Appendix 4E

The Reject Shop Limited

(ABN 33 006 122 676)

Consolidated preliminary final report

For the 52 week financial period ended 01 July 2018
Compared to the 52 week financial period ended 02 July 2017

Results for announcement to the market

$A'000

Sales revenue from continuing operations	Up	0.8%	to	800,306
Profit from continuing operations after tax attributable to members	Up	34.3%	to	16,577
Net profit for the period attributable to members	Up	34.3%	to	16,577

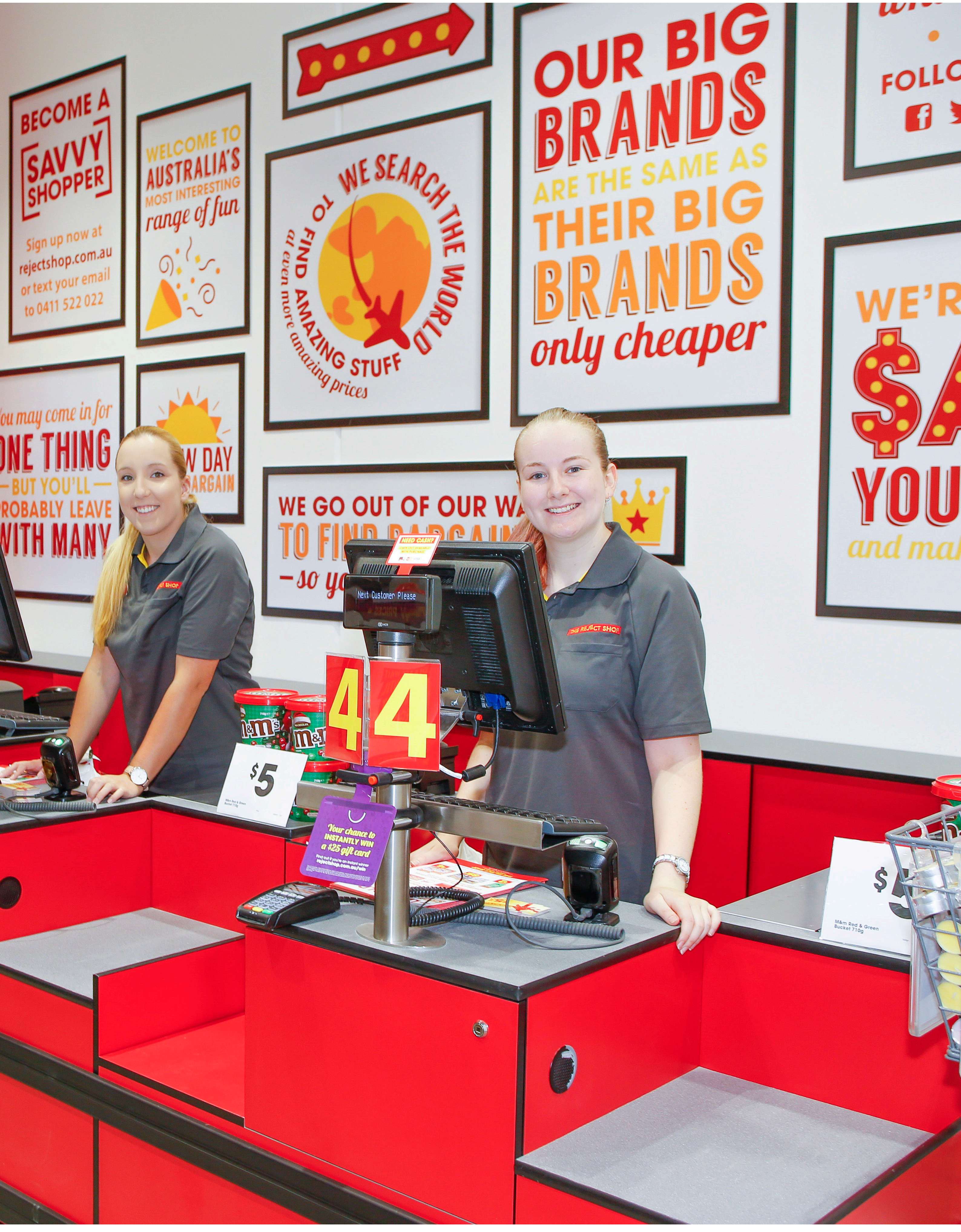
Dividends	Amount per share	Franked amount per share
Interim dividend (paid 09 April 2018)	24.0 cents	100%
Final dividend	11.0 cents	100%

Record date for determining entitlements to final dividend	28 September 2018
Dividend payment date	15 October 2018

Commentary on the Company's trading results is included in the media release and on pages 18 to 21 of the annual report enclosed.

THE REJECT SHOP

ANNUAL REPORT 2017/2018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or text your email
to 0411 522 022
WELCOME TO
AUSTRALIA'S
MOST INTERESTING
range of fun
TO WE SEARCH THE WORLD
FIND AMAZING STUFF
at even more amazing prices
OUR BIG
BRANDS
ARE THE SAME AS
THEIR BIG
BRANDS
only cheaper
FOLLO
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You may come in for
ONE THING
BUT YOU'LL
PROBABLY LEAVE
WITH MANY
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ARGAIN
WE GO OUT OF OUR WA
Next Customer Please
44
$5
Your chance to
INSTANTLY WIN
a $25 gift card
M&M Red & Green
Bucket 710g
THE REJECT SHOP

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Notice Of Annual General Meeting: 3:30pm, Wednesday 17 October 2018 at 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. These financial statements are presented in Australian currency and were authorised for issue by the directors on 22 August, 2018. The company has the power to amend and re-issue these financial statements.

CHAIRMAN'S REPORT

William J Stevens
Chairman

Dear Shareholder,

After a good first half result, the net profit of $16.6 million represents a solid result for the year. It is a significant improvement on the outcome for the prior comparative period - and is the outcome of continuing expenditure on the development of systems and processes. It reflects more nimble approaches to the challenges of the sector; and, the fantastic attitude and endeavours of our total team – which now numbers more than 5,000 people. Your Company has continued its history of annual profitable operations. We remain committed to leveraging organic growth opportunities, where sensible economic outcomes can be achieved. 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.

Regarding the contributions of our people, and on behalf of all the TRS team, I particularly express my thanks to the family of Denis Westhorpe. Denis was a Director of the Reject Shop from October 2010 – until his premature, untimely and most unexpected death on 2nd April 2018. Denis, with his extensive and deep retail background; and his calm, considered and challenging conversation, was an incredibly vital member of the Board for more than seven years. His participation and contribution are missed, and our condolences to his wife Julie and their family continue.

We are keen to replace the skill, experience and capability that Denis brought to the Board, and I expect to provide further detail prior to the Annual General Meeting in October.

Our Chief Executive Officer and Managing Director, Ross Sudano, has set out further detail, in his report, all of the actions that he and his team believe will achieve our objectives. While some elements of the retail economy appear sound; the Discount Variety sector remains particularly challenged. 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 Company's balance sheet nonetheless remains strong. The profit and the cash flows achieved during the year allows distributions to shareholders to return to historic levels of 60% of net profit, while allowing continued investment into the Company's future.

The Board wishes to remunerate all our people fairly for the work that they do. This fairness is relative to the role and responsibilities that they undertake, and relative to the marketplace. Following the underperformance of the business in the second half of 2017, and for that financial year, no performance-based remuneration was paid for 2017, and no increases in fixed salary or fees were paid to the members of the Executive team, or the Board, in 2018.

The annual result for 2018 is at the lower end of the range expected by the Board. As set out in the 2018 Remuneration Report, the Board has approved the payment of some performance-based remuneration to members of the Executive team in respect of the 2018 year. No amount payable to any Executive is more than 50% of the amount which could have been payable, had the Targets been achieved.

The operating cash flows, together with strong management by Ross and his team of our inventory, capital expenditure programs and investment in new stores; ensures that the Company continues to have adequate access to finance to support our objectives. The Company has been, and remains, compliant with all its debt facility covenants.

All Reject Shop stores are staffed and operated by the Company. Ross, together with his team, are continuing the development of the operating processes that will sustain the growth, and the enhanced profitability, of your Company. Growth in sales remains vital, but it is recognised that across the retail sector, that the capacity for sales growth is very challenged. Accordingly, driving growth in sales with both value and low price is also balanced with the achievement of sensibly profitable sales. For the long-term; we continue to devote significant attention to efficiently reducing our Cost of Doing Business, sustaining and developing our team members, and effectively minimising our environmental impacts and their costs to the business.

OUR EXTENSIVE STORE NETWORK ENABLES US TO HAVE ONGOING CONTACT WITH MANY COMMUNITIES

The team, and your Board, consider that our charter, our core values, and our mission remain steadfast. In this sense, and with the Truganina Distribution Centre (opened in the 2nd half of 2017) now achieving its expected efficiencies; and with the ability to benefit from our recently opened Hong Kong sourcing centre; we believe we have a greater capacity to leverage these investments in fixed infrastructure, and to continue to seek new store opening opportunities.

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

Our store numbers grew only slightly this year, but we will continue to seek the sensible expansion of our store network across the country. Increased store numbers will better leverage our fixed infrastructure, and we will also continue our store refurbishment program. Our engagement with, and support from, our customers requires that we continue to reward them with the best offer, within inviting and well-furbished stores.

Where store locations and customer access are further challenged by frequent property redevelopment activity, we will continue to seek alternative and replacement sites. We will also seek new store opportunities in locations that may not have had access to our exciting and value offer. We have a great many loyal customers; but the opportunity to take our offer to new and profitable locations is important in further leveraging our investment in the support services, systems and infrastructure.

As discussed previously, all our stores are expected to achieve sales that will enable sound economic outcomes, or be closed. We consider the vast majority of our stores to be sustainable, however Store rents are, and will remain, a significant component of our expenses, and operating cash flows. Accordingly, where sustainable sales and rental outcomes cannot be achieved, alternative action will occur.

As stated above, lease rental costs of our Stores and Distribution Centres are a significant component of our costs. I have referred previously to some of the ill-informed commentary on the new Lease Accounting Standard causing negative impacts on the share prices of many retailers. Accordingly, and well in advance of any requirement for adoption, our Financial report for this year includes significant detail regarding the likely impacts of the new accounting standard for leases.

This new accounting standard is not required to be adopted until next year. Our Balance Sheet will record a sizeable increase in total assets, and an equal increase in total liabilities. As our cash flows are unaffected, and the small negative impact on reported expenses in the year of introduction is reversed in the following years of the lease terms, your Board remain of the view that the impacts of the new standard remain minimal.

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, and for our localised Community Support programs. 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. We 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.

On behalf of the Board

William J Stevens
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

Ross Sudano
Managing Director and
Chief Executive Officer

Dear Shareholders,

We are pleased to announce a strong Net Profit after Tax of $16.6m for the year, 34% above that delivered in the prior year.

Despite the continuing challenge of declining consumer confidence, we are pleased that improvement in the execution of our merchandise strategy delivered total sales growth and stabilized comparable sales results for the full year

Additionally, the benefits of many changes to our ways of working have continued to reduce our costs of doing business; and contributed to the strong Net Profit for the year.

During the year we successfully delivered;

- A direct sourcing office located in Hong Kong, to focus on reducing our cost of goods sold and further product quality improvements
- Truck to Customer, a standardized way of operating to improve in store productivity, product availability, merchandising and overall customer experience
- A Roster Guidance Tool that allocates store labour based on expected store activity
- TruRating (an individual store feedback loop provided by customers)
- Investment in an energy saving project to minimize our power usage, using improved technology to lower our operating costs and reduce our environmental foot print
- A significant investment in systems to allow us to differentiate what we send to stores and when we send it
- Supply chain improvements as the new Melbourne Distribution Centre delivered on its expected productivity improvements
- Increased investment in training of our store teams
- A continued focus on safety with a further reduction in incidents achieved during the year, and
- Opened 11 new stores, relocated 3 and closed 7 existing stores.

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. We believe sustainable sales growth will be driven by increased transactions. While the focus on continuous improvement continues in reducing our CODB, our strategic focus moves to growing sales in a sustainable way.

Our sales growth strategy has two key pillars,

Brilliant Basics – where the goal is to consistently grow sales through the insights we have from our customers, enabled by the capability, systems and process we have put in place over the last three years. This builds on the progress made in the execution of our merchandise strategy during the year.

We see the investment we have been making into our digital platform as a key enabler to maximizing the benefits of Brilliant Basics. Having built our data base of Savvy shoppers to approx. 1 million, we will launch a loyalty program in the first half of the new financial year.

New Growth Opportunities that leverage off the infrastructure and assets we have in place and generate new sales and profitability. Annual sales growth from Brilliant Basics will deliver consistent profit growth; but won't step change our profitability.

To significantly grow our profitability, we need to deliver growth over and above Brilliant Basics. We have been identifying sales growth opportunities that we can deliver via our existing assets.

OUR SALES GROWTH STRATEGY HAS TWO KEY PILLARS, BRILLIANT BASICS AND NEW GROWTH OPPORTUNITIES

We are now able to invest into taking these ideas from concepts to reality. We will commence this process in the new financial year with a small team, building out the opportunities we have identified, and mapping delivery of this sales growth.

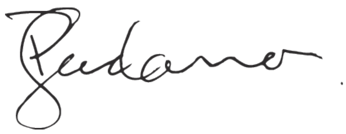
Whilst our focus and investment move to growing sales, we continue to look for opportunities to further lower our costs and gain operating efficiencies.

The next phase of in store improvements include,

- Maximizing the benefits of Truck to Customer and Roster Guidance
- Building our people capabilities. The development and roll out of further training to ensure our store teams can positively develop their own performance is well underway
- Focusing on customer feedback via TruRating (an individual store feedback loop provided by customers) to reinforce customers as the driving force behind everything we do.

Within our supply chain, we are building the capability to leverage capacity and cost efficiencies through value-add services in China. Trials through FY19 will validate the full benefits of efficiency, increased capacity and end to end cost reductions.

I am pleased with the outcomes from the many changes introduced into our business over the last year, the significant improvement in our profitability and the further opportunity that exists for TRS. Whilst there is much more opportunity to leverage the strengths of the TRS business model and our continued growth in relevance of the discount sector; I would like to acknowledge and thank the many people who have positively impacted the performance of TRS during the year.



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 38 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 30 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.

THE BOARD ACKNOWLEDGES YOUR CONTINUING SUPPORT, AND WE REMAIN CONFIDENT IN THE COMPANY'S OUTLOOK.

Michele Teague
Non-Executive Director

Michele retired last year from her role as General Manager Marketing for Kmart Australia. This role has followed an extensive career in Australia and New Zealand with and for consumer facing organisations in a range of sectors; but significantly in the retail and Fast Moving Consumer Goods (FMCG) sector. Her previous Marketing roles with Metcash, and with Restaurant Brands, Pacific Retail and Woolworths in New Zealand, as well as her engagements in the advertising sector, brings an additional commercial perspective of contemporary retail issues. Michele has a deep understanding of consumers, media and digital, as well as driving operational efficiency and implementing new concepts in the retail space. Michele has also served as a non-executive member of industry associations and was a Non-Executive Director of the New Zealand Rugby League. Michele joined the Board of The Reject Shop Limited in September 2017.

Ross Sudano
Managing Director and Chief Executive Officer

Ross has over 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
and Company Secretary

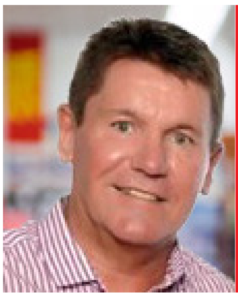
Darren spent over ten years working with Deloitte in Australia and the United States. Darren then spent the next thirteen years working in senior finance roles at large corporations, most recently ten years at Skilled Group Limited. Darren joined The Reject Shop and was appointed Company Secretary in 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 15 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 over 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.

WE UNDERSTAND THAT VALUE IS A KEY DRIVER OF OUR CUSTOMER MOTIVATION, AND THAT WE NEED TO DELIVER ON THIS EVERY DAY.

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.

Peter Barry
General Manager – Buying

Peter has extensive executive retail experience across the full range of merchandising activity having previously held senior buying and planning roles with Kmart and Big W. Peter also held the role of CEO for Webster Holdings whose brands included Jigsaw, MARCS and David Lawrence. Peter has also consulted with the Spotlight Retail Group assisting with their overseas sourcing strategies. Peter joined The Reject Shop in July 2018.

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

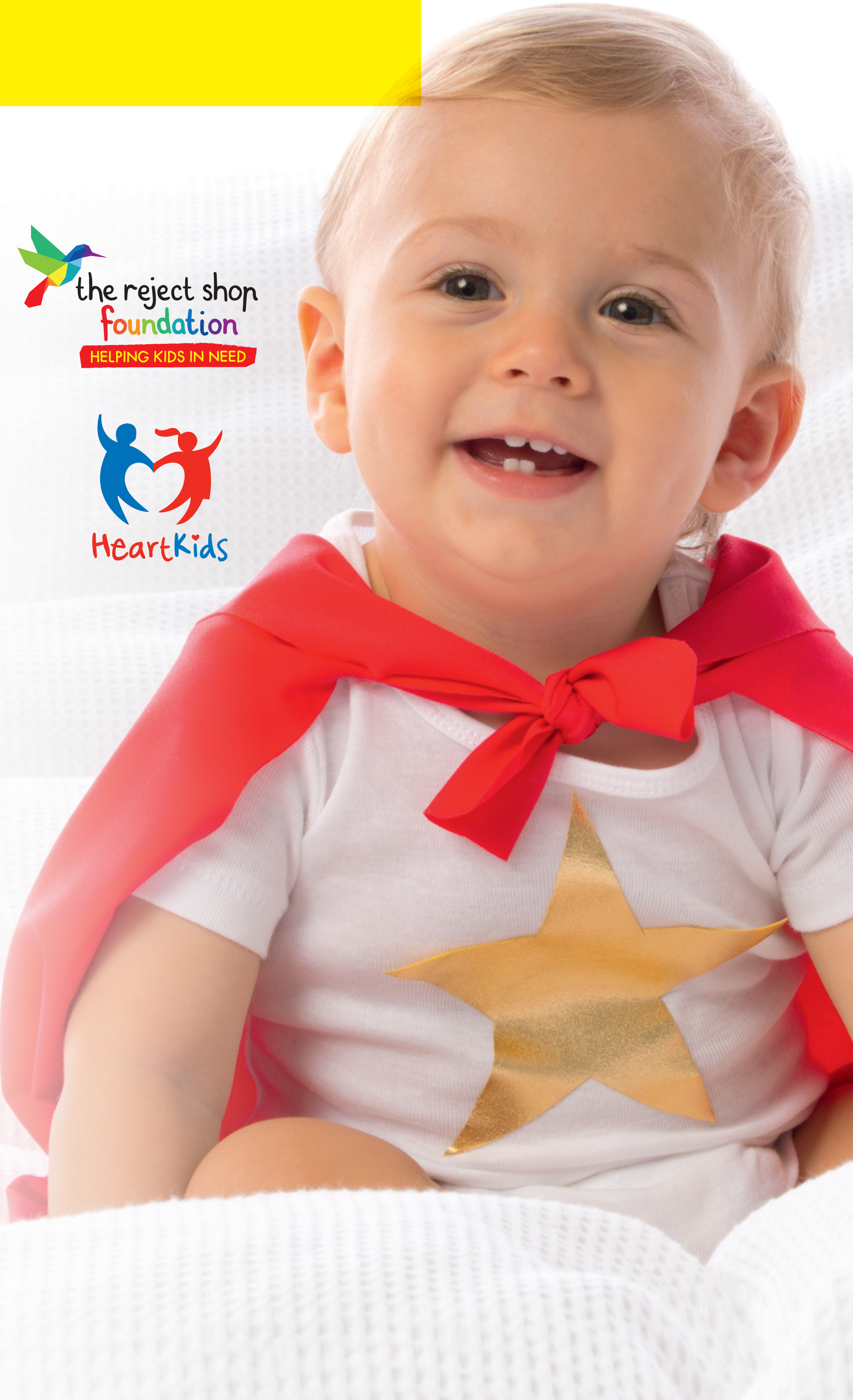
The Reject Shop Foundation is a not-for-profit foundation committed to helping kids in need, by contributing funds to Australian programs that support kids at a time they need it most.

Over the past five years, The Reject Shop Foundation has engaged with both The Reject Shop's customers and team members to raise more than $640,000. Donations have been raised through our cash collection boxes available across the Company's entire store network, team member fundraising and voluntary work place giving program.

Throughout the past year, The Reject Shop Foundation partnered with HeartKids. HeartKids assist 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 world class research. Given the success of this partnership, we are proud to continue supporting HeartKids over the coming year.

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

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



CORPORATE GOVERNANCE, ENVIRONMENTAL SOCIAL STATEMENT AND FINANCIAL REPORT

FINANCIAL PERIOD ENDED 1 JULY 2018

CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT

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

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

THE BOARD OF DIRECTORS

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

Composition of the Board

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

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

There are currently 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 Elkington

Denis R Westhorpe
(Deceased 2 April 2018)

Michele Teague
(Appointed 18 September 2017)

All directors have entered into written contracts of employment.

Details of each directors' experience is contained on page 6 and 7 and their attendance at Board and Committee meetings is contained in the Directors' Report on page 17 in this annual report.

Responsibilities of the Board

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

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

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

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

BOARD SKILLS AND EXPERIENCE MATRIX

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

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

Legal, Governance & Compliance	
Legal	2
Corporate Governance	4
Compliance	3
Operations	
Marketing	2
Retail, buying, sales & distribution	3
General management experience	4
Business Development	3
Strategy	4
CEO	2
Property/ store development	2
Supply chain/ off shore procurement	0
Finance and Risk	
Accounting	1
Finance	1
OH&S/ Risk Management	4
People	
Human Resources	4
Remuneration	4
Technology	
Technology	1
Digital	2

Rotation of Directors

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

AUDIT AND RISK COMMITTEE

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

Composition of the Audit and Risk Committee

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

Kevin J Elkington (Chairman)

William J Stevens

Michele Teague

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 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 certain 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.

CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT CONTINUED

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 Securities 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. Included in the code of conduct is an encouragement to all employees to report any breaches of the code to senior management or Human Resources. A more formalised whistle-blower's policy is being developed.

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

DIVERSITY POLICY

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

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

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

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

	NO OF EMPLOYEES - FEMALE 1 JULY 2018	NO OF EMPLOYEES - TOTAL 1 JULY 2018	% OF FEMALES	NO OF EMPLOYEES - FEMALE 2 JULY 2017	NO OF EMPLOYEES - TOTAL 2 JULY 2017	% OF FEMALES
Board/ CEO	1	4	25.0%	0	4	0.0%
Senior Executives	1	7	14.3%	1	8	12.5%
Middle Management	4	25	16.0%	9	33	27.3%
Store Managers	227	380	59.7%	214	374	57.2%
All Team Members	3,523	5,296	66.5%	3,536	5,430	65.1%

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 the 12th of June 2018, 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 (Chairman)

Kevin J Elkington

Michele Teague

Role of the Remuneration Committee

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

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

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

Information regarding director and key management personnel remuneration is provided in the Directors' Report and on pages 62 to 64 of this annual report.

CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT CONTINUED

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; consistent with our objective of reducing our environmental footprint.

As of 30 June 2018 we have installed high-efficiency LED lighting and automated energy management systems into 268 stores in order to 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. This energy reduction equipment now forms part of our standard fitout, and will be rolled out to all new stores in future.

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.

COMMUNITY ENGAGEMENT

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 Australian programs that support kids at a time they need it most, as set out on page 10.

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 1 July 2018.

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

(Deceased 2 April 2018)

Non-executive Director

Member of the Audit and Risk Committee and Member of the Remuneration Committee until his premature death.

Michele Teague

(Appointed 18 September 2017)

Non-executive Director

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

Details of the experience and expertise of the directors and the Company Secretary are outlined on pages 6 to 8 of this annual report.

MEETINGS OF DIRECTORS

The number of meetings of the Board of directors and Committees held during the period ended 01 July 2018 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	11	13	3	4	2	3
R Sudano	13	13	xx	xx	xx	xx
KJ Elkington	12	13	4	4	3	3
DR Westhorpe	9	9	4	4	2	2
M Teague	11	11	2	2	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, on pages 18 to 21.

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 18 to 21 of this annual report.

DIRECTORS' REPORT
CONTINUED

ENVIRONMENTAL REGULATION

The Company is not involved in any direct 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:

There was no final ordinary dividend for the financial period ended 2 July 2017.

An interim ordinary dividend for the financial period ended 1 July 2018 of 24.0 cents per share totalling $6,926,292 was paid on 9 April 2018.

Since the end of the financial period the directors have declared the payment of a final ordinary dividend of 11.0 cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on the 15th of October 2018.

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

INSURANCE OF OFFICERS

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

During the financial period, the Company paid a premium of $222,739 to insure the directors and officers of the Company.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

ROUNDING OF AMOUNTS

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

OVERVIEW OF OPERATIONS

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

The company's strategy is focussed on building on the core strengths of the business that have been put in place over time to maximise 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. Providing our customers with a clearly differentiated offer that is delivered conveniently via our existing store network, new stores and new store formats,
2. Building sustainable comparable store sales growth driven by increasing customer transactions,
3. Focusing 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. Providing a safe, challenging and rewarding environment to attract and retain great people and to engage and support the communities in which we serve.

We have made significant progress on many of our change initiatives and are seeing the benefits of these within the business.

Our operational focus is built on extensive work done with both 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 our promise of;

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

The ongoing development of product ranges to meet these customer needs has resulted in some improvement in comparable sales from last year. We are focussed on building on these changes to further grow sales in coming years.

The second element of our focus on customers is developing our capability to communicate key messages, both in and out of store. We are 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 on digital channels, including the development and use of a data base of loyal customers. In store we are communicating a sense of urgency, discovery and regular convenience to our customers.

We are also improving the in store experience for our customers. This remains a significant element for the business moving forward.

Our store locations continue to be one of the key strengths of the company providing our customers with convenient access to our offer. We expect to continue to open new stores in locations that provide access to new customers, on a normalized rate of between 10 and 15 new store openings per annum. We continue to focus on capturing improved lease terms and new store locations for the company to ensure we are well positioned to meet the needs of our customers into the future.

The company opened eleven new stores during the year and closed seven, resulting in a National store footprint totalling 351 stores by the end of the year.

OVERVIEW OF FINANCIAL PERFORMANCE

$ AMOUNTS ARE $'000 / %'S ARE TO SALES	FY18	FY17	% CHG
Sales	800,306	794,036	0.8%
Gross Profit (i)	43.3%	42.7%	
Cost of doing business (i) (ii)	37.9%	37.9%	
EBITDA (i)	43,483	38,315	13.5%
Depreciation and Amortisation	19,178	19,742	
EBIT (i)	24,305	18,573	30.9%
Net Interest Expense	563	724	
Profit Before Tax	23,742	17,849	33.0%
Income Tax Expense	7,165	5,503	
Net Profit After Tax	16,577	12,346	34.3%

(i) Non IFRS measure

(ii) Unaudited

Sales Performance

Overall sales increased in FY2018 by $6.3m or 0.8% on the prior period, which reflects the net of:

- Flat Comparable Store Sales (First half: +0.4%; Second half: negative 0.4%), 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 FY2018 and FY2017.

Gross Margin

Gross margin, as a percentage of sales, increased by 0.6% of Sales.

This was primarily the result of improved efficiencies coming from the Distribution Centre Network, in particular the first full year of the Melbourne DC in Truganina, and a well managed Foreign Exchange position.

Cost of Doing Business (CODB)

CODB (excluding depreciation and amortisation), being the combination of Store Expenses and Administrative Expenses, was flat at 37.9% to Sales, which was a pleasing achievement given the challenges faced on the Sales line.

Store Expenses fell slightly from 33.0% to 32.8%, where the major movements were:

- Store Wages decreased by 0.03% to Sales, on the back of gains from the Truck to Customer and Roster Guidance Tool initiatives, and the reduced workers compensation premiums that have been facilitated by improved safety metrics in recent years;
- Occupancy Costs increased by 0.14% to Sales;
- Advertising Costs decreased by 0.03% to Sales (flat in $ spent), with the business continuing with a blend of catalogues, TV and increasing digital media;
- Store Operating Costs decreased by 0.09% to Sales, reflecting the impact of a number Store related Cost-Out initiatives, including the Energy Optimisation project that continue to be rolled-out across Australia; and
- Store Opening/Refurbishment/ Relocation Costs decreased 0.10% to Sales, mainly due to a reduction in the refurbishments compared to the prior period.

Administrative Expenses increased by 0.2% to 5.1% of Sales, mainly due to a increased level of remuneration provisions in line with the increased profitability of the business against the prior year.

Earnings

The Company has a reported EBIT of $24.3 million, an increase of 30.9% on the prior period.

This EBIT represents 3.0% return on Sales, which is up on the 2.5% of the prior year, which reflects the improved reported Gross Margin and the flat cost of doing business.

Impact of New Leases Accounting Standard (AASB 16 *Leases*)

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

During recent months, the Company has performed a detailed analysis of its operating lease book, which includes stores, distribution centres and Head Office.

As disclosed in further detail on page 44 of these accounts, the adoption of the new standard will have a material impact on the balance sheet. It will have minor imacts on lease expenses in each year of the lease term, albeit the cash flows of the business will not be impacted at all.

If the Company was to adopt the new standard effective on 1st July 2018, taking account of current (and likely) operating lease arrangements during FY2019, it estimates the impact on the financial statements as follows:

- Right of Use Liabilities of approximately $250 million;
- Right of Use Assets of the same amount;
- Existing IFRS and lease incentive provisions will be offset against the balance of right of use assets on transition, and will be returned to profit over the remainder of the lease terms
- Nil impact on retained earnings upon adoption of AASB 16, and
- NPAT would reduce by $2.0m-$2.5m in the year of adoption This adverse impact for the leases taken to account on adoption will reverse over the remaining life of the existing leases;

when compared to treatment under the current standard.

Dividends

Total dividends declared of 35.0 cents per share (FY17: 24.0 cents per share) represents a payout ratio of 61% of the Company's earnings per share of 57.4cps.

An interim dividend of 24.0 cents per share has been paid and a final dividend of 11.0 cents per share will be paid on 15 October 2018. All dividends are fully franked.

The Board intends to maintain a minimum dividend payout ratio of 60% of Net Profit After Tax, having regard to the continuing strategy associated with new stores and store refurbishments. Consideration of the appropriate payout ratio is assessed each half based on the underlying profitability and financial needs of the business going forward.

Financial Position and Capital Investment

The Company's Gearing has remained in a consistent healthy Net Cash position at year-end of $14.8m (Net Cash: $2.6 million).

The Company's operational performance has resulted in significant improvement in all its gearing ratios and covenant measures, with the business having in excess of $8 million in EBITDA Headroom over its fixed charge covenant at year-end.

The Company expects to slightly reduce its average debt requirements over the course of FY2019.

Net interest expense decreased by $0.2 million on FY2017. This reflects:

- a combination of the reduced net debt carried during the year, which was aided by a subdued capital expenditure profile; and
- the continuation of the moderate interest rates that have ruled over the last couple of years.

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 FY2019 to have at least 360 stores open. Fifteen new stores are planned for FY2019, and an expected three closures.

The Company will perform selected refurbishments during FY2019 and invest in enhancing its Workforce Management systems to further develop operating efficiencies.

The Company will also trial some recalibration of its store layouts. This will involve reallocating bays between merchandise categories to optimize the sales per square metre in-store.

In addition, the Company has a number of projects that will require expenditure.The main goal is to drive sales growth via changes in the merchandise offering.

Notwithstanding these ongoing investments for future profit growth, the Company does anticipate a reduced Capital Expenditure program in FY2019.

The new Hong Kong sourcing office, which opened in October 2017, is expected to flow some lower cost product in the first half of FY2019.

Overview of retail industry trends

The Discount Variety sector remains very competitive. There are many regionally based chains, as well as a multitude of 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. This competition has certainly intensified over the last 12 months, which has challenged the sales growth and margin profile in particular within our fast moving consumer goods categories. 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. Without a point of difference or compelling offer, all retailers must be operating at or near their optimums to achieve a respectable Sales outcome.

OUTLOOK

Underlying Trading

The relatively flat comparable sales growth trajectory of the second half of FY2018 has continued into the first six weeks of FY2019.

Whilst basket values are up on the prior period, transaction growth has been challenging. This indicates that value seeking consumers continue to be discerning as they strive for maximum outcomes for the available discretionary spend.

The Company completed its annual stocktaking process of the entire network. This gives us greater visibility on stock balances at a granular SKU level, and allows us to address replenishment of gaps identified in our basic everyday lines.

The Company has set relatively conservative Comparable Sales targets for the first half of circa 1%.

The Company is changing the volumes of stock it puts behind its catalogue process.The focus is to cut down the number of SKU's within the catalogue; limit the related promotional stock flows; and achieve a better promotional sell through. We will ensure that the basic stock levels are not compromised during these promotional periods.

Notwithstanding the ongoing Sales challenges, there a number of positives that are expected to assist in increasing underlying profitability of the business. These include:

- Solid First Sales Margins, which will be supported by a Strong FX Hedging Position and the positive impact of the Hong Kong Sourcing Office;
- Continued focus on Occupancy Costs, where we have over 90 stores up for renewal in FY2019;
- Continued pursuit of a number of other Cost-out opportunities, including the finalisation of the National Energy System Optimisation Program; and
- Improving efficiencies coming from the overall supply chain of the business.

With a progressive return to positive Comparable Sales during the half, the Company aims to report an operating profit in the first half that is consistent with the reported result 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 over 20,000 different products on an annual basis, all of which must be fit for purpose and in compliance with Australian Consumer Legislation. The Company has a National Product Compliance function that has the responsibility of ensuring all products sold by the Company adhere to legal requirements. The Company is subject to an external review of its Compliance function by an independent Compliance firm on an annual basis, with any recommendations noted and implemented as soon as possible. In addition, the Company's legal advisors run an annual update session at which changes to relevant Consumer law are discussed.
- Occupational Health & Safety (OH&S) – The Company has over 5,300 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 and the Company was pleased to record its lowest Lost Time Injury Rate ever in FY2019.

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 15 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 FY2018 the Remuneration Committee has determined that 50% of contracted short-term rewards will be payable to Key Management Personnel on the basis that the Company achieved marginally below the budgeted EBIT for the FY2018 year. In addition, the Company achieved its safety metric targets in FY2018.

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 total of $1.00 exercise price for each tranche granted and exercised 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, which are independently measured over a three year period:

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

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

The number of performance rights issued 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 2015 financial year and due to vest 1st July 2018, the Remuneration Committee has determined in August 2018 that only 25% of the performance rights that were granted and potentially available will vest. This vesting is on the basis that the Company has partially achieved the criteria as set out above. In particular, the Company has achieved a compound EPS growth of approximately 5% over the qualifying three year period.

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. (FY2017: $201,175) and to a non-executive director currently $117,443 p.a. (FY2017: $117,443). 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 (FY2017: $6,180), Chairman of Remuneration Committee $5,150 (FY2017: $5,150). 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 12 of the Directors' report, were the key management personnel with the responsibility and authority for planning, directing and controlling the activities of the Company and the consolidated entity, during the financial period.

Allan Molloy
General Manager, Retail Operations

Allan J Penrose
General Manager, Marketing

Craig Tomlinson
General Manager, Merchandise Buying (Commenced 1 May 2017, resigned 14 December 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 1 July 2018 and the period 2 July 2017 unless otherwise stated.

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

DIRECTORS' REPORT
CONTINUED

2018		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 (i)	89,379	-	-	8,491	-	-	-	-	97,870	-
M Teague (ii)	84,607	-	-	8,038	-	-	-	-	92,645	-
Total Non-executive Directors	470,919	-	-	44,738	-	-	-	-	515,657	-
Executive Directors										
R Sudano	733,951	113,100	29,015	20,049			18,096	-	914,211	14.4
Total Directors	1,204,870	113,100	29,015	64,787	-	-	18,096	-	1,429,868	
Other Key Management Personnel										
DR Briggs	319,851	38,239	-	20,049	-	-	6,603	-	384,742	11.7
D Aquilina	329,951	39,375	-	20,049	-	-	6,649	-	396,024	11.6
E Tollinton	309,552	37,080	-	20,049	-	-	5,088	-	371,769	11.3
AJ Penrose	247,701	30,122	5,163	20,049	-	-	4,461	-	307,496	11.2
K Chand	315,014	37,695	4,500	20,049	-	-	(20,479)	-	356,779	4.8
R d'Andrea	297,714	35,749	4,013	20,049	-	-	5,530	-	363,055	11.4
A Molloy (iii)	400,000	45,000	3,839	-	-	166,666	21,908	-	637,413	11.7
C Tomlinson (iv)	183,327	-	-	9,760	-	87,500	-	-	280,587	-
Total Other Key Management Personnel	2,403,110	263,259	17,515	130,054	-	254,166	29,760	-	3,097,864	
Total	4,078,899	376,359	46,530	239,579	-	254,166	47,856	-	5,043,389	

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

- (i) DR Westhorpe passed away on 2nd April 2018.
- (ii) M Teague was appointed a Director on 18th September 2017
- (iii) In accordance with contract terms, A Molloy was paid a service bonus of $100,000 in November 2017. In addition, after three years service in 2019, Mr. Molloy will receive an additional $100,000 service bonus, payable in cash or shares.
- (iv) C Tomlinson was General Manager, Buying until 14th December 2017. As a result, C Tomlinson was paid in cash $5,626 of annual leave entitlements which are excluded from the table above and $87,500 (in lieu of a three month notice period paid out upon his resignation) which is included in 'other benefits' above.

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.

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

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

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

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

C – SERVICE AGREEMENTS

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

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

D – SHARE-BASED COMPENSATION

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

2018	GRANT DATE	NUMBER OF RIGHTS GRANTED DURING THE PERIOD	DATE 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	19 Oct 2017	109,000	1 Jul 2020	18 Oct 2021	420,368	-
Other Key Management Personnel						
DR Briggs	19 Oct 2017	36,900	1 Jul 2020	18 Oct 2021	142,308	-
D Aquilina	19 Oct 2017	38,000	1 Jul 2020	18 Oct 2021	146,550	-
E Tollinton	19 Oct 2017	35,800	1 Jul 2020	18 Oct 2021	138,066	-
AJ Penrose	19 Oct 2017	29,100	1 Jul 2020	18 Oct 2021	112,227	-
K Chand	19 Oct 2017	36,300	1 Jul 2020	18 Oct 2021	139,994	-
R d'Andrea	19 Oct 2017	34,500	1 Jul 2020	18 Oct 2021	133,052	-
A Molloy	19 Oct 2017	43,400	1 Jul 2020	18 Oct 2021	167,376	-
C Tomlinson	19 Oct 2017	38,000	1 Jul 2020	18 Oct 2021	146,550	-
Total		401,000			1,546,493	-

The fair value of performance rights granted on 19 October 2017 (grant date) with an expiry date of 18 October 2021 was $3.8566.

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. However, 48,600 performance rights granted to key personnel in prior years vested subsequent to period end, of which 48,600 have been exercised. These performance rights vested on the basis that in excess of 5% earnings per share growth has been achieved in the three year period since their issue. The remaining 142,700 performance rights issued in that tranche were forfeited.

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

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

E – ADDITIONAL INFORMATION

Cash Incentives and Performance Rights

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

	CASH INCENTIVE		PERFORMANCE RIGHTS							
	PAID %	FORFEITED %	DATE GRANTED	VESTED %	FORFEITED #	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	50	50	FY2018	0	0	0	FY2021	109,000	420,368
			FY2017	0	0	0	FY2020	32,700	215,195
			FY2016	25	46,300	75	FY2019	16,100	138,779
Key Management Personnel									
DR Briggs	50	50	FY2018	0	0	0	FY2021	36,900	142,308
			FY2017	0	0	0	FY2020	12,200	80,287
			FY2016	25	16,600	75	FY2019	5,600	48,271
D Aquilina	50	50	FY2018	0	0	0	FY2021	38,000	146,550
			FY2017	0	0	0	FY2020	12,900	84,894
			FY2016	25	16,700	75	FY2019	5,600	48,271
AJ Penrose	50	50	FY2018	0	0	0	FY2021	21,900	112,227
			FY2017	0	0	0	FY2020	9,400	61,860
			FY2016	25	14,100	75	FY2019	4,800	41,375
K Chand	50	50	FY2018	0	36,300	100	FY2021	-	-
			FY2017	0	10,400	100	FY2020	-	-
			FY2016	25	15,300	75	FY2019	5,100	43,961
R d'Andrea	50	50	FY2018	0	0	0	FY2021	34,500	133,052
			FY2017	0	0	0	FY2020	10,700	70,416
			FY2016	25	16,000	75	FY2019	5,400	46,547
A Molloy	50	50	FY2018	0	0	0	FY2021	43,400	167,376
			FY2017	0	0	0	FY2020	14,800	97,397
E Tollinton	50	50	FY2018	0	0	0	FY2021	35,800	138,066
			FY2017	0	0	0	FY2020	11,800	77,655
			FY2016	25	17,700	75	FY2019	6,000	51,719
C.Tomlinson	0	100	FY2018	0	38,000	100	FY2021	0	0
			FY2017	0	12,900	100	FY2020	0	0

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

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

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

2018	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
Executive Director					
R Sudano	95,100	109,000	-	(46,300)	157,800
Other Key Management Personnel					
DR Briggs	34,400	36,900	-	(16,600)	54,700
D Aquilina	35,200	38,000	-	(16,700)	56,500
E Tollinton	35,500	35,800	-	(17,700)	53,600
AJ Penrose	28,300	29,100	-	(14,100)	43,300
K Chand	30,800	36,300	-	(62,000)	5,100
R d'Andrea	32,100	34,500	-	(16,000)	50,600
A Molloy	14,800	43,400	-	-	58,200
C Tomlinson (i)	-	50,900	-	50,900	-
Total	**306,200**	**413,900**	**-**	**(240,300)**	**479,800**

(i) C Tomlinson resigned during the year and all non-vested performance rights were lapsed prior to end June 2018

Subsequent to period end there have been no performance rights granted or vested to key management personnel.

Share Holdings

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

2018	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	6,500	-	-	6,500
KJ Elkington	11,000	-	-	11,000
DR Westhorpe (i)	5,000	-	(5,000)	-
M Teague (ii)	-	-	-	-
Executive Director				
R Sudano	-	-	-	-
Key Management Personnel				
DR Briggs	-	-	-	-
D Aquilina	1,350	-	(1,350)	-
AJ Penrose	3,276	-	(1,276)	2,000
K Chand	1,600	-	(1,600)	-
E Tollinton	-	-	-	-
R d'Andrea	1,000	-	-	1,000
A Molloy	-	-	-	-
C Tomlinson (iii)	-	-	-	-
Total	**29,726**	**-**	**(9,226)**	**20,500**

(i) DR Westhorpe passed away on 2nd April 2018 and hence his shareholdings have been shown as Nil at year-end.

(ii) M Teague was appointed a Director on 18th September 2017.

(iii) C Tomlinson resigned during the year and hence his shareholdings have been shown as Nil at year-end

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.

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 1 July 2018 (FY2017 - $Nil).

No other transactions were undertaken with directors or other key management personnel, including related parties during the period (FY2017 - $Nil).

Company Performance

The Managing Director and other key management personnel have an at risk component of their remuneration based on a number of criteria including the Company's overall financial performance and shareholder returns. Refer to the performance rights plan on page 22 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
FY2018	$16.6m	34.3%	57.4	34.1%	$4.16	$5.68	36.5%	$0.35

(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 18 to 21 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
20 Oct 2016	19 Oct 2020	1 Jul 2019	6.58	-	104,500	104,500
19 Oct 2017	18 Oct 2021	1 Jul 2020	3.86	-	326,700	326,700

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

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

Shares issued and the exercise of options and performance rights

The following shares of the Company were issued during the period between 1st July 2018 and the date of this report on the exercise of performance rights:

DATE OF GRANT	VESTING DATE	ISSUE PRICE OF SHARES $	TOTAL NUMBER OF SHARES ISSUED	NUMBER OF SHARES ISSUED TO KEY MANAGEMENT PERSONNEL
14 October 2015	1 Jul 2018	-	48,600	48,600

Remuneration of Auditors

	CONSOLIDATED ENTITY	
	2018 $	2017 $
During the period the following fees for services were paid or payable to PricewaterhouseCoopers Australia and its related parties as the auditor:		
Audit and Accounting Related Services		
Audit and review work (i)	380,000	342,240
Other Assurance services	38,332	43,305
	418,332	385,545
Tax Compliance and Consulting Services		
Tax compliance	45,666	30,000
Tax consulting advice	15,300	25,452
	60,966	55,452
Total Remuneration	479,298	440,997

(i) Additional audit fees were paid in FY2018 in respect of services associated with the accounting for leases under AASB 16.

Independence of Auditors

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

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

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is contained on page 34 of this annual report.

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

WJ Stevens
Chairman

22 August 2018

AUDITORS INDEPENDENCE DECLARATION

Auditor's Independence Declaration

As lead auditor for the audit of The Reject Shop Limited for the 52 week period ended 1 July 2018, 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.

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

Sam Lobley
Partner
PricewaterhouseCoopers

Melbourne
22 August 2018

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE 52 WEEK PERIOD ENDED 1 JULY 2018

		CONSOLIDATED ENTITY	
	NOTE	2018 $'000	2017 $'000
Revenues from continuing operations			
Sales revenue	2	800,306	794,036
Other revenue	2	44	28
		800,350	794,064
Expenses			
Cost of sales		457,462	457,759
Store expenses		275,749	275,662
Administrative expenses		42,790	42,042
		776,001	775,463
Finance costs	3	607	752
Profit before income tax		23,742	17,849
Income tax expense	4	7,165	5,503
Profit for the period attributable to shareholders of The Reject Shop Limited		16,577	12,346
Other comprehensive income			
Items that may be reclassified to Profit or Loss			
Changes in the fair value of cash flow hedges		8,580	305
Income tax relating to components of other comprehensive income		(2,574)	(91)
Other comprehensive income for the period, net of tax		6,006	214
Total comprehensive income attributable to shareholders of The Reject Shop Limited		22,583	12,560
Earnings per Share		Cents	Cents
Basic earnings per share	26	57.4	42.8
Diluted earnings per share	26	56.7	42.4

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

CONSOLIDATED BALANCE SHEET
AS AT 1 JULY 2018

		CONSOLIDATED ENTITY	
	NOTE	2018 $'000	2017 $'000
CURRENT ASSETS			
Cash	5	14,754	15,616
Inventories	6	105,087	92,906
Tax assets		-	434
Derivative financial instruments	22	5,487	-
Other	7	3,423	2,416
TOTAL CURRENT ASSETS		128,751	111,372
NON CURRENT ASSETS			
Property, plant and equipment	8	92,513	94,586
Deferred tax assets	9	11,749	12,782
TOTAL NON CURRENT ASSETS		104,262	107,368
TOTAL ASSETS		233,013	218,740
CURRENT LIABILITIES			
Payables	10	44,096	31,976
Borrowings	11	-	13,000
Tax liabilities		1,602	-
Provisions	12	10,564	9,757
Derivative financial instruments	22	-	3,093
Other	13	9,481	10,661
TOTAL CURRENT LIABILITIES		65,743	68,487
NON CURRENT LIABILITIES			
Provisions	12	2,079	1,873
Other	14	14,205	13,227
TOTAL NON CURRENT LIABILITIES		16,284	15,100
TOTAL LIABILITIES		82,027	83,587
NET ASSETS		150,986	135,153
EQUITY			
Contributed equity	15	46,247	46,247
Reserves	16	8,913	2,731
Retained profits	17	95,826	86,175
TOTAL EQUITY		150,986	135,153

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 1 JULY 2018

CONSOLIDATED ENTITY 2018

	CONTRIBUTED EQUITY $'000	CAPITAL PROFITS $'000	SHARE BASED PAYMENTS $'000	HEDGING RESERVE $'000	F/X TRANSLATION RESERVE $'000	RETAINED EARNINGS $'000	TOTAL $'000
Balance as at 03 July 2017	46,247	739	4,157	(2,165)	-	86,175	135,153
Profit for the period	-	-	-	-	-	16,577	16,577
Other comprehensive income	-	-	-	6,006	-	-	6,006
Foreign exchange translation	-	-	-	-	12	-	12
Transaction with owners in their capacity as owners:							
Dividends Paid	-	-	-	-	-	(6,926)	(6,926)
Share based remuneration	-	-	48	-	-	-	48
Current tax – credited directly to equity	-	-	116	-		-	116
Balances as at 01 July 2018	46,247	739	4,321	3,841	12	95,826	150,986

CONSOLIDATED ENTITY 2017

	CONTRIBUTED EQUITY $'000	CAPITAL PROFITS $'000	SHARE BASED PAYMENTS $'000	HEDGING RESERVE $'000	F/X TRANSLATION 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
Foreign exchange translation	-	-	-	-	-	-	-
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

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 1 JULY 2018

	NOTE	CONSOLIDATED ENTITY 2018 $'000	2017 $'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		880,337	873,440
Payments to suppliers and employees (inclusive of goods and services tax)		(836,542)	(830,224)
Interest received		44	28
Borrowing costs paid		(610)	(749)
Income tax paid		(6,812)	(5,324)
Net cash inflow from operating activities	20	**36,417**	37,171
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	14
Payments for property, plant and equipment		(17,353)	(25,228)
Net cash outflow from investing activities		**(17,353)**	(25,214)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings		119,000	140,960
Repayment of borrowings		(132,000)	(139,960)
Dividends paid	17	(6,926)	(12,409)
Net cash outflow from financing activities		**(19,926)**	(11,409)
Net (decrease) / increase in cash held		**(862)**	548
Cash at the beginning of the financial period		15,616	15,068
Cash at the end of the period	20	**14,754**	15,616

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

NOTES TO CONSOLIDATED 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 subsidiaries of The Reject Shop Limited as at 1st July 2018 and the results of the subsidiaries for the period. The Reject Shop Limited and its subsidiaries are referred to in this financial report as the consolidated entity.

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

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

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

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

The Reject Shop Limited has a 100% owned operating subsidiary TRS Sourcing Co. Limited, which is domicilied in Hong Kong. This subsidiary provides procurement services to the group.

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

(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 is recognised and measured as a provision.

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

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

(h) Employee Benefits

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

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

(ii) Long service leave

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

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

(iii) Superannuation

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

(iv) Bonus plans

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

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

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

(v) Equity-based compensation benefits

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

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

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

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

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

(i) Cash

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

(j) Revenue Recognition

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

(k) Derivatives

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

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

Cash flow hedge

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

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

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

(l) Foreign Currency Translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

(m) Trade and Other Payables

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

(n) Borrowing Costs

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

(o) Impairment of Property, Plant and Equipment

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

(p) Dividends

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

(q) Borrowings

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

(r) Contributed Equity

Ordinary shares are classified as equity.

(s) Earnings per Share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(t) Software Costs

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

(u) Restoration Costs

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

(v) Store Opening Costs

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

(w) Training Subsidies

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

(x) Cost of Sales

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

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

(y) Goods and Services Tax (GST)

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

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

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

(z) Rounding of Amounts

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

(aa) Critical Accounting Estimates and Judgements

For the 1 July 2018 reporting period certain accounting estimates and judgements were made in relation to the following:

(i) Provisioning for shrinkage expense

The company provides for shrinkage expense for the period by applying an estimated shrink loss percentage to the sales since the date of the last stock count to period-end, on a store-by-store basis. Stock counts are performed across 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 period and those completed post period-end. Factors that could impact the estimated provision include the length of the time period since a store last completed a stock take or a change in the actual stocktake results ultimately recognised. As at 1 July 2018 this particular provision had a carrying amount of $9,099,803 (FY2017 - $7,588,350).

(ii) Impairment

The Group offers a wide range of discount merchandise through its network of 351 stores and store assets represents one of the largest amounts on the Consolidated 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 forcast future cash flows and discount rates. The assumptions on future cash flows have been developed based on past performance and expectations in relation to the future. The discount rate has been determined using market information relevant to the industry in which the Company operates.

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

(iii) Onerous lease provisions

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

(iv) Net realisable value of inventory

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

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 1 July 2018 or after 1 July 2018 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 2018/19.

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

(ab) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 1 July 2018 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

TITLE OF STANDARD	NATURE OF CHANGE	IMPACT OF CHANGE	MANDATORY APPLICATION DATE
AASB 9 Financial Instruments	AASB 9 *Financial Instruments* 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 periods commencing on or after 1 January 2018. The Reject Shop Limited does not plan to early adopt any parts of AASB 9.

TITLE OF STANDARD	NATURE OF CHANGE	IMPACT OF CHANGE	MANDATORY APPLICATION DATE
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 , i.e. 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.	Must be applied for financial periods commencing on or after 1 January 2018. The Reject Shop Limited does not plan to early adopt any parts of AASB 15.

TITLE OF STANDARD	NATURE OF CHANGE	IMPACT OF CHANGE	MANDATORY APPLICATION DATE
AASB 16 Leases	AASB 16 *Leases* was issued in February 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 future rentals are recognised. The only qualifying exceptions under the standard relate to short-term and low-value leases, which TRS has elected to continue expensing under the current accounting regime. All property and motor vehicle leases will fall within the scope of the new standard. For those leases that do fall within the scope of the new standard, it is only the rental components associated with the "financing" of the property or vehicle that are included in the calculation of the right of use asset and liability values, with all other service or variable rental components, such as property outgoings, vehicle operating expenses, variable rent components, etc., being expensed under the current accounting regime. For the Consolidated Balance Sheet, the right of use asset and liability values on adoption date are based on the net present value of the relevant future rental payments for each of the leases. Any existing IFRS or lease incentive provisions on adoption date can be applied to reduce the right of use asset on adoption. As with finance leases, the right of use liability is reduced over the life of the lease as rents are paid, incurring an interest component, whilst the right of use asset is depreciated over the life of the lease. For the Consolidated Statement of Comprehensive Income, the relevant rental payments currently reflected in rent expense will instead be allocated to depreciation and interest. This will have a significant impact on the EBITDA measure, as expenses previously accounted for as operating expenses will in future be reclassified as below-the-line expenses. It is noted that the adoption of this standard is likely to initially create an adverse impact to profit after tax as the interest component is higher in the early stages of the lease and lower in the later stages of the lease. For the Consolidated Statement of Cash Flows, the relevant rental payments will be reclassified from the Operating Activities section of the report to the Interest and Financing Activities sections of the report.	The standard will primarily affect the accounting for the group's operating leases. It is noted that the adoption of this standard does not in any way impact or change the group's cash flows. The group has analysed its current lease arrangements and has concluded that if it had adopted the standard on 1 July 2018, the right of use liabilities to be taken to the balance sheet on adoption date would be approximately $250 million and the right of use assets to be taken to the balance sheet would be the same amount. The existing IFRS and lease incentive provisions will be offset against the balance of right of use assets on transition, and will be returned to profit over the remainder of the lease terms. Under these assumptions there will be no impact on retained earnings upon adoption of AASB 16. The group estimates that if it had adopted the standard on 1 July 2018, net profit after tax for the 2019 financial period would be adversely impacted in the range of $2.0 million to $2.5 million. Our analysis shows that the profit impact in the first financial period will be reversed over the remaining life of the existing leases. The group estimates that approximately $90 million to $93 million of expenses previously designated as lease rentals will be reclassified and reported as interest and depreciation, increasing EBITDA by an equivalent amount. The group notes that the above estimates are for information only, as they are based on the leases in existence at 1 July 2018, assuming an adoption date of 1 July 2018, and that the actual values on the 1 July 2019 adoption date may be different. This difference will be due to: (i) the actual terms and conditions of replacement leases for those leases expiring during the 2019 financial period being different to those assumed in the above analysis, and (ii) the rate of rollout of new stores and the terms and conditions thereof are different to those included in the above analysis.	Mandatory for financial periods commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date. The group intends to apply the simplified Modified Retrospective at Transition approach on adoption of the standard, and will not restate comparative amounts for the year prior to first adoption.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

NOTE 2: REVENUE FROM CONTINUING OPERATIONS AND OTHER INCOME

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Revenues from continuing operations		
Sales of goods	800,306	794,036
Interest	44	28
	800,350	794,064

NOTE 3: EXPENSES

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Profit before income tax expense includes the following expenses:		
Interest and finance charges paid / payable	607	752
Depreciation & amortisation expenses are included in:		
Cost of sales	3,593	3,039
Store expenses	13,573	13,617
Administrative expenses	2,012	3,086
	19,178	19,742
Reversal of impairment of store assets	(551)	(276)
Foreign exchange gain (included in cost of sales)	(4,549)	(1,705)
Asset write offs on store closures	799	536
Loss on disposal of property, plant and equipment	-	14
Rental expenses relating to operating leases		
Minimum lease payments	116,910	114,764
Provision for onerous leases	(145)	(439)
Provision for rent escalation	2,754	(1,295)
Rent paid on percentage of sales basis	(335)	380
Employee benefits expense	164,095	165,453
New store opening costs	1,373	2,228
Melbourne Distribution exit costs		
Reversal of surplus provision	-	(404)
Make good costs	-	75
Asset writeoff	-	306

NOTE 4: INCOME TAX EXPENSE

	NOTE	CONSOLIDATED ENTITY 2018 $'000	2017 $'000
(a) Income tax expense			
Current tax		5,697	2,310
Deferred tax		1,425	3,093
Under provided in prior years		43	100
		7,165	5,503
Deferred income tax expense included in income tax expense comprises:			
(Increase) / Decrease in net deferred tax assets	9	1,425	3,093
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit before income tax expense		23,742	17,849
Tax at the Australian tax rate of 30% (2017 – 30%)		7,122	5,355
Tax effect of amounts which are not deductible in calculating taxable income:			
Other		-	48
Income tax expense		7,122	5,403
Under provided in prior years		43	100
Income Tax Expense		7,165	5,503
(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		(116)	121
(d) Income Tax relating to items of other comprehensive income			
Cash flow hedges		(2,574)	(91)

NOTE 5: CURRENT ASSETS – CASH

	NOTE	CONSOLIDATED ENTITY 2018 $'000	2017 $'000
Cash on hand	20	2,139	1,674
Cash at bank	20	12,615	13,942
		14,754	15,616

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

NOTE 6: CURRENT ASSETS – INVENTORIES

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Inventory at cost	104,080	91,289
Inventory at net realisable value	1,007	1,617
	105,087	92,906

Inventories recognised as an expense during the period ended 1 July 2018 amounted to $392,368,924 (FY2017: $387,175,005). These were included in the cost of sales. Writedowns of inventories to net realisable value amounted to $2,239,501 (FY2017: $2,676,980) These were recognised as an expense during the period ended 1 July 2018 and included in cost of sales

NOTE 7: CURRENT ASSETS – OTHER

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Prepayment	1,380	589
Other current assets	2,043	1,827
	3,423	2,416

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

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Leasehold improvements		
At cost	82,250	74,411
Less accumulated depreciation	(46,267)	(39,363)
	35,983	35,048
Plant and equipment*		
At cost	156,520	148,625
Less accumulated depreciation	(99,990)	(89,087)
	56,530	59,538
Total Property, Plant and Equipment	92,513	94,586

* Plant & equipment includes fixtures, fittings and motor vehicles as well as $Nil (FY2017: $1,519,431) of work in progress costs.

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 $'000
Balance at 03 July 2017	35,048	59,538	94,586
Additions at cost	8,707	8,646	17,353
Asset write offs for store closures, net of impairment	(231)	(17)	(248)
Asset write offs for DC closure	-	-	-
Depreciation/amortisation expense	(7,541)	(11,637)	(19,178)
Balance at 1 July 2018	35,983	56,530	92,513

	LEASEHOLD IMPROVEMENTS $'000	PLANT AND EQUIPMENT $'000	TOTAL $'000
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

In FY2018, the Company reversed a total of $551,495 (FY2017: $276,451) of impairment losses recorded in prior periods. These reversals relate to provisions for 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 during FY 2018 resulting in the carrying value of the assets being lower than the estimated recoverable amount. As at 1 July 2018 the recoverable amount has been determined as the value in use of the assets which is the estimated future cash flows discounted back to the present value. The discount rate used was 15.76% (FY2017: 15.29%).

In addition to store impairment, nine stores were closed / will close, and associated costs with carrying amount of $799,206 (FY2017: $536,523) were written off.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

NOTE 9: NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Employee benefits	3,730	3,409
Lease escalation	3,506	2,679
Inventories	1,647	1,627
Lease incentives	1,909	831
Depreciation	2,776	3,798
Other provisions and accruals	650	996
Employee share trust	339	208
Hedging reserve	-	928
Sundry items	(438)	(252)
	14,119	14,224
Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions:		
Depreciation	(724)	(1,412)
Hedging reserve	(1,646)	-
Sundry items	-	(30)
Net deferred tax assets	11,749	12,782
Net deferred tax assets expected to be recovered within 12 months	4,725	6,766
Net deferred tax assets expected to be recovered after more than 12 months	7,024	6,016
Net deferred tax assets	11,749	12,782

MOVEMENTS – CONSOLIDATED	EMPLOYEE BENEFITS $'000	INVENTORIES $'000	HEDGING RESERVE $'000	OTHER $'000	TOTAL $'000
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
(Charged) / credited					
- to profit or loss	1,841	20	-	(436)	1,425
- to other comprehensive income	-	-	(2,574)	-	(2,574)
- direct to equity	-	-	-	116	116
At 01 July 2018	5,250	1,647	(1,646)	6,498	11,749

NOTE 10: CURRENT LIABILITIES – PAYABLES

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Unsecured liabilities		
Trade payables	41,243	28,668
Sundry payables and accruals	2,853	3,308
	44,096	31,976

NOTE 11: CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Secured liabilities(i)		
Cash advance(ii)	-	13,000
	-	13,000

(i) Commercial Bill – rolling 12 months

(ii) A fixed interest rate of Nil (2017: 2.66%) 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					
	2018			2017		
	CURRENT $'000	NON-CURRENT $'000	TOTAL $'000	CURRENT $'000	NON-CURRENT $'000	TOTAL $'000
Onerous leases	74	33	107	109	142	251
Employment entitlements	10,490	2,046	12,536	9,648	1,731	11,379
	10,564	2,079	12,643	9,757	1,873	11,630

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	
	2018 $'000	2017 $'000
Leave obligations expected to be settled after 12 months	2,046	3,413

NOTE 13: CURRENT LIABILITIES – OTHER

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Accrued expenses	5,594	6,810
Deferred income (Note 1(g))	1,516	1,395
Rent escalation	2,371	2,456
	9,481	10,661

NOTE 14: NON-CURRENT LIABILITIES – OTHER

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Deferred income (Note 1(g))	4,891	6,752
Rent escalation	9,314	6,475
	14,205	13,227

NOTE 15: CONTRIBUTED EQUITY

Movements in ordinary share capital:

DATE	DETAILS	NUMBER OF ISSUED SHARES	ISSUE PRICE PER SHARE $	CONTRIBUTED EQUITY $'000
03 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
	Nil movement	-	-	-
01 July 2018	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.

NOTE 16: EQUITY - RESERVES

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Capital profits reserve	739	739
Share based payments reserve	4,321	4,157
Hedging reserve – cash flow hedges	3,841	(2,165)
Foreign currency translation reserve	12	-
	8,913	2,731
Movements:		
Share based payments reserve		
Balance at beginning of period	4,157	4,497
Performance Rights expense	48	(219)
Deferred tax – share based payments	116	(121)
Balance at end of period	4,321	4,157
Hedging reserve – cash flow hedges		
Balance at beginning of period	(2,165)	(2,379)
Transfer to inventory	2,165	2,379
Revaluation of cash flow hedges	3,841	(2,165)
Balance at end of period	3,841	(2,165)
Foreign currency translation reserve		
Balance at beginning of period	-	-
Currency translation differences	12	-
Balance at end of period	12	-

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.

(iii) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

NOTE 17: EQUITY – RETAINED PROFITS

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Retained profits at the beginning of the financial period	86,175	86,238
Net profit attributable to members of the consolidated entity	16,577	12,346
Dividends provided for or paid	(6,926)	(12,409)
Retained profits at end of financial period	95,826	86,175

NOTE 18: COMMITMENTS

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Operating Lease Commitments		
Non cancellable operating leases contracted for but not capitalised in the financial statements payable:		
Not later than one year	100,618	100,630
Later than one year and not later than five years	174,128	171,828
Later than five years	21,062	21,351
	295,808	293,809

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 credited during the current period for percentage rent was $335,129 (FY2017: debit $379,956).

Capital Commitments

The consolidated entity has capital commitments totalling $1,009,749 (FY2017: $Nil) all payable within one year.

NOTE 19: CONTINGENT LIABILITIES

As at 1 July 2018, the Company has no contingent liabilities (2 July 2017: $Nil).

NOTE 20: CONSOLIDATED STATEMENT OF CASH FLOW INFORMATION

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Reconciliation of Cash Flow from operating activities with profit after income tax from ordinary activities		
Profit from ordinary activities after Income Tax	16,577	12,346
Non cash items in profit from ordinary activities		
Depreciation	19,178	19,742
Reversal of impairment of store assets	(551)	(276)
Asset write offs on store closures	799	536
Asset write offs on DC closure	-	306
(Gain)/Loss on disposal of property, plant and equipment	-	14
Provision for onerous leases	(145)	(439)
Non cash share based expense	48	(219)
Changes in assets and liabilities:		
(Increase) / Decrease in receivables and other assets	(1,007)	8,567
(Increase) / Decrease in inventories	(12,181)	5,609
Increase / (Decrease) in trade, other creditors and other provisions	10,630	(9,407)
Increase / (Decrease) in income tax payable	2,036	(2,913)
Decrease in deferred tax assets	1,033	3,305
Net cash provided by operations	36,417	37,171
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 consolidated balance sheets as follows:		
Cash on hand	2,139	1,674
Cash at bank	12,615	13,942
	14,754	15,616

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

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:

	2018		2017	
	LIMIT $'000	UTILISED $'000	LIMIT $'000	UTILISED $'000
Interchangeable Facility (i)	30,000	-	40,000	13,000
Foreign Currency Settlement	-	-	-	-
Other Facilities	800	471	1,600	471
Total Facilities	30,800	471	41,600	13,471

A seasonal facility of $20,000,000 was utilised from 1 October 2017 and repaid in full by 31 December 2017. Other facilities include an ANZ Bank indemnity guarantee of $800,000 of which $470,897 was utilised in relation to property leases at 1 July 2018.

(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	
	2018 $'000	2017 $'000
Derivative Financial Instruments		
Current assets and (liabilities)		
Forward foreign exchange contracts – cash flow hedges	5,487	(3,093)

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	2018 $'000	2017 $'000	2018 $	2017 $
Australian Dollars	United States Dollars	133,101	154,365	0.77	0.75
Australian Dollars	Euros	311	1,872	0.64	0.67
Australian Dollars	Pounds Sterling	-	1,291	-	0.58

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 an asset of $5,486,538 (FY2017 – liability of $3,093,402).

During the period $2,165,381 (FY2017 – $2,378,828) was removed from equity and included in the acquisition cost of goods and a net gain of $Nil (FY2017 – net $Nil) was transferred to the consolidated profit and loss.

Exposure to Foreign Currency Risk

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

	2018 USD $'000	2017 USD $'000
Cash at bank	347	1,164
Trade payables	5,776	5,162

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	
SENSITIVITY ANALYSIS – FOREIGN EXCHANGE AUD/USD	2018 $'000	2017 $'000
For every 1c increase in AUD:USD rate, total exposures decrease by		
Income Statement	100	(80)
Equity	(1,851)	(1,935)
For every 1c decrease in AUD:USD rate, total exposures (increase) by		
Income Statement	(102)	82
Equity	1,902	1,986

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:

2018	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	FLOATING INTEREST RATE	FIXED INTEREST RATE MATURING WITHIN 1 YEAR	FIXED INTEREST RATE MATURING 1 TO 5 YEARS	NON-INTEREST BEARING	TOTAL
		$'000	$'000	$'000	$'000	$'000
Financial Assets						
Cash	0.40	10,643	-	-	4,111	14,754
Receivables and other debtors	-	-	-	-	-	-
Total Financial Assets		10,643	-	-	4,111	14,754
Financial Liabilities						
Bank loans and overdrafts	-	-	-	-	-	-
Trade, sundry and other creditors	-	-	-	-	49,299	49,299
Total Financial Liabilities		-	-	-	49,299	49,299

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2017	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	FLOATING INTEREST RATE	FIXED INTEREST RATE MATURING WITHIN 1 YEAR	FIXED INTEREST RATE MATURING 1 TO 5 YEARS	NON-INTEREST BEARING	TOTAL
		$'000	$'000	$'000	$'000	$'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

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 ENTITY	
SENSITIVITY ANALYSIS – INTEREST RATES	**2018 $'000**	**2017 $'000**
For every 100 basis points increase in interest rates		
Income Statement	(46)	(28)
Equity	-	-
For every 100 basis points decrease in interest rates		
Income Statement	(21)	28
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 consolidated balance sheet and notes to the consolidated financial statements.

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

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

Capital Risk Management

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

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

During 2018, the company's strategy, which was unchanged from 2017, was to maintain a gearing ratio at or below 30%. The gearing ratio at 1 July 2018 and 2 July 2017 were as follows:

SENSITIVITY ANALYSIS – INTEREST RATES	CONSOLIDATED ENTITY 2018 $'000	2017 $'000
Net debt/ (cash)	(14,754)	(2,616)
Total equity	150,986	135,153
Net debt to equity ratio (i)	0%	0%

(i) The company has no net debt so debt to equity ratio is not applicable.

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 RISK – AT 01 JULY 2018	LESS THAN 6 MONTHS	6 – 12 MONTHS	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS	CARRYING AMOUNT (ASSETS) / LIABILITIES
	$'000	$'000	$'000	$'000	$'000	$'000
Non-derivatives						
Non-interest bearing	54,052	-	-	-	54,052	54,052
Variable rates	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	-
Total non-derivatives	54,052	-	-	-	54,052	54,052
Derivatives						
Net settled	-	-	-	-	-	-
Gross settled						
- (inflow)	(115,756)	(23,143)			(138,899)	-
- outflow	111,089	22,323			133,412	(5,487)
Total derivatives	(4,667)	(820)			(5,487)	(5,487)

CONSOLIDATED RISK – AT 01 JULY 2017	LESS THAN 6 MONTHS	6 – 12 MONTHS	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS	CARRYING AMOUNT (ASSETS) / LIABILITIES
	$'000	$'000	$'000	$'000	$'000	$'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

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 1 July 2018.

	2018 $'000	2017 $'000
	LEVEL 2	LEVEL 2
Derivatives used for hedging	**5,487**	(3,093)

NET DEBT RECONCILIATION	2018 $'000
Cash and cash equivalents	14,754
Borrowings repayable within 1 year (including overdraft)	-
Net debt	14,754
Cash and liquid investments	14,754
Gross debt – variable interest rate	-
Net debt	14,754

	BORROWINGS DUE WITHIN 1 YEAR $'000
Balance as at 3 July 2016	(12,000)
Cash flows	(1,000)
Foreign exchange adjustments	-
Balance at 2 July 2017	(13,000)
Cash flows	13,000
Foreign exchange adjustments	-
Balance at 1 July 2018	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

NOTE 22: KEY MANAGEMENT PERSONNEL DISCLOSURES

Non-Executive Directors

William J Stevens (Chairman)

Kevin J Elkington

Denis R Westhorpe (Deceased on 2 April 2018)

Michele Teague (Appointed on 18 September 2017)

Executive Directors

Ross Sudano – Managing Director

All of the above persons were directors of The Reject Shop Limited for the entire period ended 1 July 2018, 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
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
Allan Molloy	General Manager, Operations
Craig Tomlinson	General Manager, Merchandise Buying (Resigned on 14 December 2017)

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 1 July 2018 unless otherwise stated.

Remuneration of Directors and Key Management Personnel

	CONSOLIDATED ENTITY	
	2018 $	2017 $
Short-term cash rewards	376,359	-
Short-term employee benefits	3,654,510	3,738,160
Post-employment benefits	194,841	204,352
Termination benefits	-	-
Other	254,166	180,117
Share-based payments	47,856	(166,501)
	4,527,732	3,956,128

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:

2018

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 END OF THE PERIOD	VESTED AND EXERCISABLE AT THE END OF THE PERIOD
14 Oct 2015	14 Oct 2019	1 Jul 2018	8.62	191,300	-	-	(142,700)	48,600	48,600
20 Oct 2016 (i)	19 Oct 2020	1 Jul 2019	6.58	114,900	12,900	-	(23,300)	104,500	-
19 Oct 2017 (ii)	18 Oct 2021	1 Jul 2020	3.42	-	401,000	-	(74,300)	326,700	-
Total				306,200	413,900	-	(240,300)	479,800	48,600

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 52,400. The additional 52,100 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 163,500. The additional 163,200 will only be issued to key management personnel if targeted criteria are over achieved.

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 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.

The Company, effective from 14 October 2015 onwards, has changed the vesting conditions for all performance rights granted thereafter. The proportion of performance rights grants that ultimately vest will be determined by the following financial criteria, measured over a three year period post issue:

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

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 19 October 2017 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: $4.46;

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

(e) expected dividend yield: 9.87% and

(f) risk-free interest rate: 2.50%

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

Performance rights do not carry voting or dividend entitlements.

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

Remuneration Expense / (Income) arising from share-based payment transactions

	CONSOLIDATED ENTITY	
	2018 $	2017 $
Performance rights granted	47,856	(218,692)

NOTE 24: REMUNERATION OF AUDITORS

	CONSOLIDATED ENTITY	
	2018 $	2017 $
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 (i)	380,000	342,240
Other assurance services	38,332	43,305
	418,332	385,545
Tax Compliance and Consulting Services		
Tax compliance	45,666	30,000
Tax consulting advice	15,300	25,452
	60,966	55,452
Total remuneration	479,298	440,997

(i) Additional audit fees were paid in FY2018 in respect of services associated with the accounting for leases under AASB 16 *Leases*.

NOTE 25: DIVIDENDS

	CONSOLIDATED ENTITY	
	2018 $'000	2017 $'000
Dividend declared subsequent to the period end.	3,175	-
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%	49,339	47,349

Dividends recognised during the reporting period:

Dividends paid to members during the financial period was an interim ordinary dividend for the financial period ended 1 July 2018 of 24.0 cents per share (2017: 24.0 cents per share) totalling $6,926,292 (2017: $6,926,292), paid on 9 April 2018 (2017: 10 April 2017). There was no final dividend paid for the period ended 2 July 2017.

NOTE 26: EARNINGS PER SHARE

	CONSOLIDATED ENTITY	
	2018 CENTS	2017 CENTS
Basic earnings per share	57.4	42.8
Diluted earnings per share	56.7	42.4
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	28,859,548	28,858,948
Adjustments for dilutive portion of performance rights	382,867	272,109
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	29,242,415	29,131,057

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	
	2018 CENTS	2017 CENTS
Net tangible asset backing per ordinary share	523.2	468.3

NOTE 28: PARENT ENTITY FINANCIAL INFORMATION

	PARENT ENTITY	
	2018 $'000	2017 $'000
(a) Summary financial information The individual financial statements for the parent entity show the following aggregate amounts:		
Balance Sheet		
Current assets	126,319	111,372
Total assets	230,438	218,740
Current liabilities	64,326	68,892
Total liabilities	80,609	84,590
Shareholders' equity		
Issued capital	46,247	46,247
Reserves	8,901	2,731
Retained earnings	94,681	85,172
	149,829	134,150
Profit for the financial period	16,435	12,346
Total Comprehensive Income for the financial period	22,441	12,560
(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 $800,306,426 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 operating subsidiary based in Hong Kong, TRS Sourcing Co. Limited. This subsidiary provides procurement services for TRS Limited and charges a fee for those services.

	2018 $'000	2017 $'000
Fees paid to TRS Sourcing Co. Limited	1,352	-

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 (FY2017: 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 01 July 2018.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) The financial statements and notes set out on pages 35 to 67 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 1 July 2018 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

22 August 2018

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

pwc

Independent auditor's report

To the members of The Reject Shop Limited

Report on the 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 1 July 2018 and of its financial performance for the 52 week period ended 1 July 2018

(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 1 July 2018
- the consolidated statement of comprehensive income for the 52 week period ended 1 July 2018
- the consolidated statement of changes in equity for the 52 week period ended 1 July 2018
- the consolidated statement of cash flows for the 52 week period ended 1 July 2018
- the notes to the consolidated 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.

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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.

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 $1.2 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 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. 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. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	*How our audit addressed the key audit matter*
Carrying value of store assets *(Refer to note 8) [$92,513,080]* The Group offers a wide range of discount merchandise through its network of 351 stores and store assets represent one of the largest assets on the consolidated 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 period ended 1 July 2018, there is a risk that the carrying amount of certain store assets may be higher than their recoverable amount. The Group assesses impairment of store assets on a store-by-store basis, by preparing models with estimated future cash flows discounted to their present value ('the models'). This was a key audit matter because of: • the financial significance of store assets to the consolidated 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 models by comparing them to the requirements of Australian Accounting Standards • assessing the key inputs in the models such as the sales growth rate and contribution 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 based on our knowledge of the business and the Group's lease portfolio management strategy • performing sensitivity analysis on the sales growth rate and operating margins of stores with a higher risk of impairment.
Inventory valuation & provision - net realisable value (NRV) ***(Refer to note 1(aa)(iv))*** A provision was recognised as at 1 July 2018 in the financial report to provide for inventory expected to be sold below cost. The Group undertakes a process to identify period-end inventory which is likely to be sold below cost. The provision is then recognised by applying the expected markdown required to clear this inventory.	Our audit procedures, amongst others, included: • obtaining an understanding of how the Group determined the NRV provision • considering the appropriateness of the provision having assessed: a) aggregate total of inventory sold below cost during the financial period b) aggregate total of inventory wastage incurred during the financial period c) inventory written-off subsequent to the end of the financial period and up to the completion of our audit.

Key audit matter	*How our audit addressed the key audit matter*
The identification of the provision depends, in part, on sales sold below cost throughout the financial period and incorporates information on known loss making products as well as the impact of planned markdowns. This was a key audit matter because of: • the financial significance of the inventory balance and therefore the potential effect of net realisable value provision on consolidated statement of comprehensive income and the consolidated balance sheet • the subjective nature of the provision calculation due to the judgement involved in estimating the ultimate selling price of inventory.	
Inventory provision – shrink *(Refer to note 1(aa)(i)) [$9,099,803]* At period-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 $9,099,803 (2017: $7,588,350). This provision is calculated by applying an estimated shrink loss percentage to the sales since the date of the last stock count to period-end, on a store-by-store basis. The Group performs stock counts across 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 period and those completed post period-end.	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 results • attending the stockcounts for selected store locations and understanding 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 subsequent to the end of the financial period.

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 to the consolidated statement of comprehensive income and consolidated balance sheet • the level of estimation by the Directors' within the shrink provision calculation and judgement of the expected stock loss across the whole store network.	

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the 52 week period ended 1 July 2018, including the Chairman's Report, Managing Director and Chief Executive Officer's Report, Board of Directors, Management Team, The Reject Shop Foundation, Corporate Governance, Environmental, Social Statement, Shareholders' Information, Corporate Directory and the Directors' Report, 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.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 22 to 32 of the directors' report for the 52 week period ended 1 July 2018.

In our opinion, the remuneration report of The Reject Shop Limited for the 52 week period ended 1 July 2018 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
22 August 2018

SHAREHOLDERS INFORMATION AS AT 31ST JULY 2018

The shareholder information set out below was applicable as at 31 July 2018.

(A) THE DISTRIBUTION OF SHAREHOLDING WAS AS FOLLOWS:

SIZE OF SHAREHOLDING	SHAREHOLDERS
1 - 1,000	3,697
1,001 - 5,000	1,778
5,001 - 10,000	280
10,001 - 100,000	168
100,001 and over	18

(B) 505 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	2,919,569	10.12%
Celeste Funds Management Pty Ltd	2,648,876	9.18%
Commonwealth Bank	1,877,500	6.51%

(D) THE FULLY PAID ISSUED CAPITAL OF THE COMPANY CONSISTED OF 28,859,548 SHARES HELD BY 5,941 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	479,800	8

(F) TWENTY LARGEST SHAREHOLDERS

SHAREHOLDER	NUMBER	% HELD
J P MORGAN NOMINEES AUSTRALIA LIMITED	4,900,980	16.98%
CITICORP NOMINEES PTY LIMITED	3,986,201	13.81%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,338,215	11.57%
NATIONAL NOMINEES LIMITED	867,196	3.00%
CITICORP NOMINEES PTY LIMITED	628,000	2.18%
NEWECONOMY COM AU NOMINEES PTY LIMITED	530,191	1.84%
BRISPOT NOMINEES PTY LTD	409,488	1.42%
BNP PARIBAS NOMS PTY LTD	387,243	1.34%
TEN LUXTON PTY LTD	250,095	0.87%
BNP PARIBAS NOMINEES PTY LTD	203,025	0.70%
BNP PARIBAS NOMINEES PTY LTD	199,541	0.69%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	177,852	0.62%
UBS NOMINEES PTY LTD	150,868	0.52%
WYONG RUGBY LEAGUE CLUB LTD	144,500	0.50%
MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	119,998	0.42%
BAN FAM PTY LTD	117,850	0.41%
ACE PROPERTY HOLDINGS PTY LTD	110,000	0.38%
MR ROSS BIRD	101,110	0.35%
STEPIEN VALUE INVESTING PTY LTD	100,000	0.35%
TEE2GREEN PTY LTD	90,833	0.31%

The twenty members holding the largest number of shares together held a total of 58.26% 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

Michele Teague
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

Lander and Rogers
Level 12
600 Bourke Street
Melbourne Vic 3000

STOCK EXCHANGE LISTING

The Reject Shop Limited shares are listed on the Australian Securities Exchange (ASX code: TRS).

WEBSITE

www.rejectshop.com.au

THE REJECT SHOP

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