,709
Termination benefits	-	111,467
Other	180,117	-
Share-based payments	(166,501)	700,373
	3,956,128	6,097,025

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

NOTE 23: 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 and outstanding for each financial period are detailed in the tables below:

2017

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 2012	18 Oct 2017	1 Jul 2016	12.24	5,475	-	(5,475)	-	-	-
10 Jan 2013	10 Jan 2018	1 Jul 2016	14.04	750	-	(750)	-	-	-
17 Oct 2013	17 Oct 2017	1 Jul 2016	16.89	3,700	-	(3,700)	-	-	-
13 Oct 2014	13 Oct 2018	1 Jul 2017	7.54	77,400	-	-	(77,400)	-	-
14 Oct 2015 (i)	14 Oct 2019	1 Jul 2018	8.62	218,700	-	-	(27,400)	191,300	-
20 Oct 2016 (ii)	19 Oct 2020	1 Jul 2019	6.58	-	128,500	-	(13,600)	114,900	-
Total				306,025	128,500	(9,925)	(118,400)	306,200	-

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 96,700. The additional 94,600 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 57,600. The additional 57,300 performance rights will only be issued to key management personnel if targeted criteria are over achieved.

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 Oct 2013	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.

NOTES TO FINANCIAL STATEMENTS CONTINUED

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, have 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 20 October 2016 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: $7.68;

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

(e) expected dividend yield: 5.73%; and

(f) risk-free interest rate: 2.47%

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	
	2017 $	2016 $
Performance rights granted	(218,692)	681,764

NOTE 24: REMUNERATION OF AUDITORS

	CONSOLIDATED ENTITY	
	2017 $	2016 $
During the period the following fees for services were paid or payable to PriceWaterhouseCoopers Australia and its related parties as the auditor:		
Audit and Assurance Related Services		
Audit and review work	330,000	303,892
Other assurance services	43,305	25,060
	373,305	328,952
Tax Compliance and Consulting Services		
Tax compliance	30,000	35,712
Tax consulting advice	25,452	25,000
	55,452	60,712
Total remuneration	428,757	389,664

NOTE 25: DIVIDENDS

	CONSOLIDATED	
	2017 $'000	2016 $'000
Fully franked final Dividend declared subsequent period end.	-	5,483
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%	47,349	46,528

Dividends recognised during the reporting period:

Dividends paid to members during the financial period was a final ordinary dividend for the financial period ended 3 July 2016 of 19.0 cents per share totalling $5,483,314 paid on 17 October 2016. An interim ordinary dividend for the financial period ended 2 July 2017 of 24.0 cents per share (2016: 25.0 cents per share) totalling $6,926,292 (2016: $7,212,406) was paid on the 10 April 2017 (2016: 11 April 2016).

NOTE 26: EARNINGS PER SHARE

	CONSOLIDATED	
	2017 CENTS	2016 CENTS
Basic earnings per share	42.8	59.3
Diluted earnings per share	42.4	58.8
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	28,858,948	28,849,328
Adjustments for dilutive portion of performance rights	272,109	98,446
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	29,131,057	29,094,859

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 23.

NOTE 27: NET TANGIBLE ASSETS

	CONSOLIDATED ENTITY	
	2017 CENTS	2016 CENTS
Net tangible asset backing per ordinary share	468.3	469.1

NOTES TO FINANCIAL STATEMENTS
CONTINUED

NOTE 28: PARENT ENTITY FINANCIAL INFORMATION

	PARENT ENTITY	
	2017 $'000	2016 $'000
(a) Summary financial information		
The individual financial statements for the parent entity show the following aggregate amounts:		
Balance Sheet		
Current assets	111,372	124,566
Total assets	218,740	230,595
Current liabilities	68,892	84,808
Total liabilities	84,590	96,256
Shareholders' equity		
Issued capital	46,247	46,247
Reserves	2,731	2,857
Retained earnings	85,172	85,235
	134,150	134,339
Profit for the year	12,346	17,100
Total Comprehensive Income	12,560	10,918

	PARENT ENTITY	
	2017 $'000	2016 $'000
(b) Guarantees entered into by the parent entity		
Carrying amount included in current liabilities	-	-

Refer to note 18 and 19 for disclosures concerning contingent liabilities and contractual commitments for the parent entity.

NOTE 29: SEGMENT INFORMATION

The Reject Shop operates within one reportable segment (retailing of discount variety merchandise). Total revenues of $794,036,305 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 30: 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 (FY2016 - 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 31: 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 32: RELATED PARTY TRANSACTIONS

No related party transactions were entered into during the period ended 02 July 2017.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) The financial statements and notes set out on pages 47 to 77 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 2 July 2017 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 23rd day of August 2017

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

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Independent auditor's report

To the shareholders of The Reject Shop Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of The Reject Shop Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 2 July 2017 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 2 July 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit we used overall Group materiality of $0.9 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured and is a generally accepted benchmark
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group is principally involved in retailing through discount department stores across Australia. The accounting processes are structured around the group finance function at the Group's head-office in Melbourne.
- Our scope reflected the Group's business model, with standardised systems and controls. Accordingly our audit evidence was derived through combination of:
  - developing an understanding of the control environment and tests of specific automated and manual business process controls;
  - substantive procedures such as use of data analysis techniques, together with analytical review and tests of detail.
- Our audit procedures were mostly performed at the Group head-office, along with visits to all the distribution centres and selected stores across Australia to perform audit procedures over inventory.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. We communicated the key audit matters to the Audit and Risk Committee. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

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

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Key audit matter	*How our audit addressed the key audit matter*
Carrying value of store assets *(Refer to note 8) $94,586,086* The Group offers a wide range of discount merchandise through its network of 347 stores and store assets represent one of the largest assets on the Balance Sheet. Given the challenging trading conditions in the Australian retail market in recent years, and the below budget trading performance of the Group in the year ended 2 July 2017, there is a risk the carrying value of certain store assets may be higher than their recoverable value. The Group assesses impairment of store assets on a store by store basis. The process undertaken includes estimation of the future cash flows expected to be generated by each store and discounting them to their present value (the models). This is compared to the carrying value of the store assets. This was a key audit matter because of: • the financial significance of store assets to the balance sheet • the judgemental factors involved in the Group assessing impairment, in particular estimating sales growth rate, margin and cash flow projection periods.	Our audit procedures, amongst others, included: • assessing the appropriateness of the model by comparing them to the requirements of Australian Accounting Standards • assessing the key inputs in the models such as the sales growth rate and margins by comparing them to board approved budgets, historical performance of the stores and the overall Group's sales growth rate • considering the appropriateness of the period over which cash flows were projected in the models based on our knowledge of the business and the Group's lease portfolio management strategy • performing sensitivity analysis on the sales growth rate and margins in the models of stores which we considered represented a higher risk of impairment.
Inventory valuation & provision - net realisable value (NRV) *(Refer to note 1(aa)(iv))* A provision was recognised as at 2 July 2017 in the financial report to provide for inventory expected to be sold below cost. The Group undertakes a process to identify year-end inventory which is likely to be sold below cost. A provision is then recognised by applying an assumed percentage markdown required to adequately clear this inventory. The identification of the provision depends, in part, on the age of the inventory and incorporates information on known and historical loss making products as well as the impact of planned mark downs.	Our audit procedures, amongst others, included: • obtaining an understanding of how the Group determined the NRV provision • comparing the percentage applied in the provision calculations against historical percentages used for each category of inventory • considering the appropriateness of the provision having assessed: a) aggregate total of inventory sold below cost during the financial year b) impact of clearance activity after financial year-end

Key audit matter	*How our audit addressed the key audit matter*
This was a key audit matter because of: • the financial significance of the inventory balance and therefore the potential effect of net realisable provision requirements on profit and the balance sheet • the subjective nature of the provision calculation by the Group due to the judgement involved in estimating the ultimate selling price of inventory.	c) inventory written-off subsequent to the financial year-end in the month of July 2017 d) expired and de-ranged inventory items.
Inventory provision – shrink *(Refer to note 1(aa)(i)) $7,588,350*	
At year end, the Group recognised a provision against stock for estimated losses related to shrinkage, being physical losses of inventory at each store since the date of the last stock count at that store of $7,588,350 (2016: $8,317,511). This provision is calculated by applying an estimated shrink loss percentage to the sales since the date of the last stock count on a store by store basis. The Group performs stock counts across distribution centres and stores to calculate the estimated shrink loss percentage for the whole store network. This estimate includes stock count information obtained from counts performed during the financial year, as well as those completed post year end and prior to the completion of the financial statements. This was a key audit matter because of: • the financial significance of the inventory balance to the profit and loss and balance sheet • the level of estimation by the Group within the provision calculation and their judgement of the expected stock loss across the whole store network.	Our audit procedures, amongst others, included: • obtaining an understanding of how the Group determined the shrinkage provision • comparing the shrink loss percentage applied against available historical data on the Group's shrinkage • attending the stockcounts for selected locations and considering the Group's process for reviewing stock count results for other stores • comparing the shrink loss percentage applied against the results of the stockcounts completed between period-end and the completion of our audit procedures.

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

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Other information

The directors are responsible for the other information. The other information comprises Chairman's Report, Managing Director and Chief Executive Officer's Report, Board of Directors, The Reject Shop Foundation, Our Promise, The Management Team, Our Highlights, Corporate Governance, Environmental and Social Statement, Shareholders Information, Corporate Directory and the Director's Report included in the Group's annual report for the year ended 2 July 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

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

pwc

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 32 to 44 of the directors' report for the year ended 2 July 2017.

In our opinion, the remuneration report of The Reject Shop Limited for the year ended 2 July 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

PricewaterhouseCoopers

Sam Lobley
Partner

Melbourne
23 August 2017

SHAREHOLDERS' INFORMATION

The shareholder information set out below was applicable as at 28 July 2017.

(a) The distribution of shareholding was as follows:

SIZE OF SHAREHOLDING	SHAREHOLDERS
1 - 1,000	4,539
1,001 - 5,000	2,279
5,001 - 10,000	342
10,001 - 100,000	196
100,001 and over	12

(b) 717 shareholders hold less than a marketable parcel of shares, being a market value of less than $500

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

SHAREHOLDER	NUMBER	% HELD
Australian Super Pty Ltd	2,982,627	10.33%
Celeste Funds Management Pty Ltd	2,320,806	8.04%
Commonwealth Bank	1,891,374	6.55%
IOOF Holdings Ltd	1,773,884	6.15%

(d) The fully paid issued capital of the Company consisted of 28,859,548 shares held by 7,368 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	306,200	8

SHAREHOLDERS' INFORMATION AS AT 28TH JULY 2017

(f) Twenty largest shareholders

SHAREHOLDER	NUMBER	% HELD
J P MORGAN NOMINEES AUSTRALIA LIMITED	5,102,281	17.68%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,625,420	12.56%
CITICORP NOMINEES PTY LIMITED	2,038,092	7.06%
NATIONAL NOMINEES LIMITED	965,111	3.34%
CITICORP NOMINEES PTY LIMITED	871,572	3.02%
BNP PARIBAS NOMINEES PTY LTD	584,259	2.02%
BNP PARIBAS NOMINEES PTY LTD	375,289	1.30%
BRISPOT NOMINEES PTY LTD	223,539	0.77%
BNP PARIBAS NOMS PTY LTD	222,167	0.77%
NGAPUHI NOMINEES PTY LTD	150,000	0.52%
BAN FAM PTY LTD	117,850	0.41%
MR ROSS BIRD	110,810	0.38%
TEE2GREEN PTY LTD	90,833	0.31%
CVC LIMITED	90,500	0.31%
ACE PROPERTY HOLDINGS PTY LTD	90,000	0.31%
MR DANIEL JAMES FITZGERALD & MRS KARINA FITZGERALD	71,800	0.25%
DR ANDREW RICHARD CONWAY & DR VANESSA JOY TEAGUE	70,925	0.25%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	68,748	0.24%
ARACAN PTY LTD	65,843	0.23%
WYONG RUGBY LEAGUE CLUB LTD	61,000	0.21%

The twenty members holding the largest number of shares together held a total of 51.96% of the issued capital.

(g) Restricted Shares

There are no restricted shares on issue.

CORPORATE DIRECTORY

DIRECTORS

William J Stevens
Non-executive Chairman

Ross Sudano
Executive Director

Kevin J Elkington
Non-executive Director

Denis R Westhorpe
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
2 Riverside Quay
Southbank Vic 3006

LAWYERS

Landers and Rogers
Level 12
600 Bourke Street
Melbourne Vic 3000

STOCK EXCHANGE LISTING

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

WEBSITE

www.rejectshop.com.au

THE REJECT SHOP

THE REJECT SHOP

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