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# Appendix 4E

# The Reject Shop Limited

(ABN 33 006 122 676)

## Consolidated preliminary final report

**For the 52 week financial period ended 29 June 2014**
**Compared to the 52 week financial period ended 30 June 2013**

### Results for announcement to the market

| | | | | $A'000 |
|---|---|---|---|---|
| Sales revenue from continuing operations | up | 15.1% | to | 711,534 |
| Profit from continuing operations after tax attributable to members | down | 25.4% | to | 14,508 |
| Net profit for the period attributable to members | down | 25.4% | to | 14,508 |

| **Dividends** | Amount per share | Franked amount per share |
|---|---|---|
| Interim dividend (paid 14 April 2014) | 21.5 cents | 100% |
| Final dividend | 8.5 cents | 100% |

| | |
|---|---|
| Record date for determining entitlements to final dividend | 26 September 2014 |
| Dividend payment date | 13 October 2014 |

Commentary on the Company's trading results is included in the media release and on pages 15 to 18 of the annual report enclosed.

# THE REJECT SHOP

ANNUAL REPORT 2014

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## THE SAVVY WAY TO SHOP


# CONTENTS



## NOTICE OF ANNUAL GENERAL MEETING

3.30pm Wednesday 15 October 2014
Crowne Plaza
Bridge Room No. 2
1-5 Spencer Street
Melbourne, Vic 3000

The Reject Shop Limited is a company limited by shares, incorporated and domiciled in Australia. The address of the company's registered office is 245 Racecourse Road, Kengsington VIC 3031. The financial statements are presented in Australian currency and were authorised for issue by the directors on 20 August 2014. The company has the power to amend and re-issue these financial statements.

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# KEY OPERATIONAL INDICATORS

- Sales up **15.1**% to $**711.5** million
- **321** stores FY14
- **46** new stores in 2014
- Over **5,700** team members
- Over **59** million customers annually

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# A FOUNDATION FOR A BRIGHTER FUTURE





## We are proud to announce the launch of The Reject Shop Foundation

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

the reject shop foundation
HELPING KIDS IN NEED

# CHAIRMAN'S REPORT

Dear Shareholder

The financial performance for the 2013-2014 year was extremely disappointing. While we always believed the benefits of our accelerated store opening program would take time to fully emerge it is clear we still have some way to go and need to better engage with elements of our customer base.

We opened 87 stores in the past two years, and have just commenced operations from our satellite Distribution Centre near Perth, W.A. This has stretched our people and management resources, our training and development programs, and the development of our customer offer. Nonetheless, we believe that we have been able to capitalise on an immediate short term opportunity in the Discount Variety sector caused by a change in the competitive landscape.

The decline in comparable store sales—an important measure of performance in the retail sector—has been a significant concern and we are working to address this issue by ensuring that we continue to deliver the everyday low price and fit for purpose merchandise that our customers expect. We are also working to re-ignite the excitement in our offer by ensuring that there is a constant supply of new variety product.

Late in the year we implemented a new program, 'Products on Promotion', which has an emphasis on providing customers with a renewed sense of discovery in stores on a weekly basis. This is achieved by injecting new and fresh products into prominent display locations.

We are also changing the way we engage with our customers, through the replacement of our monthly catalogue program with a blend of: high frequency regional television, metropolitan 4-Page leaflets, a national magazine campaign and an extensive use of digital and social media.

And, we will shortly be launching an exciting, national customer centric marketing communication program using the above mentioned media channels.

Although the financial performance during the year was extremely disappointing, we made headway in a number of key areas during the year. Our Management Team and staff have been able to launch a new Distribution Centre and to open 46 new stores with products and with systems to support a clear task of engaging with our customers.

Ranging and quantifying inventory, when the planned opening date of many new stores was negatively impacted by legal issues related to the previous tenants, caused significant challenges operationally. This also created challenges for our staff, and particularly for the "New Store" set up teams, established from a number of disciplines across the company.

As part of our desire for enhanced engagement with our customers, and to better satisfy their shopping requirements, we are currently reformatting all of our stores. We believe that this will make it a better experience for our customers. It will allow them to readily see the infusions of exciting new products, and ensure that they can always find the every day items that they have come to expect to find with us at all times. It will also assist us, in ensuring that our staff and our customers can safely work and shop in all of our facilities; and that we can continue our improved outcomes in regard to Health and Safety.

To our Executive group and to our all of our staff, the Board expresses its appreciation for the efforts and for their engagement with our customers. The Board also acknowledges the efforts of those members of the team, including our former Managing Director, Mr Chris Bryce, who left us during the 2014 year. Their efforts, particularly in delivering projects that have been fundamental to the continued progress in our strategic path, and providing the platform from which to approach 2015 and beyond, have been invaluable.

The company is now in a consolidation phase and the Board expects that this will remain largely consistent with the underlying strategic direction that we have conveyed. Nonetheless, our new Chief Executive Officer, Mr Ross Sudano, will be joining us on 11th September 2014, and we welcome his arrival. Once Ross has had the appropriate familiarisation opportunity, the Board looks forward to engaging with him on the future strategic development of the company.

Engagement of our Executive and team members with our customers remains integral to our business. The Board also acknowledges the efforts of our total team in the current environment, and notwithstanding some current disappointment, the ongoing support of the majority of our shareholders. We remain committed, to providing the best customer experience that is possible and, to ensuring that our investors also achieve satisfactory short and long term returns on their investment.

Sincerely

**William J Stevens**
Chairman

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# BOARD OF DIRECTORS

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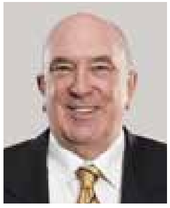


**William (Bill) Stevens *FCA, MAICD***
***Non-Executive Chairman***

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

**Kevin Elkington *LLB, B.Juris, FGIA***
**Non-Executive Director**

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

**Melinda Conrad**
**Non-Executive Director**

Melinda has significant experience in business strategy and marketing to consumer facing organisations in a range of sectors including retail, FMCG, healthcare and government. In her career she was founder and CEO of a retail store chain, Conrads Warehouse. Melinda's professional qualifications include an MBA from the Harvard Business School. She is currently a Non-Executive Director of the NSW Government's Clinical Excellence Commission and Agency for Clinical Innovation, the Garvan Medical Research Institute Foundation and Australian Brandenburg Orchestra. Melinda was previously a Non-Executive Director of APN News and Media Ltd and until recently, David Jones Limited. Melinda joined the Board of The Reject Shop Limited on 19 August 2011.

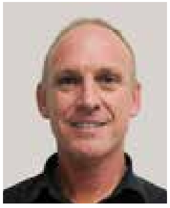
**Denis Westhorpe**
**Non-Executive Director**

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

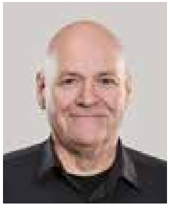
# THE MANAGEMENT TEAM

**Geoff Pearce**
General Manager - Business Process Transformation

**Allan Penrose**
General Manager - Marketing



**Mike Robertson**
General Manager - Retail Operations



**Mike Shields**
General Manager - Merchandise

**Darren Briggs**
Chief Financial Officer & Company Secretary

**Dani Aquilina**
General Manager - Distribution

**Phillip Nutbean**
General Manager - Property

**Josie Pileio**
General Manager - Human Resources

**Darren O'Connor**
Chief Information Officer

### Mike Robertson
### General Manager - Retail Operations

Mike has over 20 years retail experience in senior positions at companies including Specsavers, Bakers Delight, Coles Myer and Woolworths. Mike commenced with The Reject Shop as the General Manager Retail Operations in March 2014.

### Mike Shields
### General Manager - Merchandise Buying

Mike is an extremely experienced retail professional with an extensive background in retailing across a number of disciplines, including buying, planning, operations and distribution, with his early career experience within the Coles Myer Group, predominately with Target Australia. Mike spent 12 years with ExxonMobil both locally and overseas, with overall responsibility for the management of Global Convenience Store Supply Chain, Global Category Management for assigned categories and European Category Management. On returning to Australia Mike spent time running a management consulting business prior to joining The Reject Shop in April 2012.

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

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

### Dani Aquilina *MBus (LogMgt)*
### General Manager - Distribution

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

### Phillip Nutbean *AREI*
### General Manager - Property

Phillip has worked in commercial and retail real estate for over 30 years including four years with Coles Myer Ltd. Phillip joined The Reject Shop, first as a consultant in 1995 and then as Property Manager from May 2001.

### Josie Pileio
### General Manager - Human Resources

Josie is MBA qualified and an experienced senior HR professional with over 25 years in retail. Josie has extensive knowledge and experience across several fields including Organisational, Learning and Development, Employer Relations, Recruitment and Change Management. She has worked for some large retail organizations, such as Daimaru; Myer Stores Ltd; Borders Asia Pacific and most recently at Target Australia. Josie joined The Reject Shop in July 2012.

### Darren O'Connor *BApp Sc*
### Chief Information Officer

Darren has had over 25 years experience in IT development, analysis, support and management in both Australia and the United Kingdom specialising in managing information systems in branch model organisations such as retailers, rural suppliers and gaming companies. Darren joined The Reject Shop in July 2001.

### Allan Penrose
### General Manager - Marketing

Allan has over 20 years experience in advertising and marketing roles within the retail industry and retail services, with his most recent roles being at Target Australia and before that Solomon Partnership. Allan joined The Reject Shop in August 2010.

### Geoff Pearce BBus *(InfoSys)*
### General Manager - Business Process Transformation

Geoff has over 19 years of retail experience including consulting and IT management. He has previously worked with a diverse range of retailers to design and implement processes and systems supporting all aspects of retail planning and operations. Geoff joined The Reject Shop in December 2002 and was appointed to General Manager - Business Process Transformation in January 2012.

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## SAVVY SUPPORT


## SAVVY STAFF


## SAVVY ASSISTANCE

## SAVVY SERVICE

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# CORPORATE GOVERNANCE, ENVIRONMENTAL, SOCIAL STATEMENT AND FINANCIAL REPORT

FOR THE FINANCIAL PERIOD ENDING 29 JUNE 2014

# CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT

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The Company and the Board have set and maintained high standards of corporate governance. The Company has complied, where practicable, with the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in August 2007 and any subsequent amendments.

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

## The Board of Directors

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

### Composition of the Board

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

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

There are currently four directors who are all non-executive directors. 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, when filled, is not considered an independent director based on the above criteria. All current directors satisfy all criteria above and are considered independent directors.

Details of each directors' experience is contained on page 4 and their attendance at Board and Committee meetings is contained in the Directors' Report on page 13 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.

### Annual Performance Reviews

The Company conducted an annual performance evaluation of all directors in September 2013 with the current review scheduled for September 2014. Results of these reviews are announced at the Annual General Meeting each year.

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**Rotation of Directors**

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

## Audit and Risk Committee

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

**Composition of the Audit and Risk Committee**

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

Kevin J Elkington (Chairman)

William J Stevens

Denis R Westhorpe

Melinda Conrad

**Role of the Audit and Risk Committee**

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

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

**Responsibilities of the Audit and Risk Committee**

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

**Role of the External Auditor**

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

## Risk Management and Assessment

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

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

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

The Chief Financial Officer has 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 Financial Officer.

## Continuous Disclosure Policy

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

The Company has a Shareholder Communication Policy which recognises the right of Shareholders to be

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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.

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.

### Share Trading Policy

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 29 June 2014 | No of Employees – Total 29 June 2014 | % of Females | No of Employees – Female 30 June 2013 | No of Employees – Total 30 June 2013 | % of Females |
|---|---|---|---|---|---|---|
| Board | **1** | **4** | **25.0%** | 1 | 5 | 20.0% |
| Senior Executives | **2** | **9** | **22.2%** | 2 | 10 | 20.0% |
| Middle Management | **15** | **40** | **37.5%** | 15 | 37 | 40.5% |
| All Team Members | **3,470** | **5,783** | **60.0%** | 3,212 | 5,154 | 62.3% |

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

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 Tuesday 27 May 2014, 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.

The Company continues to value the importance of diversity through its various policies and procedures and remains committed to all employment opportunities being filled and remunerated on the basis of merit and performance; and not due to any known bias.

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The Reject Shop Diversity Policy remains in place and relevant and continues to focus on the unique differences that individuals bring to our business.

## 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:

Melinda Conrad (Chairman)

William J Stevens

Kevin J Elkington

Denis R Westhorpe

### Role of the Remuneration Committee

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

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

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

Information regarding director and key management personnel remuneration is provided in the Directors' Report and on pages 56 to 58 of this annual report.

## Environmental and Social Statement

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

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

### Energy Efficiency Initiatives

***Lighting***

In 2012, the Company embarked on a range of energy initiatives within our stores and this remains an ongoing process.

The Company has successfully completed its rollout of the Eco-Saver T8 replacement with T5 lighting in stores across NSW and VIC, taking advantage of the ESS and VEET schemes respectively, with 51 stores in total having been retrofitted. In addition all our new stores will now be fitted with LED lighting, reducing both the ongoing energy and maintenance costs.

The Company is now well underway with a project to identify existing stores with high usage electrical lighting consumption, so an LED rollout can be implemented across existing stores to maximise returns. Based on information supplied to the Company on a sample site; an expected reduction on annual lighting of around 23,848KWh with a carbon abatement of 28,618kg can be expected at this site.

***Air Conditioning***

An air-conditioning preventative maintenance programme across all relevant stores has commenced, implementing a stringent maintenance regime to ensure equipment is running at optimum efficiency. This will allow for the identification of stores requiring more energy efficient plant and equipment. The Company will continue to work with landlords to replace high energy usage plant and equipment to more environmentally friendly and efficient options.

***Reducing Waste and Increasing Recycling***

The Company continues to focus on waste reduction and improving its recycling efficiency. The Company's national waste management contractor has implemented an improved reporting and waste management strategy footprint, with all stores and the Melbourne Airport Distribution Centre (DCMA) now having active recycling initiatives in place.

The company recently ran a pilot programme which has enabled a reduction of 15% of general waste sent to landfill. This project will eventually be rolled out to all stores and DCMA.

The recycling volume from all stores and DCMA for FY2014 is approximately 3,700 tonnes, which includes cardboard bales, recycle bins in some stores and Head Office.

# CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL STATEMENT

***Sustainable Awareness and Fit-out***

The Company continues to review more sustainable material options for use in building, fitting out and refurbishing our stores.

**Establishment of The Reject Shop Charity Foundation**

The Company has a core value of being a community-focused organisation and consistent with this value the Company has launched The Reject Shop Foundation in June 2014. This is a not-for-profit foundation committed to helping children in need.

A comprehensive selection process was undertaken prior to the foundation's launch to identify a suitable charity that supports children in need. Good Beginnings Australia was selected as the foundation's national charity partner through to June 2015.

Cash collection boxes have been placed across the Company's entire store network to facilitate customer donations. A voluntary workplace giving program has also been implemented allowing team members to donate on a regular basis. These two primary methods of collection have allowed The Reject Shop Foundation to donate in excess of $35,000 in its first month of operation. The Company thanks its customers and its staff for their support.

The Reject Shop Foundation is administered by Charity Aid Foundation (CAF).

**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.

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# DIRECTORS' REPORT

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Your directors present their report on the Company and its subsidiaries for the financial period ended 29 June 2014.

## 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.

**Chris J Bryce** was Managing Director from the beginning of the financial period until his resignation as a Director on 23 May 2014. Chris remained as Chief Executive Officer until 27 June 2014.

**Kevin J Elkington**
***Non-executive Director***

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

**Denis R Westhorpe**
***Non-executive Director***

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

**Melinda Conrad**
***Non-executive Director***

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

Details of the experience and expertise of the directors and the Company Secretary are outlined on pages 4 and 5 of this annual report.

## Retirement of Directors

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

## Meetings of Directors

The number of meetings of the Board of directors and Committees held during the period ended 29 June 2014 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 | 16 | 17 | 4 | 4 | 2 | 3 |
| CJ Bryce | 11 | 11 | XX | XX | XX | XX |
| KJ Elkington | 17 | 17 | 4 | 4 | 3 | 3 |
| DR Westhorpe | 17 | 17 | 4 | 4 | 3 | 3 |
| M Conrad | 16 | 17 | 3 | 4 | 3 | 3 |

A – Number of meetings attended

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

XX – Not a member of relevant Committee

# DIRECTORS' REPORT

## 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, which forms part of the Directors' Report, is presented separately on pages 15 to 18 of this annual report.

## Significant Changes in the State of Affairs

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

## Matters Subsequent to the End of the Financial Period

Subsequent to year end the Company appointed a new CEO who will commence in the role on 11 September 2014.

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 15 to 18 of this annual report.

## Environmental Regulation

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

## Dividends – The Reject Shop Limited

Dividends paid to members during the financial period were:

A final ordinary dividend for the financial year ended 30 June 2013 of 13.0 cents per share totalling $3,747,412 was paid on 14 October 2013.

An interim ordinary dividend for the financial period ended 29 June 2014 of 21.5 cents per share totalling $6,197,652 was paid on 14 April 2014.

Since the end of the financial period the directors have declared the payment of a final ordinary dividend of 8.5 cents per share. Dividends are fully franked at a tax rate of 30% and will be paid on 13 October 2014.

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 $24,217 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 Class Order 98/100, 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.

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# OPERATING AND FINANCIAL REVIEW

## OVERVIEW OF OPERATIONS

The Company operates in the discount variety retail sector in Australia serving a broad range of value-conscious consumers who are attracted to low price points, convenient shopping locations and the opportunity to save money.

The Company offers a wide variety of general consumer merchandise, with particular focus on: everyday needs – such as toiletries, cosmetics, homewares, personal care products, hardware, basic furniture, household cleaning products, kitchenware, confectionery and snack food; and lifestyle and seasonal merchandise – such as seasonal gifts, cards and wrapping, toys, leisure items and home decorations.

The Company has a well-defined target market of consumers who are conscious of value and wanting or needing to save money. The Company seeks to continually change its offer of new products, to create a sense of discovery for customers.

Customers are attracted to the Company's convenient shopping locations and its mix of quality, low price basic everyday items and new product offerings. This is reflected in the Company's extremely strong brand awareness in all States across Australia.

The Company seeks growth organically as measured in comparable store sales and through a consistent program of new store openings. Store locations are chosen to ensure we provide a convenient shopping experience to our customers and can be located in shopping centre or standalone sites in metropolitan areas, major regional centres and smaller country towns.

The Company continually seeks opportunities to open new stores in markets in which it currently does not operate. This allows us to service new customers with our low priced offerings and provides localised employment opportunities for these communities. The Company opened a record 46 new stores during the year, with its National store footprint totalling 321 stores by the end of the year.

## Overview of Financial Performance

| $ Amounts are in '000 / %'s are to Sales | FY14 | FY13 |
|---|---:|---:|
| Sales | 711,534 | 617,960 |
| Gross Profit (i) | 44.3% | 45.0% |
| Cost of Doing Business (i) | 38.7% | 38.5% |
| EBITDA | 39,913 | 43,428 |
| Depreciation and Amortisation | 17,949 | 14,061 |
| EBIT | 21,964 | 29,367 |
| Net Interest Expense | 1,283 | 1,908 |
| Profit Before Tax | 20,681 | 27,459 |
| Income Tax Expense | 6,173 | 8,008 |
| Net Profit After Tax | 14,508 | 19,451 |

| Reconciliation of EBIT | FY14 | FY13 |
|---|---:|---:|
| EBIT as reported | 21,964 | 29,367 |
| Excl. New Store Costs | 4,767 | 3,475 |
| Excl. Onerous Lease Provision | 745 | – |
| Excl. Store Asset Impairments | 962 | – |
| Excl. Asset Write-Offs on Store Closure | 711 | 207 |
| Excl. Ipswich DC Insurance Claim (ii) | – | (2,874) |
| Adjusted EBIT | 29,149 | 30,175 |

(i) Non IFRS Measure

(ii) Unaudited

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## Comparability of FY2014 and FY2013 Financial Results

The comparability of the financial results between the periods is particularly challenging as a result of:

- Insurance proceeds received in the prior year as a result of the Ipswich flood in January 2011;
- The significant costs in support of opening stores in FY2013 and FY2014; and
- Accounting entries made as a result of underperforming stores and those stores due to be closed in FY2015.

The financial statements require amounts recovered under insurance be treated as other income and to leave additional costs of working and gross profit recoveries as either operating costs or cost of sales. The quantum, timing and accounting for these proceeds and the period to which they belong distorts analysis of the prior year result.

Costs incurred to support new stores, particularly the number and timing of new stores in the second half of both FY2014 and FY2013, reduces the underlying profitability of the business for both years.

The Company has approximately six stores within its portfolio that are significantly underperforming and as a consequence the carrying value of the assets within such stores have become impaired and hence an impairment charge of $0.96m was booked in the FY14 accounts. In addition, some of these stores were deemed to have onerous lease arrangements in place, with the accounting standards requiring a charge of $0.75m in the FY14 result.

The Company is also scheduled to shut four stores in FY2015. The Southport store which was underperforming was closed in July 2014. Another three stores across Australia are due to be relocated during FY2015. Non-relocatable assets within such stores have been written off, resulting in a charge of $0.7m.

After adjusting both years for the above mentioned the Company believes underlying Earnings before Interest & Tax (EBIT) decreased by 3.4%, as shown in the reconciliation in the above table.

## Sales Performance

Overall sales increased in FY2014 by 15.1% against the prior year. This reflects the sales from both new stores opened during FY2013 and FY2014. Comparable stores sales growth for the year was negative 0.45% (First half: negative 0.01%; Second half: negative 1.2%).

## Gross Margin

Gross margin, as a percentage of sales, was down 0.7% to sales on the prior year. Most of this shortfall related to a poor first half trading period in which markdowns exceeded budget, higher margin categories performed poorly in sales and lower margin categories performed relatively stronger in sales.

## Cost of Doing Business (CODB)

CODB (excluding depreciation and amortisation) as a percent to sales was slightly higher than the prior year. Increases to store wages under the Company's Enterprise Agreement were absorbed as well as the higher wages costs in new stores. The higher wage costs in new stores when compared to existing stores is a result of the time taken for new teams to increase productivity and roster staff appropriately to reflect the trading patterns of the stores.

Occupancy costs were consistent to last year as a % to sales, despite base occupancy costs reducing on store leases renewed.

Other store operating costs were lower as a % of sales relative to the prior year.

Direct new store opening costs totalled $4.8m for FY2014 (FY2013 $3.5m).

Depreciation and amortisation, as a percentage of sales, increased slightly on the prior year which is reflective of the full year impact of the significant capital investment of the current and prior year in new stores as well as investment in the Queensland DC infrastructure during the year.

## Earnings

The Company has a reported EBIT of $22.0m, down 25.2% on the prior year. However, the comparability between the two periods was impacted by the material insurance proceeds received in the prior period relating to the flooding of the Company's Ipswich Distribution Centre in January 2011. In addition, the Company incurred increased costs associated in opening new stores in FY2014 compared to the prior year (FY2014 - $4.8m; FY2013 - $3.5m) as a result of opening a record 46 new stores. The Company also expensed $2.42m in costs associated with the combination of store closures and underperforming stores.

After adjusting for the above, the business recorded a decrease in underlying EBIT of approximately 3.4%.

## Dividends

Total dividends declared for the financial period to 29 June 2014 year of 30.0 cents per share represents a payout ratio of 60% of the full year earnings per share. An interim ordinary dividend of 21.5 cents per share has been paid and a final dividend of 8.5 cents per share will be paid on 13 October 2014. All dividends are fully franked.

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

## Financial Position and Capital Investment

The Company's Net Debt increased significantly with Net Debt at year-end of $17.4m ($0.1m in FY2013) although the Net Debt in the prior year was abnormally

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low due the equity raising in April 2013. The Company is operating within existing debt covenants. Net interest expense reduced by $0.6m on FY2013.

The Equity raising in the prior year allowed the Company to invest $31.7m in capital expenditure in FY2014 (FY2013: $27.4m) including a record $18.2m on new stores, $5.7m on its existing stores, $5.0m in IT systems and equipment and $2.1m on the new Distribution Centre in Western Australia.

## Investments for Future Growth

The Company has a long stated aim to operate 400 stores nationally. Historically, it has invested early to support planned growth with distribution and IT capacity in place to support 400 stores and an organisational structure in place to support an ever increasing business.

The Company will continue to increase its store portfolio and anticipates by the end of FY2015 to have 340 stores open and trading.

The substantial store rollout program in recent years has presented an opportunity to solidify the Company's standing in the Discount Variety market in Australia but also provides much needed capacity to drive the business forward.

The Company believes the substantial commitment in funds and resources in recent years to the new stores provides a strong ability to:

- Leverage off existing operational infrastructure; and
- Capitalise on a rebound in consumer spending once this occurs.

During the year the Company finalised the development of a satellite Distribution Centre in Western Australia which commenced full operations from July 2014. The Distribution Centre in Western Australia will service the Company's existing 25 stores in that state and provide the opportunity for further growth in the region to locations that were previously inaccessible due to restrictive freight costs.

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

- Enhancing its merchandise planning processes and systems;
- Investing in marketing initiatives as well as its social media and digital platforms to support brand awareness; and
- Reviewing its overseas sourcing practices to improve visibility in supply and flow to its Distribution centres.

The Company anticipates it will have a merchandise planning tool implemented by the end of this year.

The Company will also commence planning for the upgrade to its Distribution capability in Melbourne in preparation for the lease expiry on its current premises in FY2017.

## Overview of retail industry trends

The Discount Variety sector remains a competitive market, with many regionally based chains as well as single owner-operator businesses. The sector has undergone significant change over the past few years. A major competitor has left the sector and this has enabled the Company to secure additional new stores in an accelerated timeline.

As has been the case for the past few years the retail environment remains subdued and we expect this to be similar in FY2015. Many factors are still influencing consumer confidence and therefore overall retail dollars spent. We believe the recent expansion of our store portfolio enables us to benefit from when an improvement in consumer sentiment occurs.

## OUTLOOK

## Underlying Trading

The Company has had a challenging start to FY2015 with the first month of the year yielding negative comparable sales growth.

The Company expects further improvement to our overall stockflow and DC efficiency again this year. The movement in the Australian dollar will require significant focus on our merchandise mix and pricing strategies. This will likely influence our margin to sales ratios, particularly in the first half.

The Company anticipates improvement overall in our operating costs to sales as we leverage a higher sales base. We will continue to target productivity gains in stores and look to reduce occupancy costs on renewal. Refining our promotional spend to geographic segments coupled with our increased store presence should help moderate our marketing spend to sales.

The Company expects underlying profit growth for the current year, underpinned by the extensive store opening program in FY2013 and FY2014.

## New Stores

The Company has identified and secured opening dates for another 19 stores for FY2015 all opening in the first half. In the year to date it has opened 3 stores. It has also scheduled a number of major refurbishments to existing stores.

The Company also has a significant number of potential new sites currently in various stages of negotiation and there is a strong likelihood of further new stores to open this financial year.

The Company has in excess of 60 store leases for renewal this financial year and is targeting net reductions to the base occupancy costs of these stores. Given the Company's resolve to maintain an appropriate cost structure for the business, if acceptable terms cannot be achieved, there is a likelihood that some of these stores could close during the year. We have closed the underperforming Southport store in July 2014. In addition, another store in a major centre is confirmed to be closing in February 2015, as acceptable terms could not be reached with the landlord during the lease renewal negotiations. While all stores subject to FY2015 renewal are profitable stores, the Company believes the current and/or prospective occupancy costs on a number of these stores still require adjustment.

## 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.
- Exchange Rate – The Company relies significantly on imported products (either directly purchased by the Company or indirectly through local or overseas wholesalers) and as a result the cost of product and retail sales price can be subject to movements in Exchange Rates. The Company mitigates against movements in exchange rates through the use of forward cover.
- Product Liability Exposure – The Company purchases and sells over 7,000 different products on an annual basis, all of which must be fit for purpose and in compliance with Australian Consumer Legislation. The Company has a National Product Compliance function that has the responsibility of ensuring all products sold by the Company adhere to legal requirements. The Company is subject to an external review of its Compliance function by an independent Compliance firm on a bi-annual basis, with any recommendations noted and implemented as soon as possible.
- Occupational Health & Safety (OH&S) – The Company has over 5,000 employees across its stores and distribution centre network, as well as its 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.

## 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 11 of this annual report.



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## Directors' fees

The current aggregate limit for directors' fees is $600,000 per annum with a base fee payable (including superannuation) to the Chairman of $185,000 p.a. (FY2013: $178,890) and to a non-executive director currently $108,000 p.a. (FY2013: $99,395). The Chairman's remuneration is inclusive of Committee fees while non-executive directors who take on additional responsibilities receive additional fees (Chairman of Audit and Risk Committee $6,000 (FY2013: $6,427), Chairman of Remuneration Committee $5,000 (FY2013: $5,000)). The Managing Director does not receive directors' fees.

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

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

## Officers and executive salaries

The executive salary and reward framework has four components:

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

The combination of these comprises the executive's total remuneration.

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 but there are no guaranteed base pay increases in any senior executive's contracts, except as specifically stated in this report. 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 incentives (STI)

The Remuneration Committee had previously established earnings before interest and tax (EBIT) as the appropriate financial performance target to trigger payment of cash incentives for each period. As part of the Remuneration Committee Charter the Board continually seeks independent advice to ensure the total remuneration (inclusive of incentives) is consistent with market practice. As a result of an independent review the Board has determined that having one sole performance target is no longer considered best practice. Effective since 2012, the Board has therefore adopted a more balanced approach whereby budgeted EBIT achievement (60% of STI) in conjunction with individual key performance indicators (40% of STI) set annually form the basis for any STI paid. Short term cash incentives payable upon achievement of all criteria would result in additional payments of between 22% - 30% of base salary. The audited financial report remains the basis for measuring achievement against the financial performance targets. Additionally, elements of the short term remuneration are assessed against individual and collective key performance.

Further cash incentives may also be paid at the discretion of the Remuneration Committee to individual executives as recognition of exceptional achievement in any given period.

The Remuneration Committee has determined that no short-term incentives will be payable to Key Management Personnel in FY2014 on the following basis:

(i) Budgeted EBIT for FY2014 was not achieved; and

(ii) Though a number of Key Management Personnel did meet requirements of their individual Key Performance Indicators, the overall performance of the Company in FY2014 did not warrant the payment of any STI to such Key Management Personnel.

## Long Term Incentive Plans

### 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. The Board had chosen Earnings per Share (EPS) as the appropriate financial performance target for the periods up to 27 June 2010.

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As a result of an independent review the Board determined that having one sole performance target is no longer considered best practice and has therefore adopted a more balanced criterion of both financial and non-financial targets for all outstanding and future grants.

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

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

The non-financial criteria, which carry a 40% weighting toward the performance rights vesting, consists of a number of improvements in operational aspects considered critical to the long-term development of the business. These non-financial criteria include:

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

The Board retain the right to assess all aspects of the vesting conditions for future performance rights grants and is strongly considering increasing the weighting toward the financial criteria listed above.

For performance rights granted after July 2011 the Board, in its discretion, has determined that the balanced criteria noted above should form the basis for determining the vesting criteria for performance rights issued.

The number of performance rights issued if hurdles are met is based on a percentage of base salary divided by the weighted average share price for the period 30 days before and after the end of the financial period. 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.

Performance rights, which are an entitlement to a share, have traditionally vested four years after grant date, representing a three year earnings period over which the established financial and non-financial criteria are measured, and an additional one year service period the employee must satisfy prior to vesting of the shares.

However, effective from the rights issues in October 2013, vesting of shares will now occur over the three year period over which the established financial and non-financial criteria are measured. Rights participants will no longer have to serve the additional twelve month service period before such rights are able to vest.

Given the impact of Queensland floods in 2011, 50% of the performance rights granted prior to the flood (the periods between 2008 and October 2010), have been vested at the Board's discretion, despite the original EPS hurdles not being met.

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### Use of Remuneration Consultants

No remuneration consultants were engaged during 2014 period.

### B – Details of remuneration

The following persons along with the directors, as detailed on page 13 of the Directors' report, were the key management personnel with the authority and responsibility for planning, directing and controlling the activities of the Company and consolidated entity, directly or indirectly, during the financial period:

| | |
|---|---|
| Michael J Shields | – General Manager, Merchandise Buying |
| Darren J O'Connor | – Chief Information Officer |
| Darren R Briggs | – Chief Financial Officer and Company Secretary |
| Phillip Nutbean | – General Manager, Property |
| Geoff W Pearce | – General Manager, Business Transformation |
| Josie Pileio | – General Manager, Human Resources |
| Danielle Aquilina | – General Manager, Distribution |
| Allan J Penrose | – General Manager, Marketing |
| Sam Blakeney | – General Manager, Merchandise Planning (Resigned on 27 June 2014) |
| Michael Robertson | – General Manager, Retail Operations (Appointed on 24 February 2014) |
| Ray J Frawley | – General Manager, Retail Operations (Resigned on 6 September 2013) |

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 29 June 2014 and the period ended 30 June 2013 unless otherwise stated.

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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:

| **2014** | **Short-term benefits** | | | **Post-employment benefits** | | **Share-based payments** | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Name** | **Cash salary and fees $** | **Cash Incentives $** | **Non-monetary benefits $** | **Super-annuation $** | **Retirement Benefits $** | **Performance Rights $** | **Proportion of Remuneration as equity related %** | **Total $** | **Proportion of Remuneration as performance related %** |
| **Non-executive Directors** | | | | | | | | | |
| WJ Stevens | 169,337 | – | – | 15,663 | – | – | – | 185,000 | – |
| KJ Elkington | 104,348 | – | – | 9,652 | – | – | – | 114,000 | – |
| M Conrad | 103,432 | – | – | 9,568 | – | – | – | 113,000 | – |
| DR Westhorpe | 98,857 | – | – | 9,143 | – | – | – | 108,000 | – |
| **Total Non-executive Directors** | **475,974** | **–** | **–** | **44,026** | **–** | **–** | **–** | **520,000** | **–** |
| **Executive Directors** | | | | | | | | | |
| CJ Bryce (i) | 619,738 | – | 10,555 | 17,776 | – | (534,612) | – | 113,457 | – |
| **Total Executive Directors** | **619,738** | **–** | **10,555** | **17,776** | **–** | **(534,612)** | | **113,457** | |
| **Other Key Management Personnel** | | | | | | | | | |
| MJ Shields | 375,169 | – | 6,100 | 17,776 | – | 29,006 | 6.8% | 428,051 | 6.8% |
| DJ O'Connor | 298,940 | – | 2,216 | 17,776 | – | 36,284 | 10.2% | 355,216 | 10.2% |
| DR Briggs | 272,665 | – | 1,091 | 17,776 | – | 33,603 | 10.3% | 325,135 | 10.3% |
| P Nutbean | 226,724 | – | 32,059 | 17,776 | – | 25,963 | 8.6% | 302,522 | 8.6% |
| GW Pearce | 232,473 | – | – | 17,776 | – | 23,459 | 8.6% | 273,708 | 8.6% |
| J Pileio | 235,224 | – | 3,074 | 17,776 | – | 16,417 | 6.0% | 272,491 | 6.0% |
| D Aquilina | 217,869 | – | 2,615 | 17,511 | – | 15,637 | 6.2% | 253,632 | 6.2% |
| AJ Penrose | 197,214 | – | 5,530 | 17,776 | – | 23,855 | 9.8% | 244,375 | 9.8% |
| S Blakeney (ii) | 254,037 | – | 5,577 | 17,776 | – | (38,532) | – | 238,858 | – |
| M Robertson (iv) | 117,131 | – | – | 6,267 | – | – | – | 123,398 | – |
| RJ Frawley (iii) | 165,789 | – | 4,035 | 3,305 | – | (55,265) | – | 117,864 | – |
| **Total Other Key Management Personnel** | **2,593,235** | **-** | **62,297** | **169,291** | **-** | **110,427** | | **2,935,250** | |
| **Total** | **3,688,947** | **-** | **72,852** | **231,093** | **-** | **(424,185)** | | **3,568,707** | |

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

(i) CJ Bryce was CEO until his resignation on 27 June 2014. As a result, CJ Bryce's was paid in cash $50,577 of annual leave entitlements and $117,984 of long service leave entitlements which are excluded from the above table.

(ii) S Blakeney was General Manager, Planning until his resignation on 27 June 2014. As a result, S Blakeney's was paid in cash $6,841 of annual leave entitlements and $48,118 of long service leave entitlements which are excluded from the above table.

(iii) RJ Frawley was General Manager, Retail Operations until his resignation on 6 September 2013. As a result, RJ Frawley's was paid in cash $57,900 of annual leave entitlements which are excluded from the above table and $95,085 in lieu of three month notice period paid out upon his resignation which is included in his cash salary and fees above.

(iv) M Robertson was appointed General Manager, Retail Operations on 24 February 2014.

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| 2013 | Short-term benefits | | | Post-employment benefits | | Share-based payments | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Cash Incen-tives $ | Non-monetary benefits $ | Super-annuation $ | Retirement Benefits $ | Performance Rights $ | Proportion of Remuneration as equity related % | Total $ | Proportion of Remuneration as performance related % |
| **Non-executive Directors** | | | | | | | | | |
| WJ Stevens | 163,323 | – | – | 14,699 | – | – | – | 178,022 | – |
| KJ Elkington | 96,613 | – | – | 8,695 | – | – | – | 105,308 | – |
| DR Westhorpe | 90,745 | – | – | 8,167 | – | – | – | 98,912 | – |
| M Conrad (i) | 90,745 | – | – | 8,167 | – | – | – | 98,912 | – |
| **Total Non-executive Directors** | **441,426** | **–** | **–** | **39,728** | **–** | **–** | **–** | **481,154** | **–** |
| **Executive Directors** | | | | | | | | | |
| CJ Bryce | 598,469 | 72,140 | 28,026 | 16,470 | – | 209,436 | 22.7% | 924,541 | 30.5% |
| Total Executive Directors | 598,469 | 72,140 | 28,026 | 16,470 | – | 209,436 | | 924,541 | |
| **Other Key Management Personnel** | | | | | | | | | |
| RJ Frawley | 381,729 | 27,080 | 26,722 | 16,470 | – | 38,381 | 7.8% | 490,382 | 13.3% |
| MJ Shields | 365,031 | 32,853 | 1,020 | 16,470 | – | 21,872 | 5.0% | 437,246 | 12.5% |
| DJ O'Connor | 287,893 | 26,192 | 1,289 | 16,470 | – | 48,516 | 12.8% | 380,360 | 19.6% |
| DR Briggs | 263,814 | 23,896 | 747 | 16,470 | – | 43,988 | 12.6% | 348,915 | 19.5% |
| P Nutbean | 216,828 | 27,337 | 31,226 | 16,470 | – | 34,215 | 10.5% | 326,076 | 18.9% |
| S Blakeney | 242,779 | 21,927 | 3,661 | 16,470 | – | 28,659 | 9.1% | 313,496 | 16.1% |
| GW Pearce | 227,127 | 22,086 | – | 16,470 | – | 27,676 | 9.4% | 293,359 | 17.0% |
| AJ Penrose | 188,839 | 19,466 | 3,840 | 16,301 | – | 27,996 | 10.9% | 256,442 | 18.5% |
| J Pileio (i) | 203,530 | 21,981 | 867 | 16,470 | – | 12,729 | 5.0% | 255,577 | 13.6% |
| D Aquilina (i) | 87,500 | 19,688 | 1,032 | 7,875 | – | 6,578 | 5.4% | 122,673 | 21.4% |
| PG Beckett (ii) | 140,527 | – | 806 | 4,926 | – | (24,567) | – | 121,692 | – |
| **Total Other Key Management Personnel** | **2,605,597** | **242,506** | **71,210** | **160,862** | **–** | **266,043** | | **3,346,218** | |
| **Total** | **3,645,492** | **314,646** | **99,236** | **217,060** | **–** | **475,479** | | **4,751,913** | |

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

(i) J Pileio was appointed General Manager, Human Resources on 2 July 2012. D Aquilina was appointed General Manager, Logistics on 1 January 2013.

(ii) PG Beckett was General Manager, Logistics until his retirement on 31 December 2012. PG Beckett's cash, salary and fees in table above includes $80,483 of annual leave and long-service leave entitlements paid out upon his resignation.

For Remuneration report purposes, the amount reported as "Share Based Payments" represents the amount derived 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.

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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:

| 2014 | 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** | | | | | | |
| CJ Bryce | 17 Oct 2013 | 21,500 | 1 Jul 2016 | 17 Oct 2017 | 363,135 | 2,500 |
| **Other Key Management Personnel** | | | | | | |
| MJ Shields | 17 Oct 2013 | 9,800 | 1 Jul 2016 | 17 Oct 2017 | 165,522 | – |
| DJ O'Connor | 17 Oct 2013 | 7,800 | 1 Jul 2016 | 17 Oct 2017 | 131,742 | 2,050 |
| DR Briggs | 17 Oct 2013 | 7,100 | 1 Jul 2016 | 17 Oct 2017 | 119,919 | 1,100 |
| P Nutbean | 17 Oct 2013 | 5,900 | 1 Jul 2016 | 17 Oct 2017 | 99,651 | 1,450 |
| GW Pearce | 17 Oct 2013 | 5,900 | 1 Jul 2016 | 17 Oct 2017 | 99,651 | 850 |
| J Pileio | 17 Oct 2013 | 5,500 | 1 Jul 2016 | 17 Oct 2017 | 92,895 | – |
| D Aquilina | 17 Oct 2013 | 4,700 | 1 Jul 2016 | 17 Oct 2017 | 79,383 | – |
| AJ Penrose | 17 Oct 2013 | 5,200 | 1 Jul 2016 | 17 Oct 2017 | 87,828 | – |
| S Blakeney | 17 Oct 2013 | 6,600 | 1 Jul 2016 | 17 Oct 2017 | 111,474 | 900 |
| M Robertson | – | – | – | – | – | – |
| RJ Frawley | – | – | – | – | – | – |
| PG Beckett | – | – | – | – | – | 1,850 |
| **Total** | | **80,000** | | | **1,351,200** | **10,700** |

The fair value of performance rights granted on 17 October 2013 (grant date) with an expiry date of 16 October 2017 was $16.89.

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| 2013 | 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** | | | | | | |
| CJ Bryce | 18 Oct 2012 | 35,600 | 1 Jul 2016 | 18 Oct 2017 | 435,744 | 3,000 |
| **Other Key Management Personnel** | | | | | | |
| RJ Frawley | 18 Oct 2012 | 16,700 | 1 Jul 2016 | 18 Oct 2017 | 204,408 | – |
| MJ Shields | 18 Oct 2012 | 16,400 | 1 Jul 2016 | 18 Oct 2017 | 200,736 | – |
| DJ O'Connor | 18 Oct 2012 | 12,800 | 1 Jul 2016 | 18 Oct 2017 | 156,672 | 2,400 |
| DR Briggs | 18 Oct 2012 | 12,000 | 1 Jul 2016 | 18 Oct 2017 | 146,880 | 1,400 |
| P Nutbean | 18 Oct 2012 | 10,000 | 1 Jul 2016 | 18 Oct 2017 | 122,400 | 1,700 |
| S Blakeney | 18 Oct 2012 | 11,000 | 1 Jul 2016 | 18 Oct 2017 | 134,640 | 1,050 |
| GW Pearce | 18 Oct 2012 | 9,900 | 1 Jul 2016 | 18 Oct 2017 | 121,176 | 950 |
| AJ Penrose | 18 Oct 2012 | 8,100 | 1 Jul 2016 | 18 Oct 2017 | 99,144 | – |
| J Pileio | 18 Oct 2012 | 9,500 | 1 Jul 2016 | 18 Oct 2017 | 116,280 | – |
| D Aquilina | 10 Jan 2013 | 6,000 | 1 Jul 2016 | 10 Jan 2018 | 84,240 | – |
| PG Beckett | – | – | – | – | – | 2,050 |
| **Total** | | **148,000** | | | **1,822,320** | **12,550** |

The fair value of performance rights granted on 18 October 2012 (grant date) with an expiry date of 18 October 2017 was $12.24.

The fair value of performance rights granted on 10 January 2013 (grant date) with an expiry date of 1 January 2018 was $14.04.

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

Subsequent to period end there has been no grant of performance rights to key management personnel. 12,300 performance rights granted to key management personnel in prior years vested subsequent to period end, of which 12,300 have been exercised.

These performance rights were vested at the Board's discretion notwithstanding that the EPS hurdle in the vesting period, being the financial year ended 30 June 2013, was not met. Nevertheless, and as previously disclosed, the Board considered it appropriate to vest 50% of the performance rights available had financial targets been met on the basis that the key management personnel were instrumental in re-establishing the business post the Ipswich Distribution Centre flood. In addition the key management personnel have during that time made significant progress toward furthering the long-term strategies of the business. Hence the Board considered it appropriate to recognise these efforts. The remaining performance rights issued in that tranche were forfeited.

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

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

| 2014 | Type | Date Granted | Date Exercised | Number of Shares Issued | Exercise Price $ |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| CJ Bryce | Rights | 18 Aug 2009 | 9 Jul 2013 | 2,500 | – |
| **Other Key Management Personnel** | | | | | |
| MJ Shields | – | – | – | – | – |
| DJ O'Connor | Rights | 18 Aug 2009 | 9 Jul 2013 | 2,050 | – |
| DR Briggs | Rights | 18 Aug 2009 | 9 Jul 2013 | 1,100 | – |
| P Nutbean | Rights | 18 Aug 2009 | 9 Jul 2013 | 1,450 | – |
| GW Pearce | Rights | 18 Aug 2009 | 9 Jul 2013 | 850 | – |
| J Pileio | – | – | – | – | – |
| D Aquilina | – | – | – | – | – |
| AJ Penrose | – | – | – | – | – |
| S Blakeney | Rights | 18 Aug 2009 | 9 Jul 2013 | 900 | – |
| M Robertson | – | – | – | – | – |
| RJ Frawley | – | – | – | – | – |
| PG Beckett | Rights | 18 Aug 2009 | 9 Jul 2013 | 1,850 | – |
| **Total** | | | | **10,700** | **–** |

| 2013 | Type | Date Granted | Date Exercised | Number of Shares Issued | Exercise Price $ |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| CJ Bryce | Rights | 19 Aug 2008 | 1 Aug 2012 | 3,000 | – |
| **Other Key Management Personnel** | | | | | |
| RJ Frawley | – | – | – | – | – |
| MJ Shields | – | – | – | – | – |
| DJ O'Connor | Rights | 19 Aug 2008 | 1 Aug 2012 | 2,400 | – |
| DR Briggs | Rights | 19 Aug 2008 | 1 Aug 2012 | 1,400 | – |
| P Nutbean | Rights | 19 Aug 2008 | 1 Aug 2012 | 1,700 | – |
| S Blakeney | Rights | 19 Aug 2008 | 1 Aug 2012 | 1,050 | – |
| GW Pearce | Rights | 19 Aug 2008 | 1 Aug 2012 | 950 | – |
| AJ Penrose | – | – | – | – | – |
| J Pileio | – | – | – | – | |
| D Aquilina | – | – | – | – | |
| PG Beckett | Rights | 19 Aug 2008 | 1 Aug 2012 | 2,050 | – |
| **Total** | | | | **12,550** | **–** |

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

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## 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 % | Financial periods in which rights may vest | Maximum total number of rights yet to vest | Maximum total value of grants yet to vest $ |
| **Executive Directors** | | | | | | | | |
| CJ Bryce | 0 | 100 | FY2014 | 0 | 100 | FY2017 | – | – |
| | | | FY2013 | 0 | 100 | FY2017 | – | – |
| | | | FY2012 | 0 | 100 | FY2016 | – | – |
| | | | FY2011 | 0 | 75 | FY2015 | 4,800 | 73,296 |
| | | | FY2010 | 0 | 100 | FY2016 | – | – |
| **Other Key Management Personnel** | | | | | | | | |
| MJ Shields | 0 | 100 | FY2014 | 0 | 0 | FY2017 | 9,800 | 165,522 |
| | | | FY2013 | 0 | 0 | FY2017 | 16,400 | 200,736 |
| DJ O'Connor | 0 | 100 | FY2014 | 0 | 0 | FY2017 | 7,800 | 131,742 |
| | | | FY2013 | 0 | 0 | FY2017 | 12,800 | 156,672 |
| | | | FY2012 | 0 | 0 | FY2016 | 10,400 | 92,768 |
| | | | FY2011 | 0 | 75 | FY2015 | 1,700 | 25,959 |
| DR Briggs | 0 | 100 | FY2014 | 0 | 0 | FY2017 | 7,100 | 119,919 |
| | | | FY2013 | 0 | 0 | FY2017 | 12,000 | 146,880 |
| | | | FY2012 | 0 | 0 | FY2016 | 9,800 | 87,416 |
| | | | FY2011 | 0 | 75 | FY2015 | 1,700 | 25,959 |
| P Nutbean | 0 | 100 | FY2014 | 0 | 0 | FY2017 | 5,900 | 99,651 |
| | | | FY2013 | 0 | 0 | FY2017 | 10,000 | 122,400 |
| | | | FY2012 | 0 | 0 | FY2016 | 6,800 | 60,656 |
| | | | FY2011 | 0 | 74 | FY2015 | 1,100 | 16,797 |
| GW Pearce | 0 | 100 | FY2014 | 0 | 0 | FY2017 | 5,900 | 99,651 |
| | | | FY2013 | 0 | 0 | FY2017 | 9,900 | 121,176 |
| | | | FY2012 | 0 | 0 | FY2016 | 2,600 | 23,192 |
| | | | FY2011 | 0 | 50 | FY2015 | 900 | 13,743 |
| J Pileio | 0 | 100 | FY2014 | 0 | 0 | FY2017 | 5,500 | 92,895 |
| | | | FY2013 | 0 | 0 | FY2017 | 9,500 | 116,280 |
| D Aquilina | 0 | 100 | FY2014 | 0 | 0 | FY2017 | 4,700 | 79,383 |
| | | | FY2013 | 0 | 0 | FY2017 | 6,000 | 84,240 |
| AJ Penrose | 0 | 100 | FY2014 | 0 | 0 | FY2017 | 5,200 | 87,828 |
| | | | FY2013 | 0 | 0 | FY2017 | 8,100 | 99,144 |
| | | | FY2012 | 0 | 0 | FY2016 | 6,600 | 58,872 |
| | | | FY2011 | 0 | 75 | FY2015 | 1,200 | 18,324 |
| S Blakeney | | | FY2014 | 0 | 100 | FY2017 | - | - |
| | 0 | 100 | FY2013 | 0 | 100 | FY2017 | - | - |
| | | | FY2012 | 0 | 100 | FY2016 | - | - |
| | | | FY2011 | 0 | 47 | FY2015 | 900 | 13,743 |
| RJ Frawley | 0 | 100 | FY2013 | 0 | 100 | FY2017 | – | – |
| | | | FY2012 | 0 | 100 | FY2016 | – | – |
| PG Beckett | 0 | 0 | – | 0 | – | – | – | – |
| | | | FY2012 | 0 | 100 | FY2016 | – | – |
| | | | FY2011 | 0 | 100 | FY2015 | – | – |

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### Performance Rights Holdings

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

| 2014 | Balance at the start of the period | Performance rights granted during the period | Performance rights vested & exercised during the period | Other changes during the period | Balance at end of the period |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| WJ Stevens | – | – | – | – | – |
| KJ Elkington | – | – | – | – | – |
| DR Westhorpe | – | – | – | – | – |
| M Conrad | – | – | – | – | – |
| **Executive Director** | | | | | |
| CJ Bryce (i) | 135,000 | 21,500 | (2,500) | (149,200) | 4,800 |
| **Other Key Management Personnel** | | | | | |
| MJ Shields | 16,400 | 9,800 | – | – | 26,200 |
| DJ O'Connor | 32,050 | 7,800 | (2,050) | (5,100) | 32,700 |
| DR Briggs | 29,600 | 7,100 | (1,100) | (5,000) | 30,600 |
| P Nutbean | 22,550 | 5,900 | (1,450) | (3,200) | 23,800 |
| GW Pearce | 15,150 | 5,900 | (850) | (800) | 19,400 |
| J Pileio | 9,500 | 5,500 | – | – | 15,000 |
| D Aquilina | 6,000 | 4,700 | – | – | 10,700 |
| AJ Penrose | 19,500 | 5,200 | – | (3,600) | 21,100 |
| S Blakeney (i) | 16,100 | 6,600 | (900) | (20,900) | 900 |
| M Robertson | – | – | – | – | – |
| RJ Frawley | 30,500 | – | – | (30,500) | – |
| PG Beckett | 1,850 | – | (1,850) | – | – |
| **Total** | **334,200** | **80,000** | **(10,700)** | **(218,300)** | **185,200** |

(i) CJ Bryce and S Blakeney resigned during the year and all non-vested performance rights other than those vesting on 1 July 2014, were lapsed prior to June 2014.

| 2013 | Balance at the start of the period | Performance rights granted during the period | Performance rights vested & exercised during the period | Other changes during the period | Balance at end of the period |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| WJ Stevens | – | – | – | – | – |
| KJ Elkington | – | – | – | – | – |
| DR Westhorpe | – | – | – | – | – |
| M Conrad | – | – | – | – | – |
| **Executive Director** | | | | | |
| CJ Bryce | 104,900 | 35,600 | (3,000) | (2,500) | 135,000 |
| **Other Key Management Personnel** | | | | | |
| RJ Frawley | 13,800 | 16,700 | – | – | 30,500 |
| MJ Shields | – | 16,400 | – | – | 16,400 |
| DJ O'Connor | 23,700 | 12,800 | (2,400) | (2,050) | 32,050 |
| DR Briggs | 20,100 | 12,000 | (1,400) | (1,100) | 29,600 |
| P Nutbean | 15,700 | 10,000 | (1,700) | (1,450) | 22,550 |
| S Blakeney | 7,050 | 11,000 | (1,050) | (900) | 16,100 |
| GW Pearce | 7,050 | 9,900 | (950) | (850) | 15,150 |
| AJ Penrose | 11,400 | 8,100 | – | – | 19,500 |
| J Pileio | – | 9,500 | – | – | 9,500 |
| D Aquilina | – | 6,000 | – | – | 6,000 |
| PG Beckett (i) | 21,050 | – | (2,050) | (17,150) | 1,850 |
| **Total** | **224,750** | **148,000** | **(12,550)** | **(26,000)** | **334,200** |

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(i) PG Beckett retired during the year and all non-vested performance rights other than those vesting on 1 July 2013, were lapsed prior to June 2013.

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

Subsequent to period end there have been no performance rights granted to key management personnel. 12,300 performance rights granted to key management personnel vested, of which 12,300 have been exercised.

**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:

| 2014 | Balance at the start of the period | Received during the period on the exercise of performance rights or options | Other changes during the period | Balance at end of the period |
|---|---|---|---|---|
| **Non-executive Directors** | | | | |
| WJ Stevens | 3,350 | – | 150 | 3,500 |
| KJ Elkington | 3,615 | – | 1,000 | 4,615 |
| DR Westhorpe | – | – | – | – |
| M Conrad | – | – | – | – |
| **Key Management Personnel** | | | | |
| ***Executive Directors*** | | | | |
| CJ Bryce (i) | 123,112 | 2,500 | (125,612) | – |
| ***Other Key Management Personnel*** | | | | |
| MJ Shields | – | – | – | – |
| DJ O'Connor | – | 2,050 | (2,050) | – |
| DR Briggs | – | 1,100 | (1,100) | – |
| P Nutbean | 3,810 | 1,450 | (3,000) | 2,260 |
| GW Pearce | 1,287 | 850 | – | 2,137 |
| J Pileio | – | – | 270 | 270 |
| D Aquilina | – | – | – | – |
| AJ Penrose | 666 | – | – | 666 |
| S Blakeney (i) | – | 900 | (900) | – |
| M Robertson | – | – | - | - |
| RJ Frawley (i) | 11,925 | – | (11,925) | – |
| **Total** | **147,765** | **8,850** | **(143,167)** | **13,448** |

(i) CJ Bryce, RJ Frawley and S Blakeney's share holdings have been shown as nil at the end of the period as they are no longer key management personnel of the Company.

| 2013 | Balance at the start of the period | Received during the period on the exercise of performance rights or options | Other changes during the period | Balance at end of the period |
|---|---|---|---|---|
| **Non-executive Directors** | | | | |
| WJ Stevens | 3,000 | – | 350 | 3,350 |
| KJ Elkington | 3,000 | – | 615 | 3,615 |
| DR Westhorpe | – | – | – | – |
| M Conrad | – | – | – | – |
| **Key Management Personnel** | | | | |
| ***Executive Directors*** | | | | |
| CJ Bryce | 119,187 | 3,000 | 925 | 123,112 |
| ***Other Key Management Personnel*** | | | | |
| RJ Frawley | 6,000 | – | 5,925 | 11,925 |
| MJ Shields | – | – | – | – |
| DJ O'Connor | – | 2,400 | (2,400) | – |
| DR Briggs | – | 1,400 | (1,400) | – |
| P Nutbean | 7,110 | 1,700 | (5,000) | 3,810 |
| S Blakeney | 4,400 | 1,050 | (5,450) | – |
| GW Pearce | 6,350 | 950 | (6,013) | 1,287 |
| AJ Penrose | – | – | 666 | 666 |
| J Pileio | – | – | – | – |
| D Aquilina | – | – | – | – |
| PG Beckett (i) | – | 2,050 | (2,050) | – |
| **Total** | **149,047** | **12,550** | **(13,832)** | **147,765** |

(i) PG Beckett's share holdings have been shown as nil at the end of the period as he is 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 29 June 2014 (FY2013 - $Nil).

No other transactions were undertaken with directors or other key management personnel, including related parties during the period (FY2013 - $Nil).

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**Company Performance**

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

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 |

(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 15 to 18 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 | Date Exercisable | Value at Grant Date $ | Exercise Price $ | Number on Issue |
|---|---|---|---|---|---|
| 18 Oct 2011 | 18 Oct 2016 | 1 Jul 2015 | 8.92 | – | 53,900 |
| 18 Oct 2012 | 18 Oct 2017 | 1 Jul 2016 | 12.24 | – | 99,500 |
| 10 Jan 2013 | 10 Jan 2018 | 1 Jul 2016 | 14.04 | – | 6,000 |
| 17 Oct 2013 | 17 Oct 2017 | 1 Jul 2016 | 16.89 | – | 63,800 |

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

**Shares issued and the exercise of options and performance rights**

The following shares of the Company were issued during the period ended 29 June 2014 and to the date of this report on the exercise of options and performance rights:

| Date Granted | Issue price of shares $ | Number of shares issued |
|---|---|---|
| 18 August 2009 | – | 18,000 |
| 15 September 2010 | – | 18,400 |
| **Total** | **–** | **36,400** |

No amounts are unpaid on any of these shares.

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## Remuneration of Auditors

| | Consolidated Entity | |
|---|---|---|
| | **2014** | 2013 |
| | **$** | $ |
| During the period the following fees for services were paid or payable to PricewaterhouseCoopers and its related parties as the auditor: | | |
| **Audit and Accounting Related Services** | | |
| Audit and review work | **240,000** | 236,730 |
| | **240,000** | 236,730 |
| **Tax Compliance and Consulting Services** | | |
| Tax compliance | **28,500** | 46,000 |
| Tax consulting advice | **66,600** | 30,000 |
| | **95,100** | 76,000 |
| **Other Services** | | |
| Other assurance services | **19,402** | 32,451 |
| **Total Remuneration** | **354,502** | 345,181 |

## 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 compromises 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 33 of this annual report.

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

**WJ Stevens**
Chairman

20 August 2014

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# AUDITORS INDEPENDENCE DECLARATION

pwc

## Auditor's Independence Declaration

As lead auditor for the audit of The Reject Shop Limited for the year ended 29 June 2014, 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 year.

Daniel Rosenberg
Partner
PricewaterhouseCoopers

Melbourne
20 August 2014

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

Liability limited by a scheme approved under Professional Standards Legislation.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the week Period Ended 29 June 2014

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| | | Consolidated Entity | |
|---|---|---|---|
| | Note | **2014 $'000** | 2013 $'000 |
| **Revenues from continuing operations** | | | |
| Sales revenue | 2a | **711,534** | 617,960 |
| Other revenue | 2a | **38** | 69 |
| | | **711,572** | 618,029 |
| **Other income** | 2b | **–** | 4,116 |
| **Expenses** | | | |
| Cost of sales | | **398,534** | 342,344 |
| Store expenses | | **252,722** | 213,157 |
| Administrative expenses | | **38,314** | 37,208 |
| | | **689,570** | 592,709 |
| Finance costs | 3 | **1,321** | 1,977 |
| **Profit before income tax** | | **20,681** | 27,459 |
| Income tax expense | 5 | **6,173** | 8,008 |
| **Profit for the period attributable to shareholders of The Reject Shop Limited** | | **14,508** | 19,451 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to Profit or Loss* | | | |
| Changes in the fair value of cash flow hedges | | **(12,047)** | 6,457 |
| Income tax relating to components of other comprehensive income | | **3,614** | (1,937) |
| Other comprehensive income for the period, net of tax | | **(8,433)** | 4,520 |
| **Total comprehensive income attributable to shareholders of The Reject Shop Limited** | | **6,075** | 23,971 |

| **Earnings per Share** | | **Cents** | Cents |
|---|---|---|---|
| Basic earnings per share | 30 | **50.3** | 73.4 |
| Diluted earnings per share | 30 | **49.9** | 72.4 |

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

# CONSOLIDATED BALANCE SHEET

As at 29 June 2014

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| | Note | Consolidated Entity 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash | 6 | **7,675** | 8,274 |
| Receivables | 7 | **682** | 847 |
| Inventories | 8 | **100,860** | 85,071 |
| Derivative financial instruments | 25 | **–** | 6,853 |
| Other | 9 | **2,714** | 624 |
| **TOTAL CURRENT ASSETS** | | **111,931** | 101,669 |
| **NON CURRENT ASSETS** | | | |
| Property, plant and equipment | 10 | **98,738** | 86,738 |
| Deferred tax assets | 11 | **11,307** | 5,745 |
| **TOTAL NON CURRENT ASSETS** | | **110,045** | 92,483 |
| **TOTAL ASSETS** | | **221,976** | 194,152 |
| **CURRENT LIABILITIES** | | | |
| Payables | 12 | **36,897** | 26,726 |
| Borrowings | 13 | **13,103** | 8,389 |
| Tax liabilities | | **697** | 3,074 |
| Provisions | 14 | **11,311** | 8,911 |
| Derivative financial instruments | 25 | **5,194** | – |
| Other | 15 | **9,880** | 9,488 |
| **TOTAL CURRENT LIABILITIES** | | **77,082** | 56,588 |
| **NON CURRENT LIABILITIES** | | | |
| Borrowings | 16 | **12,000** | – |
| Provisions | 17 | **11,248** | 11,147 |
| Other | 18 | **1,374** | 1,350 |
| **TOTAL NON CURRENT LIABILITIES** | | **24,622** | 12,497 |
| **TOTAL LIABILITIES** | | **101,704** | 69,085 |
| **NET ASSETS** | | **120,272** | 125,067 |
| **EQUITY** | | | |
| Contributed equity | 19 | **46,247** | 46,277 |
| Reserves | 20 | **808** | 10,136 |
| Retained profits | 21 | **73,217** | 68,654 |
| **TOTAL EQUITY** | | **120,272** | 125,067 |

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 29 June 2014

**Consolidated Entity**

| **2014** | **Contributed Equity $'000** | **Capital Profits $'000** | **Share Based Payments $'000** | **Hedging Reserve $'000** | **Retained Earnings $'000** | **Total $'000** |
|---|---|---|---|---|---|---|
| **Balance as at 30 June 2013** | **46,277** | **739** | **4,600** | **4,797** | **68,654** | **125,067** |
| **Profit for the period** | – | – | – | – | 14,508 | 14,508 |
| **Other comprehensive income** | – | – | – | (8,433) | – | (8,433) |
| **Transaction with owners in their capacity as owners:** | | | | | | |
| Proceeds from share issue | – | – | – | – | – | – |
| Cost of capital raising | (30) | – | – | – | – | (30) |
| Dividends Paid | – | – | – | – | (9,945) | (9,945) |
| Share based remuneration | – | – | (553) | – | – | (553) |
| Current tax – (debited) | – | – | (342) | – | – | (342) |
| **Balances as at 29 June 2014** | **46,247** | **739** | **3,705** | **(3,636)** | **73,217** | **120,272** |

**Consolidated Entity**

| **2013** | **Contributed Equity $'000** | **Capital Profits $'000** | **Share Based Payments $'000** | **Hedging Reserve $'000** | **Retained Earnings $'000** | **Total $'000** |
|---|---|---|---|---|---|---|
| **Balance as at 1 July 2012** | **3,366** | **739** | **3,971** | **277** | **60,162** | **68,515** |
| **Profit for the period** | – | – | – | – | 19,451 | 19,451 |
| **Other comprehensive income** | – | – | – | 4,520 | – | 4,520 |
| **Transaction with owners in their capacity as owners:** | | | | | | |
| Proceeds from share issue | 44,000 | – | – | – | – | 44,000 |
| Cost of capital raising | (1,089) | – | – | – | – | (1,089) |
| Dividends Paid | – | – | – | – | (10,959) | (10,959) |
| Share based remuneration | – | – | 619 | – | – | 619 |
| Current tax – credited directly to equity | – | – | 10 | – | – | 10 |
| **Balances as at 30 June 2013** | **46,277** | **739** | **4,600** | **4,797** | **68,654** | **125,067** |

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

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# CONSOLIDATED STATEMENT OF CASH FLOWS
For the 52 Week Period Ended 29 June 2014

| | Note | Consolidated Entity 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **781,429** | 678,829 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(745,569)** | (659,331) |
| Insurance claims received | | **619** | 8,828 |
| Interest received | | **38** | 69 |
| Borrowing costs paid | | **(1,295)** | (1,554) |
| Income tax paid | | **(10,902)** | (9,864) |
| **Net cash inflow from operating activities** | 24 | **24,320** | 16,977 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment | | **11** | 336 |
| Payments for property, plant and equipment | | **(31,669)** | (27,023) |
| **Net cash outflow from investing activities** | | **(31,658)** | (26,687) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Proceeds from share issue | | **–** | 44,000 |
| Costs associated with share issue | | **(30)** | (1,089) |
| Proceeds from borrowings | | **250,200** | 174,300 |
| Repayment of borrowings | | **(232,200)** | (198,700) |
| Dividends paid | 21 | **(9,945)** | (10,959) |
| **Net cash inflow from financing activities** | | **8,025** | 7,552 |
| **Net (decrease) / increase in cash held** | | **687** | (2,158) |
| Cash at the beginning of the financial period | | **6,885** | 9,043 |
| **Cash at the end of the period** | 24 | **7,572** | 6,885 |

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

# NOTES TO FINANCIAL STATEMENTS

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## 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, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations 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).

***New and amended standards***

None of the new standards and amendments to standards that are mandatory for the first time for the financial period beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 Presentation of Financial Statements effective 1 July 2012 now require the statement of comprehensive income to show items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

***Historical cost convention***

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

***Critical accounting estimates***

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

### (b) Principles of Consolidations

***(i) Subsidiaries***

The consolidated financial statements incorporate all the assets and liabilities of the subsidiary of The Reject Shop Limited as at 29 June 2014 and the results of the subsidiary for the period. The Reject Shop Limited and its subsidiary are referred to in this financial report as the consolidated entity.

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

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

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

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

***(ii) Employee Share Trust***

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

### (c) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the senior management personnel. The Reject Shop Limited has only one operating business segment. Refer to note 33 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.

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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 financial effect of the tax consolidation legislation has been recognised in these financial statements, with no material impact on the consolidated income statement or balance sheet.

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

**(e) Inventories**

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

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

**(f) Property, Plant and Equipment**

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

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

| Class of fixed asset | Useful Life |
|---|---|
| Leasehold Improvements and Office Equipment | 5 – 12 years |
| Fixtures and Fittings | 5 – 12 years |
| Motor vehicles | 3 – 5 years |
| Computer Equipment | 3 years |

**(g) Leases**

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

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

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

***Onerous Contracts***

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

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

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

**(h) Employee Benefits**

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

Liabilities for wages and salaries, annual leave and vested sick leave are recognised in respect of employees' services up to the reporting date, and are measured at the amounts expected to be settled, with payments expected beyond 12 months discounted, using the interest rates on national government bonds.

***(ii) Long service leave***

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and 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 government 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.

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**(l) Foreign Currency Translation**

***(i) Functional and presentation currency***

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

***(ii) Transactions and balances***

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

**(m) Trade and Other Payables**

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

**(n) Borrowing Costs**

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

**(o) Impairment of Property, Plant and Equipment**

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

**(p) Dividends**

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

**(q) Borrowings**

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

**(r) Contributed Equity**

Ordinary shares are classified as equity.

**(s) Earnings per Share**

***(i) Basic earnings per share***

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

***(ii) Diluted earnings per share***

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

**(t) Software Costs**

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

**(u) Restoration Costs**

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

**(v) Store Opening Costs**

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

**(w) Training Subsidies**

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

**(x) Cost of Sales**

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

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

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**(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 Class Order 98/100, 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 29 June 2014 reporting period certain accounting estimates and judgements were made in relation to provisioning for shrinkage expense, impairment, onerous lease provisions and net realisable value of inventory.

***(i) Provisioning for shrinkage expense***

The Company provides for shrinkage expense for the period since a store last completed a stock take. Management estimates this provision based on the actual stock take results recorded during the period. The assumptions made in relation to the current period are consistent with those in the prior year. Factors that could impact the estimated provision include the length of the time period since a store last completed a stock take or an improvement in the actual stocktake results ultimately recognised. As at 29 June 2014 this particular provision had a carrying amount of $4,234,808 (FY2013 - $3,240,078).

***(ii) Impairment***

The assessment of impairment on fixed 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, market or economic changes and plans to close stores.

A test of impairment can only be performed on 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 to sell or its value in use. The Company determines value in use by making certain assumptions including forecast future cash flows and discount rates. The assumptions on future cash flows have been developed based on past performance and expectations in relation to the future. The discount rate has been determined using market information relevant to the industry in which the Company operates.

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

***(iii) Onerous lease provisions***

The Company used a discounted future cash flows model to determine the estimated future economic benefits from the affected leases. The amount of the liability has been estimated based on continuing to operate lease locations until the end of the leases.

***(iv) Net realisable value of inventory***

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

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

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### (ab) New Accounting Standards and UIG Interpretations

The Reject Shop Limited has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2013:

- AASB 10 *Consolidated Financial Statements*, AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*
- AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period*
- AASB 13 *Fair Value Measurement and* AASB 2011-8 *Amendments to Australian Accounting Standards arising from* AASB 13
- AASB 119 *Employee Benefits (September 2011) and* AASB 2011-10 *Amendments to Australian Accounting Standards arising from* AASB *119 (September 2011)*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle,* and
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

Certain new accounting standards and UIG interpretations have been published that are not mandatory for the 29 June 2014 reporting period. The Company's assessment of the impact of these new standards and interpretations is set out below:

| Title of standard | Nature of change | Impact | Mandatory application date |
|---|---|---|---|
| AASB 9 Financial Instruments | AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities.<br><br>Since December 2013, it also sets out new rules for hedge accounting. | There is no expected impact on The Reject Shop Limited's accounting for financial assets and liabilities.<br><br>The new hedging rules align hedge accounting more closely with The Reject Shop Limited's risk management practices.<br><br>As a general rule it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation. | Must be applied for financial years commencing on or after 1 January 2017.<br><br>The Reject Shop Limited does not plan to early adopt any parts of AASB 9. |
| AASB 136 Impairment of assets | Remove the requirement to disclose the recoverable amount of all cash generating units (CGU) that contain goodwill or identifiable assets with indefinite lives if there has been no impairment.<br><br>Require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognised or reversed.<br><br>Require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed. | The Reject Shop Limited will continue to assess the potential affect that these changes could have on their impairment and will ensure that detailed disclosures of how the fair value less costs of disposal have been measured when an impairment loss has been recognised or reversed. | Must be applied for financial years commencing on or after 1 January 2014.<br><br>The Reject Shop Limited will adopt this standard for the financial year commencing 30 June 2014. |

| Title of standard | Nature of change | Impact | Mandatory application date |
|---|---|---|---|
| AASB 139 Financial Instruments: Recognition and Measurement | AASB 139 requires an entity to stop hedge accounting when a novation (replacement of one party of the derivative contract with a new party) occurs, because the original hedging instrument envisaged in the hedge documentation has changed. | The amendment allows The Reject Shop Limited to continue hedge accounting provided specific conditions are met. No material impact to the accounting policies. | Must be applied for financial years commencing on or after 1 January 2014. |
| AASB 119 Employee benefits | The amendment clarifies the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. | As The Reject Shop Limited does not have a defined benefit plan they do not expect these changes to impact their accounting policies. | Must be applied for financial years commencing on or after 1 January 2014. |

There are no other standards or interpretations 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.

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| | Note | Consolidated Entity 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Note 2: Revenue from Continuing Operations and Other Income** | | | |
| **(a) Revenue from continuing operations** | | | |
| Sales of goods | | **711,534** | 617,960 |
| Interest | | **38** | 69 |
| | | **711,572** | 618,029 |
| **(b) Other Income** | | | |
| Income from insurance claims | 4 | **–** | 4,116 |
| **Note 3: Expenses** | | | |
| **Profit before income tax expense includes the following expenses:** | | | |
| Interest and finance charges paid / payable | | **1,321** | 1,977 |
| Depreciation & amortisation expenses include: | | | |
| Cost of sales | | **2,310** | 2,186 |
| Store expenses | | **12,005** | 8,659 |
| Administrative expenses | | **3,634** | 3,216 |
| | | **17,949** | 14,061 |
| Foreign exchange loss | | **173** | 71 |
| Impairment of store assets | | **961** | – |
| Write off of store assets due to store closures | | **711** | 210 |
| Provision for onerous leases | | **745** | – |
| **Rental expenses relating to operating leases:** | | | |
| Minimum lease payments | | **98,790** | 84,614 |
| Rent paid on percentage of sales basis | | **421** | 390 |
| Employee benefits expense | | **151,959** | 131,360 |
| New store opening costs | | **4,767** | 3,475 |

## Note 4: Accounting for Insurance Claims

The company had a number of insured losses during the prior financial year. The most material of these claims related to the floods at the Company's Ipswich Distribution Centre in Queensland in January 2011.

Losses recognised in the Consolidated Statement of Comprehensive Income which are the subject of insurance recoveries are as follows:

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Cost of sales | | **–** | 172 |
| Store expenses | | **–** | 410 |
| Administrative expenses | | **–** | – |
| **Total insured expenses** | | **–** | 582 |
| Recoveries from insurance claims relate to: | | | |
| Loss of gross profits | | **–** | 3,319 |
| Inventory write-offs | | **–** | 274 |
| Property, plant and equipment write-offs | | **–** | 363 |
| Expenses | | **–** | 160 |
| | 2 | **–** | 4,116 |

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| | Note | Consolidated Entity 2014 $'000 | Consolidated Entity 2013 $'000 |
|---|---|---|---|

## Note 5: Income Tax Expense

**(a) Income tax expense**

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Current tax | | **8,192** | 10,069 |
| Deferred tax | | **(2,019)** | (2,061) |
| | | **6,173** | 8,008 |
| Deferred income tax expense included in income tax expense comprises: | | | |
| (Increase) in net deferred tax assets | | **(2,019)** | (2,061) |

**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Profit before income tax expense | | **20,681** | 27,459 |
| Tax at the Australian tax rate of 30% (2013 – 30%) | | **6,204** | 8,237 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | |
| Research and Development | | **(31)** | (229) |
| Income tax expense | | **6,173** | 8,008 |

**(c) Amounts recognised directly in equity**

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| 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 – (debited) / credited directly to equity | | **(342)** | 10 |

**(d) Tax income relating to items of other comprehensive income**

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Cash flow hedges | | **3,614** | (1,937) |

## Note 6: Current Assets – Cash

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Cash on hand | 24 | **1,416** | 1,235 |
| Cash at bank | 24 | **6,259** | 7,039 |
| | | **7,675** | 8,274 |

## Note 7: Current Assets – Receivables

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Other debtors | | **682** | 228 |
| Insurance receivable | | **–** | 619 |
| | | **682** | 847 |

## Note 8: Current Assets – Inventories

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Inventory at cost | | **98,019** | 84,423 |
| Inventory at net realisable value | | **2,841** | 648 |
| | | **100,860** | 85,071 |

## Note 9: Current Assets – Other

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Prepayments | | **2,081** | 427 |
| Other current assets | | **633** | 197 |
| | | **2,714** | 624 |

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| | Note | Consolidated Entity 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Note 10: Non-Current Assets – Property, plant and equipment** | | | |
| Leasehold improvements | | | |
| At cost | | **57,330** | 44,162 |
| Less accumulated depreciation | | **(21,032)** | (16,583) |
| | | **36,298** | 27,579 |
| Plant and equipment* | | | |
| At cost | | **121,157** | 107,305 |
| Less accumulated depreciation | | **(58,717)** | (48,146) |
| | | **62,440** | 59,159 |
| Total Property, Plant and Equipment | | **98,738** | 86,738 |

* Plant & equipment includes fixtures, fittings and motor vehicles as well as $3,911,300 (FY2013: $4,069,993) of work in progress costs. The 29 June 2014 work in progress costs include the WA Distribution Centre project $2,147,624 and new store fitouts and shelving $1,608,616.

**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 1 July 2013 | **27,579** | **59,159** | **86,738** |
| Additions at cost | **15,031** | **16,638** | **31,669** |
| Impairment of store assets | **(325)** | **(636)** | **(961)** |
| Asset write offs for store closures | **(353)** | **(358)** | **(711)** |
| Asset disposals | **–** | **(48)** | **(48)** |
| Depreciation/amortisation expense | **(5,634)** | **(12,315)** | **(17,949)** |
| Balance at 29 June 2014 | **36,298** | **62,440** | **98,738** |

| | Leasehold improvements $'000 | Plant and equipment $'000 | Total $'000 |
|---|---|---|---|
| Balance at 1 July 2012 | 20,406 | 53,913 | 74,319 |
| Additions at cost | 11,283 | 15,740 | 27,023 |
| Impairment of store assets | - | - | - |
| Asset write offs for store closures | (152) | (55) | (207) |
| Asset disposals | (59) | (277) | (336) |
| Depreciation/amortisation expense | (3,899) | (10,162) | (14,061) |
| Balance at 30 June 2013 | 27,579 | 59,159 | 86,738 |

In FY2014, the Company recognised a total of $961,380 (FY2013: $Nil) of impairment losses. The losses relate to fixed assets within the stores such as fixtures and fittings, store fitout and computer equipment. The poor trading performance and in some cases prohibitive occupancy costs in seven of the Company's stores has resulted in the carrying value of the assets being greater than the recoverable amount. The recoverable amount has been determined as the value in use of the assets which is the estimated future cash flows discounted back to the present value. The discount rate used was 12.07%.

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| | Consolidated Entity | |
|---|---|---|
| | **2014 $'000** | 2013 $'000 |
| **Note 11: Non-Current Assets – Deferred tax assets** | | |
| **The balance comprises temporary differences attributable to:** | | |
| Amounts recognised in profit or loss: | | |
| Employee benefits | **3,586** | **3,111** |
| Lease escalation | **2,889** | **2,527** |
| Hedging reserve | **1,558** | **–** |
| Inventories | **1,281** | **1,029** |
| Lease incentives | **939** | **838** |
| Depreciation | **1,068** | **444** |
| Other provisions and accruals | **128** | **122** |
| Employee share trust | **288** | **416** |
| Equity raising costs | **196** | **261** |
| Sundry items | **108** | **21** |
| | **12,041** | **8,769** |
| Set-off of deferred tax liabilities of consolidated entity pursuant to set-off provisions: | | |
| Depreciation | **(734)** | (782) |
| Sundry items | **–** | – |
| Insurance receivable | **–** | (186) |
| Hedging reserve | **–** | (2,056) |
| Research and development | **–** | – |
| Net deferred tax assets | **11,307** | 5,745 |
| Net deferred tax assets expected to be recovered within 12 months | **8,083** | 2,401 |
| Net deferred tax assets expected to be recovered after more than 12 months | **3,224** | 3,344 |
| Net deferred tax assets | **11,307** | 5,745 |

| **Movements – Consolidated** | **Employee Benefits** | **Inventories** | **Hedging Reserve** | **Other** | **Total** |
|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **At 1 July 2012** | **2,715** | **998** | **(119)** | **2,027** | **5,621** |
| (Charged) / credited | | | | | |
| – to profit or loss | **396** | **31** | **–** | **1,634** | **2,061** |
| – to other comprehensive income | **–** | **–** | **(1,937)** | **–** | **(1,937)** |
| **At 30 June 2013** | **3,111** | **1,029** | **(2,056)** | **3,661** | **5,745** |
| (Charged) / credited | | | | | |
| – to profit or loss | **475** | **252** | **–** | **879** | **1,606** |
| – to other comprehensive income | **–** | **–** | **3,614** | **–** | **3,614** |
| – direct to equity | **–** | **–** | **–** | **342** | **342** |
| **At 29 June 2014** | **3,586** | **1,281** | **1,558** | **4,882** | **11,307** |

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| | Consolidated Entity 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 12: Current Liabilities – Payables** | | |
| Unsecured liabilities | | |
| Trade payables | **31,511** | 21,569 |
| Sundry payables and accruals | **5,386** | 5,157 |
| | **36,897** | 26,726 |
| **Note 13: Current Liabilities – Borrowings** | | |
| Secured liabilities (i) | | |
| Bank overdraft | **103** | 1,389 |
| Cash advance (ii) | **13,000** | 7,000 |
| | **13,103** | 8,389 |

(i) Information about the security relating to each of the secured liabilities is provided in Note 16.

(ii) Cash advance will be settled within six months. A fixed interest rate of 3.7% (2013: 3.9%) is applied to the cash advance.

## Note 14: Current Liabilities – Provisions

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Employment entitlements | **11,311** | 8,911 |

**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 of which the appropriate amount is recognised in Note 17. 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. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Leave obligations expected to be settled after 12 months | **5,814** | 2,265 |

## Note 15: Current Liabilities – Other

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Accrued expenses | **7,098** | 7,501 |
| Deferred income | **2,461** | 1,987 |
| Onerous leases | **321** | – |
| | **9,880** | 9,488 |

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| | Consolidated Entity 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 16: Non-Current Liabilities – Borrowings** | | |
| Secured liabilities | | |
| Cash advance (i) | **12,000** | – |

(i) A fixed interest rate of 4.0% is applied to the cash advance.

All secured liabilities listed within note 13, 16 and 24 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 17: Non-Current Liabilities – Provisions

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Employment entitlements | **1,618** | 2,724 |
| Provision for rent escalation | **9,630** | 8,423 |
| | **11,248** | 11,147 |

| Movement in provision for rent escalation during the financial period is set out below: | $'000 |
|---|---|
| Balance at beginning of period | **8,423** |
| Transfer to profit and loss | **(3,484)** |
| Additional provision recognised | **4,691** |
| Balance at end of period | **9,630** |

The provision attributable to each lease expires over the life of the lease.

## Note 18: Non-Current Liabilities – Other

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Deferred income | **950** | 1,350 |
| Onerous leases | **424** | – |
| | **1,374** | 1,350 |

## Note 19: Contributed Equity

Movements in ordinary share capital:

| Date | Details | Number of issued shares | Issue price per share $ | Contributed Equity $'000 |
|---|---|---|---|---|
| **1 July 2012** | **Balance** | **26,071,170** | | **3,366** |
| 9 July 2012 | Exercise of performance rights | 21,050 | - | - |
| 24 April 2013 | Capital raising | 1,851,852 | 16.20 | 30,000 |
| 29 May 2013 | Capital raising | 864,176 | 16.20 | 14,000 |
| 29 May 2013 | Capital raising costs | - | - | (1,089) |
| **30 June 2013** | **Balance** | **28,808,248** | | **46,277** |
| 9 July 2013 | Exercise of performance rights | 18,000 | - | - |
| 11 July 2013 | Capital raising costs | - | - | (30) |
| **29 June 2014** | **Balance** | **28,826,248** | | **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.

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| | Consolidated Entity 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 20: Equity – Reserves** | | |
| Capital profits reserve | **739** | 739 |
| Share based payments reserve | **3,705** | 4,600 |
| Hedging reserve – cash flow hedges | **(3,636)** | 4,797 |
| | **808** | 10,136 |
| **Movements:** | | |
| Share based payments reserve: | | |
| Balance at beginning of period | **4,600** | 3,971 |
| Performance Rights expense | **(553)** | 619 |
| Deferred tax – share based payments | **(342)** | 10 |
| Balance at end of period | **3,705** | 4,600 |
| Hedging reserve – cash flow hedges | | |
| Balance at beginning of period: | **4,797** | 277 |
| Transfer to inventory | **(4,797)** | (277) |
| Revaluation of cash flow hedges | **(3,636)** | 4,797 |
| Balance at end of period | **(3,636)** | 4,797 |

**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 25. 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 but not exercised.

## Note 21: Equity – Retained Profits

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Retained profits at the beginning of the financial period | **68,654** | 60,162 |
| Net profit attributable to members of the consolidated entity | **14,508** | 19,451 |
| Dividends provided for or paid | **(9,945)** | (10,959) |
| Retained profits at reporting date | **73,217** | 68,654 |

Since the end of the financial period the directors have declared the payment of a final ordinary dividend of 8.5 cents per share.

## Note 22: Commitments

**Operating Lease Commitments**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Non cancellable operating leases contracted for but not capitalised in the financial statements payable: | | |
| Not later than one year | **99,668** | 85,716 |
| Later than one year and not later than five years | **216,726** | 200,284 |
| Later than five years | **23,579** | 36,056 |
| | **339,973** | 322,056 |

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

This does not include any rental payments payable as a percentage of sales contingent on achieving sales thresholds contained within existing operating leases ('percentage rent') as these amounts cannot be reliably measured for future periods. The amount expensed during the current period for percentage rent was $420,605 (FY2013: $389,651).

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**Capital Commitments**

The consolidated entity has capital commitments totalling $955,000 (FY2013: $3,938,000), all payable within one year.

| | Consolidated Entity | |
|---|---|---|
| | **2014 $'000** | 2013 $'000 |
| **Note 23: Contingent Liabilities** | | |
| Estimates of the maximum amount of contingent liabilities that may become payable: | | |
| Letters of credit established for acquisition of goods for resale | **59** | 22 |
| **Note 24: Statement of Cash Flow Information** | | |
| **Reconciliation of Cash Flow from operating activities with profit after income tax from ordinary activities** | | |
| Profit from ordinary activities after Income Tax | **14,508** | 19,451 |
| **Non cash items in profit from ordinary activities** | | |
| Depreciation | **17,949** | 14,061 |
| Impairment of store assets | **961** | – |
| Asset write offs on store closures | **711** | 207 |
| Loss on disposal of property, plant and equipment | **37** | – |
| Provision for onerous leases | **745** | – |
| Non cash share based expense | **(553)** | 619 |
| **Changes in assets and liabilities:** | | |
| (Increase) / Decrease in receivables and other assets | **(1,925)** | 5,964 |
| (Increase) in inventories | **(15,789)** | (22,849) |
| Increase / (Decrease) in trade, other creditors and other provisions | **15,615** | (529) |
| Increase / (Decrease) in income tax payable | **(2,377)** | 177 |
| (Increase) in deferred tax assets | **(5,562)** | (124) |
| Net cash provided by operations | **24,320** | 16,977 |
| **Reconciliation of cash** | | |
| Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the balance sheets as follows: | | |
| Cash on hand | **1,416** | 1,235 |
| Cash at bank | **6,259** | 7,039 |
| | **7,675** | 8,274 |
| Less: Bank overdraft | **(103)** | (1,389) |
| | **7,572** | 6,885 |

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**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:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Limit $'000** | **Utilised $'000** | **Limit $'000** | **Utilised $'000** |
| Interchangeable Working Capital Facility | **41,000** | **26,787** | 30,500 | 7,000 |
| Foreign Currency Settlement | **850** | **71** | 1,500 | 1,389 |
| Other Facilities | **22,605** | **1,414** | 22,655 | 1,275 |
| **Total Facilities** | **64,455** | **28,272** | 54,655 | 9,664 |

A seasonal facility of $15,000,000 was utilised from 1 October 2013 and repaid in full by 31 December 2013. Other facilities include an ANZ Bank indemnity guarantee of $1,600,000 of which $1,354,995 was utilised in relation to property leases at 29 June 2014.

| | Consolidated Entity | |
|---|---|---|
| | **2014 $'000** | 2013 $'000 |
| **Note 25: Financial Instruments and Financial Risk Management** | | |
| Derivative Financial Instruments | | |
| Current assets and (liabilities) | | |
| Forward foreign exchange contracts – cash flow hedges | **(5,194)** | 6,853 |

**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 contracted or 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** | **2014 $'000** | **2013 $'000** | **2014 $** | **2013 $** |
| Australian Dollars | United States Dollars | **149,564** | 64,925 | **0.90** | 1.02 |
| Australian Dollars | Euro | **5,240** | 2,572 | **0.67** | 0.78 |
| Australian Dollars | Pounds Sterling | **4,772** | 2,425 | **0.54** | 0.66 |

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

At the balance date the revaluation of these contracts to fair value resulted in a liability of $5,194,079 (FY2013 – asset of $6,853,334).

During the period $4,797,684 (FY2013 – $277,480) was removed from equity and included in the acquisition cost of goods and a net gain of $Nil (FY2013 – net $Nil) was transferred to the profit and loss.

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**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 as follows:

| | Consolidated Entity | |
|---|---|---|
| **Sensitivity Analysis – foreign exchange AUD/USD** | **2014 $'000** | 2013 $'000 |
| For every 1c increase in AUD:USD rate, total exposures (increase)/decrease by | | |
| Income Statement | **(12)** | 51 |
| Equity | **–** | – |
| For every 1c decrease in AUD:USD rate, total exposures decrease/(increase) by | | |
| Income Statement | **12** | (51) |
| Equity | **–** | – |

**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:

| | Weighted Average Effective Interest Rate | Floating Interest Rate $'000 | Fixed Interest Rate Maturing within 1 Year $'000 | Fixed Interest Rate Maturing 1 to 5 Years $'000 | Non-Interest Bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| *Financial Assets* | | | | | | |
| Cash | **1.44** | **7,675** | **–** | **–** | **–** | **7,675** |
| Receivables and other debtors | **–** | **–** | **–** | **–** | **682** | **682** |
| **Total Financial Assets** | | **7,675** | **–** | **–** | **682** | **8,357** |
| *Financial Liabilities* | | | | | | |
| Bank loans and overdrafts | **3.72** | **–** | **13,103** | **12,000** | **–** | **25,103** |
| Trade, sundry and other creditors | **–** | **–** | **–** | **–** | **45,581** | **45,581** |
| **Total Financial Liabilities** | | **–** | **13,103** | **12,000** | **45,581** | **70,684** |
| **2013** | | | | | | |
| *Financial Assets* | | | | | | |
| Cash | 1.75 | 8,274 | – | – | – | 8,274 |
| Receivables and other debtors | – | – | – | – | 847 | 847 |
| **Total Financial Assets** | | **8,274** | **–** | **–** | **847** | **9,121** |
| *Financial Liabilities* | | | | | | |
| Bank loans and overdrafts | 4.24 | – | 8,389 | – | – | 8,389 |
| Trade, sundry and other creditors | – | – | – | – | 34,728 | 34,728 |
| **Total Financial Liabilities** | | **–** | **8,389** | **–** | **34,728** | **43,117** |

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.

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| | Consolidated Entity | |
|---|---|---|
| | **2014 $'000** | 2013 $'000 |
| **Sensitivity Analysis – Interest Rates** | | |
| For every 100 basis points increase in interest rates | | |
| Income Statement | **(330)** | (365) |
| Equity | **–** | – |
| For every 100 basis points decrease in interest rates | | |
| Income Statement | **330** | 365 |
| Equity | **–** | – |

**Credit Risk**

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

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

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

**Capital Risk Management**

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

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

**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.

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| | Less than 6 months $'000 | 6 – 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Total contractual cash flows | Carrying Amount (assets) / liabilities $'000 |
|---|---|---|---|---|---|---|
| **Consolidated – At 29 June 2014** | | | | | | |
| **Non-derivatives** | | | | | | |
| Non-interest bearing | **45,581** | **–** | **–** | **–** | **45,581** | **45,581** |
| Variable rates | **–** | **–** | **–** | **–** | **–** | **–** |
| Fixed rate | **13,103** | **–** | **–** | **12,000** | **25,103** | **25,103** |
| **Total non-derivatives** | **58,684** | **–** | **–** | **12,000** | **70,684** | **70,684** |
| **Derivatives** | | | | | | |
| Net settled | **–** | **–** | **–** | **–** | **–** | **–** |
| Gross settled: | | | | | | |
| – (inflow) | **(120,970)** | **(55,476)** | **–** | **–** | **(176,446)** | **(176,446)** |
| – outflow | **125,796** | **55,844** | **–** | **–** | **181,640** | **181,640** |
| **Total derivatives** | **4,826** | **368** | **–** | **–** | **5,194** | **5,194** |
| **Consolidated – At 30 June 2013** | | | | | | |
| **Non-derivatives** | | | | | | |
| Non-interest bearing | 34,728 | – | – | – | 34,728 | 34,728 |
| Variable rates | – | – | – | – | – | – |
| Fixed rate | 8,389 | – | – | – | 8,389 | 8,389 |
| **Total non-derivatives** | **43,117** | **–** | **–** | **–** | **43,117** | **43,117** |
| **Derivatives** | | | | | | |
| Net settled | – | – | – | – | – | – |
| Gross settled: | | | | | | |
| – (inflow) | (76,775) | – | – | – | (76,775) | (76,775) |
| – outflow | 69,922 | – | – | – | 69,922 | 69,922 |
| **Total derivatives** | **(6,853)** | **–** | **–** | **–** | **(6,853)** | **(6,853)** |

**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.

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The following table presents the entity's assets and liabilities measured and recognised at fair value at 29 June 2014.

| | 2014<br>$'000<br>Level 2 | 2013<br>$'000<br>Level 2 |
|---|---|---|
| Derivatives used for hedging | **(5,194)** | 6,853 |

## Note 26: Key Management Personnel Disclosures

**Non-Executive Directors**

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

**Executive Directors**

Chris J Bryce – Managing Director (Resigned as a director on 23 May 2014 and as CEO on 27 June 2014).

All of the above persons were directors of The Reject Shop Limited for the entire period ended 29 June 2014, 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:

Michael J Shields – General Manager, Merchandise Buying
Darren J O'Connor – Chief Information Officer
Darren R Briggs – Chief Financial Officer and Company Secretary
Phillip Nutbean – General Manager, Property
Geoff W Pearce – General Manager, Business Transformation
Josie Pileio – General Manager, Human Resources
Danielle Aquilina – General Manager, Logistics
Allan J Penrose – General Manager, Marketing
Sam Blakeney – General Manager, Merchandise Planning (Resigned on 27 June 2014)
Michael Robertson – General Manager, Retail Operations (Appointed on 24 February 2014)
Ray J Frawley – General Manager, Retail Operations (Resigned on 6 September 2013)

All of the above persons were employed by The Reject Shop Limited and were key management personnel for the entire period ended 29 June 2014 unless otherwise stated.

**Remuneration of Directors and Key Management Personnel**

| | Consolidated Entity | |
|---|---|---|
| | **2014**<br>**$** | 2013<br>$ |
| Short-term employee benefits | **3,761,799** | 4,059,374 |
| Post-employment benefits | **231,093** | 217,060 |
| Share-based payments | **(424,185)** | 475,479 |
| | **3,568,707** | 4,751,913 |

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

The Company has taken advantage of the relief provided by ASIC class order 06/50 and has transferred the detailed remuneration disclosures to the director's report. The relevant information can be found on pages 18 to 30.

## Note 27: Share-based payments

**Performance Rights Plan (PRP)**

The PRP is the basis of The Reject Shop Limited's long term incentive 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 outstanding at the start of each financial period are detailed in the tables below:

**2014**

| 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 |
|---|---|---|---|---|---|---|---|---|---|
| 19 Aug 2009 | 17 Aug 2014 | 1 Jul 2013 | 11.65 | 18,000 | – | (18,000) | – | – | – |
| 13 Oct 2009 | 12 Oct 2016 | 16 Aug 2015 | 9.67 | 50,000 | – | – | (50,000) | – | – |
| 15 Sep 2010 | 15 Sep 2015 | 1 Jul 2014 | 15.27 | 38,000 | – | – | (24,400) | 13,600 | – |
| 20 Oct 2010 | 20 Oct 2015 | 1 Jul 2014 | 15.49 | 19,000 | – | – | (14,200) | 4,800 | – |
| 18 Oct 2011 (i) | 18 Oct 2016 | 1 Jul 2015 | 8.92 | 98,100 | – | – | (44,200) | 53,900 | – |
| 18 Oct 2012 (ii) | 18 Oct 2017 | 1 Jul 2016 | 12.24 | 162,800 | – | – | (63,300) | 99,500 | – |
| 10 Jan 2013 (iii) | 10 Jan 2018 | 1 Jul 2016 | 14.04 | 6,000 | – | – | – | 6,000 | – |
| 17 Oct 2013 (iv) | 17 Oct 2017 | 1 Jul 2016 | 16.89 | – | 91,900 | – | (28,100) | 63,800 | – |
| **Total** | | | | **391,900** | **91,900** | **(18,000)** | **(224,200)** | **241,600** | **–** |

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 37,100. The additional 16,800 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 54,300. The additional 45,200 performance rights will only be issued to key management personnel if targeted criteria are over achieved.

(iii) The performance rights that will vest if targeted criteria are met will be 3,000. The additional 3,000 performance rights will only be issued to key management personnel if targeted criteria are over achieved.

(iv) The performance rights that will vest if targeted criteria are met will be 38,100. The additional 25,700 performance rights will only be issued to key management personnel if targeted criteria are over achieved.

**2013**

| 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 |
|---|---|---|---|---|---|---|---|---|---|
| 19 Aug 2008 | 19 Aug 2013 | 2 Jul 2012 | 8.15 | 21,050 | – | (21,050) | – | – | – |
| 19 Aug 2009 | 17 Aug 2014 | 1 Jul 2013 | 11.65 | 36,000 | – | – | (18,000) | 18,000 | – |
| 13 Oct 2009 | 12 Oct 2016 | 16 Aug 2015 | 9.67 | 50,000 | – | – | – | 50,000 | – |
| 15 Sep 2010 | 15 Sep 2015 | 1 Jul 2014 | 15.27 | 44,100 | – | – | (6,100) | 38,000 | – |
| 20 Oct 2010 | 20 Oct 2015 | 1 Jul 2014 | 15.49 | 19,000 | – | – | – | 19,000 | – |
| 18 Oct 2011 | 18 Oct 2016 | 1 Jul 2015 | 8.92 | 107,300 | – | – | (9,200) | 98,100 | – |
| 18 Oct 2012 | 18 Oct 2017 | 1 Jul 2016 | 12.24 | – | 162,800 | – | – | 162,800 | – |
| 10 Jan 2013 | 10 Jan 2018 | 1 Jul 2016 | 14.04 | – | 6,000 | – | – | 6,000 | – |
| **Total** | | | | **277,450** | **168,800** | **(21,050)** | **(33,300)** | **391,900** | **–** |

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

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

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

The non-financial criteria, which carry a 40% weighting toward the performance rights vesting, consists of a number of improvements in operational aspects considered critical to the long-term development of the business. These non-financial criteria include:

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

The Board retain the right to assess all aspects of the vesting conditions for future performance rights grants and is strongly considering increasing the weighting toward the financial criteria listed above.

Performance rights, which are an entitlement to a share, have traditionally vested four years after grant date, representing a three year earnings period over which the established financial and non-financial criteria are measured, and an additional one year service period the employee must satisfy prior to vesting of the shares. However, effective from the rights issues in October 2013, vesting of shares will now occur over the three year period over which the established financial and non-financial criteria are measured. Rights participants will no longer have to serve the additional twelve month service period before such rights are able to vest.

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 17 October 2013 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: $17.86;

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

(e) expected dividend yield: 2.07%; and

(f) risk-free interest rate: 2.50%

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

Performance rights do not carry voting or dividend entitlements.

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

**Remuneration Expenses arising from share-based payment transactions**

| | Consolidated | |
|---|---|---|
| | **2014 $** | 2013 $ |
| Performance rights granted | **(353,231)** | 618,564 |

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| | Consolidated Entity | |
|---|---|---|
| | **2014** **$** | 2013 $ |
| **Note 28: Remuneration of Auditors** | | |
| During the period the following fees for services were paid or payable to PricewaterhouseCoopers and its related parties as the auditor: | | |
| Audit and Assurance Related Services | | |
| Audit and review work | **240,000** | 236,730 |
| Other assurance services | **19,402** | 32,451 |
| | **259,402** | 269,181 |
| Tax Compliance and Consulting Services | | |
| Tax compliance | **28,500** | 46,000 |
| Tax consulting advice | **66,600** | 30,000 |
| | **95,100** | 76,000 |
| **Total remuneration** | **354,502** | 345,181 |
| **Note 29: Dividends** | | |
| Since period end the directors have declared the payment of a fully franked final dividend of 8.5 cents per share. The amount of the proposed dividends is to be paid on 13 October 2014 out of retained profits, but not recognised as a liability at period end. | **2,450** | 3,745 |
| 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% | **39,245** | 35,498 |

**Dividends recognised during the reporting period:**

Dividends paid to members during the financial period was a final ordinary dividend for the financial period ended 30 June 2013 of 13.0 cents per share totalling $3,747,412 paid on 14 October 2013. An interim ordinary dividend for the financial period ended 29 June 2014 of 21.5 cents per share (2013: 24.0 cents per share) totalling $6,197,652 (2013: $6,262,133) was paid on the 14 April 2014 (2013: 15 April 2013).

| | Consolidated | |
|---|---|---|
| | **2014** **Cents** | 2013 Cents |
| **Note 30: Earnings per share** | | |
| Basic earnings per share | **50.3** | 73.4 |
| Diluted earnings per share | **49.9** | 72.4 |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **28,825,804** | 26,506,067 |
| Adjustments for dilutive portion of performance rights | **223,041** | 341,898 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | **29,048,845** | 26,847,965 |

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 the Renumeration Report.

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| | Consolidated Entity | |
|---|---|---|
| | **2014 Cents** | 2013 Cents |
| **Note 31: Net Tangible Assets** | | |
| Net tangible asset backing per ordinary share | 419.1 | 434.1 |

| | Parent Entity | |
|---|---|---|
| | **2014 $'000** | 2013 $'000 |

## Note 32: Parent Entity Financial Information

**(a) Summary financial information**
**The individual financial statements for the parent entity show the following aggregate amounts:**

| | | |
|---|---|---|
| **Balance Sheet** | | |
| Current assets | **111,931** | 101,669 |
| Total assets | **221,977** | 194,153 |
| Current liabilities | **78,086** | 57,592 |
| Total liabilities | **102,708** | 70,089 |
| Shareholders' equity | | |
| Issued capital | **46,247** | 46,277 |
| Reserves | **808** | 10,136 |
| Retained earnings | **72,214** | 67,651 |
| | **119,269** | 124,064 |
| Profit or Loss for the year | **14,508** | 19,451 |
| Total Comprehensive Income | **6,075** | 23,971 |

| | | |
|---|---|---|
| **(b) Guarantees entered into by the parent entity** | | |
| Carrying amount included in current liabilities | **–** | – |

Refer to note 22 and 23 for disclosures concerning contractual commitments and contingent liabilities for the parent entity.

## Note 33: Segment information

The Reject Shop operates within one reportable segment (retailing of discount variety merchandise). Total revenues of $711,534,110 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 34: Subsidiaries

The Reject Shop Limited has a 100% owned non-operating subsidiary, TRS Trading Group Pty Ltd incorporated in Australia. There were no transactions between the parent entity and its subsidiary during the period (FY2013 – 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 35: 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 36: Related Party Transactions

No related party transactions were entered into during the period ended 29 June 2014.

# DIRECTORS' DECLARATION

In the directors' opinion:

(a) The financial statements and notes set out on pages 34 to 61 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

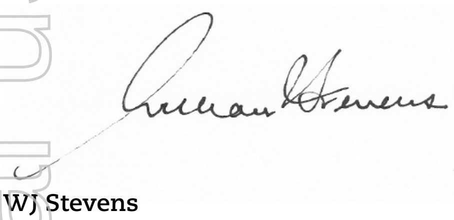
   (ii) giving a true and fair view of the consolidated entity's financial position as at 29 June 2014 and of its performance for the financial period ended on that date; and

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

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

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

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



**WJ Stevens**
Chairman

Dated this 20th day of August 2014

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

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

### *Report on the financial report*

We have audited the accompanying financial report of The Reject Shop Limited (the company), which comprises the balance sheet as at 29 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 1 July 2013 to 29 June 2014, a summary of significant accounting policies, other explanatory notes and the directors' declaration for The Reject Shop Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

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

### *Auditor's responsibility*

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

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

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

### *Independence*

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

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

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

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*Auditor's opinion*

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 29 June 2014 and of its performance for the year ended on that date; and

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

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

***Report on the Remuneration Report***

We have audited the remuneration report included on pages 18 to 31 of the directors' report for the year ended 29 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the remuneration report of The Reject Shop Limited for the year ended 29 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Daniel Rosenberg
Partner

Melbourne
20 August 2014

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# SHAREHOLDERS' INFORMATION

The shareholder information set out below was applicable as at 31 July 2014.

(a) The distribution of shareholding was as follows:

| Size of Shareholding | Shareholders |
|---|---|
| 1 – 1,000 | 5,695 |
| 1,001 – 5,000 | 2,636 |
| 5,001 – 10,000 | 290 |
| 10,001 – 100,000 | 134 |
| 100,001 and over | 13 |

(b) 334 shareholders hold less than a marketable parcel of shares, being a market value of less than $1,000

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

| Shareholder | Number | % Held |
|---|---|---|
| Hyperion Asset Management Limited | 2,879,537 | 9.99% |
| BT Investment Mgt. | 2,878,680 | 9.99% |
| Clime Asset Management | 1,854,026 | 6.43% |
| Alleron Investment Management Limited | 1,684,194 | 5.84% |

(d) The fully paid issued capital of the Company consisted of 28,826,248 shares held by 8,768 shareholders.

Each share entitles the holder to one vote.

(e) Unquoted Equity Securities

| | Number on Issue | Number of holders |
|---|---|---|
| Performance Rights issued under The Reject Shop Performance Rights Plan | 223,200 | 17 |

(f) Twenty largest shareholders

| Shareholder | Number | % Held |
|---|---|---|
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 3,854,557 | 13.36% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 3,213,469 | 11.14% |
| NATIONAL NOMINEES LIMITED | 3,068,601 | 10.64% |
| CITICORP NOMINEES PTY LIMITED | 1,354,886 | 4.70% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 997,370 | 3.46% |
| RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED | 511,396 | 1.77% |
| GRAHGER CAPITAL SECURITIES PTY LTD | 500,577 | 1.74% |
| WARBONT NOMINEES PTY LTD | 453,232 | 1.57% |
| BNP PARIBAS NOMS PTY LTD | 371,398 | 1.29% |
| CITICORP NOMINEES PTY LIMITED | 290,623 | 1.01% |
| GRAHGER CAPITAL SECURITIES PTY LTD | 200,000 | 0.69% |
| AUSTRALIAN EXECUTOR TRUSTEES LIMITED | 124,324 | 0.43% |
| MR ROBERT THOMAS & MRS KYRENIA THOMAS | 106,500 | 0.37% |
| ANZ TRUSTEES LIMITED | 99,501 | 0.34% |
| BAINPRO NOMINEES PTY LIMITED | 89,328 | 0.31% |
| ECAPITAL NOMINEES PTY LIMITED | 77,864 | 0.27% |
| HIGHMONT HEIGHTS PTY LTD | 73,658 | 0.26% |
| DR ANDREW RICHARD CONWAY & DR VANESSA JOY TEAGUE | 70,925 | 0.25% |
| ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD | 66,276 | 0.23% |
| WOOLYA PTY LTD | 64,325 | 0.22% |

The twenty members holding the largest number of shares together held a total of 54.04% of the issued capital.

(g) Restricted Shares

There are no restricted shares on issue.

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# CORPORATE DIRECTORY

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### Directors

William J Stevens
*Chairman*

Kevin J Elkington
*Non-executive Director*

Denis R Westhorpe
*Non-executive Director*

Melinda Conrad
*Non-executive Director*

### Company Secretary

Darren R Briggs

### Principal Registered Office

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

### Share Registry

Link Market Services Ltd
Level 9, 333 Collins St
Melbourne Vic 3000

### Auditors

PricewaterhouseCoopers
Freshwater Place
2 Southbank Boulevard
Southbank Vic 3006

### Lawyers

Baker McKenzie
Level 39
525 Collins Street
Melbourne Vic 3000

### Stock Exchange Listing

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

### Website

www.rejectshop.com.au

THE REJECT SHOP

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