

EVERYONE'S A WINNER AT THE REJECT SHOP

**ASX Release
(ASX:TRS)**

25 May 2011

MARKET UPDATE

IPSWICH DISTRIBUTION CENTRE & UPDATED TRADING AND PROFIT GUIDANCE FY 2011

The Reject Shop Limited today announced it has commenced re-commissioning its Ipswich Distribution Centre (DC) with a target of late August 2011 to have the facility fully operational. The DC was closed in January 2011 as a result of the Queensland floods.

This market update outlines the process and timetable for the re-commissioning of the DC and the impact closure of the DC has had on trading and profit guidance for FY2011, and the current status of insurance recoveries and claims.

Re-commissioning of Ipswich DC

The decision to recommission the DC was taken after a careful consideration of the options available to the Company.

The DC is currently operating in a rudimentary fashion following the loss of key internal infrastructure due to the flood. The key steps in re-commissioning the DC include:

- Gradual re-instatement of key equipment in the next few weeks with full re-instatement by late July 2011. Much of the equipment has had to be sourced from overseas, with significant lead times;
- The development and implementation of a site flood mitigation plan, to significantly reduce any potential future asset and inventory loss, as well as reducing the associated operational impact and recovery time; and
- Progressive re-stocking of the facility to service stores with all stock types by late August 2011 ahead of the peak seasonal build-up of inventory.

Current logistics arrangements, including capacity to accommodate planned growth in new stores pre-August 2011, will continue until the re-commissioning is complete which is expected to be by late August 2011.

Commenting, the Managing Director of The Reject Shop, Mr. Chris Bryce, said "Despite the restructure of our distribution capability in recent months to cope with the closure of the DC, we remain significantly constrained in our ability to service stores until the Ipswich DC re-opens.

Notwithstanding these constraints it is pleasing to have been able to continue the expansion of our store network, with six successful store openings this half all of which have delivered sales above expectations," he said.

Store openings during the period have been spread across the Company's existing network with two new stores in Western Australia and four in Queensland, including a further store in Far North Queensland in Atherton, outside Cairns. In addition, the Company has also significantly upsized its store in Marion, South Australia.

Another new store will open this week in Gladstone, Queensland in addition to the relocation of the Company's Geelong store later this week.

Trading update

Following the closure of the Ipswich DC, trading has been significantly impacted by the combined effects of the initial loss of inventory and the inability to ensure required inventory is being sent to stores in a timely fashion and in sufficient quantity. Consequently sales have not met targeted levels for the second half of FY2011, with negative comparable stores sales growth for the half to date.

Commenting Mr. Bryce said "The sales performance does not accurately reflect the potential trading performance of the business given the significant amount of inventory lost in the flood, and which understandably took time to replace. The ongoing DC capacity constraints made the task of getting back in stock even more challenging. Nonetheless, we are pleased with the improved overall in-stock position across our store network, when compared to the initial post flood period. This has led to gradually improving sales trends; however, servicing store needs remains challenging and will remain so through to the re-opening of the Ipswich DC".

Flood insurance reimbursements and claims

The Company has received insurance payments totaling \$12m covering a combination of lost inventory, asset replacement and some recovery of necessary additional costs currently being incurred. These payments broadly equate to cash outflows to date as a result of the closure. Ongoing claims under the insurance cover are being made on a progressive basis, with any amounts unpaid recorded as an insurance receivable.

The Company expects that the total insurance claims and recoveries will be significantly higher than amounts received to date. Additional recoveries will encompass further reimbursement for asset replacement, continuing additional costs of working and final determination of lost sales and gross profit. An estimate of amounts outstanding, which the Company believes to be virtually certain to be recovered under insurance, will be recorded as a receivable at year end and will be reflected in the FY2011 accounts.

Given that the re-opening of the Ipswich DC is not scheduled until early next financial year (FY2012), the insurance recovery process will continue until the business is operating at full capacity. The Company's existing insurance cover for losses arising from the closure of the facility extends into next financial year for a period up to 12 months from the DC closure for loss of gross profits and for up to 18 months to cover additional costs of working.

Profit Guidance

Given the ongoing insurance recovery process is unlikely to be concluded for a number of months, the overall profit for the half and therefore the year is largely dependent on recovering, via insurance, lost sales and gross profits, which at this point cannot be fully determined.

Despite the uncertainty over the finalisation of insurance recoveries, the Company now expects it is unlikely to recover all the financial impacts of the flood. Accordingly, the NPAT for FY2011 is now expected to be between \$16m and \$17m, against guidance provided prior to the flood of between \$21m and \$22m.

Looking Ahead

The closure of the Ipswich DC has not limited the Company's future store opening program with 15 new stores already confirmed for FY2012.

Mr. Bryce said: "The loss of the Ipswich DC has impacted the business in the short term and provided the Company with numerous challenges. We expect retail conditions to remain challenging, and while there will be some ongoing operational impacts continuing into next financial year, we believe we should be operating at full capacity prior to the peak seasonal period. Despite current retail conditions and some progress on planned strategic initiatives being deferred, the business remains strong and we remain steadfast with our long term growth plans."

Also commenting, the Company's Chairman, Mr. Bill Stevens stated: "The disruption caused by the closure of the Ipswich DC has been pronounced, however the response by management and staff has been exceptional. I would like to take this opportunity, on behalf of the Board, to thank management and staff for their dedication and resilience throughout the past few months."

The Reject Shop Limited

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