

The 8 Principles and Recommendations of Corporate Governance

The ASX Corporate Governance Council released the 3rd edition of the Principles and Recommendations which took effect for an entity's first full financial year commencing on or after 1 July 2014 and are summarised as follows:

- Lay solid foundations for management and oversight
- Structure the Board to add value
- Act ethically and responsibly
- Safeguard integrity in Corporate reporting
- Make timely and balanced disclosure
- Respect the rights of security holders
- Recognise and manage risk
- Remunerate fairly and responsibly

The Board and senior management intend to comply with each of these recommendations and outlined within this document are the principles by and within which the Board, senior management and The Company's employees operate.

To provide clarity we have, wherever possible, aligned our principles with the recommendations provided by the ASX Corporate Governance Council.

Principle 1 – Lay Solid Foundations for Management and Oversight

To establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.

Role of Board

The role of the Board is to provide strategic guidance for The Reject Shop Limited (“**Company**”) and effective oversight of management. The Board delegates the responsibility for day-to-day management of the Company to the Managing Director (“**MD**”).

Responsibilities of Board

The Board is responsible to the Company for:

- The overall monitoring of the senior management’s performance;
- Implementation of strategy;
- Ensuring appropriate resources are available; and
- Promoting best practice corporate governance.

In particular, the Board has the following responsibilities:

- Contributing to, endorsing and monitoring management’s development of the corporate strategy and performance objectives for the Company;
- Overseeing the Company’s control and accountability systems,
- Establishing policies on risk oversight and management and reviewing at least annually:
 - The systems of internal compliance and control,
 - Codes of conduct; and
 - Systems of legal compliance
- Establishing written policies and procedures to ensure compliance with the ASX Listing Rules disclosure requirements and ensure accountability at a senior management level for that compliance;
- Vetting and authorising company announcements and ensuring they are timely, factual, do not omit material information and are expressed clearly and objectively;
- Approving and monitoring major capital expenditure and capital management;
- Reviewing and approving annual and half yearly financial statements;
- Monitoring financial results on an ongoing basis;
- Determining the dividend policy of the Company and declaring dividends;
- Establishing appropriate committees such as an Audit Committee (**See Audit & Risk Committee Charter**), and a Remuneration Committee (**See Remuneration Committee Charter**).
- Appointing, reviewing and removing the MD, Chief Financial Officer (“**CFO**”), Company Secretary and other key executives and approving succession plans for the all key executives and Board members.

Principle 2 – Structure the Board to Add Value

General Structure

The Board is structured to comply with the ASX Governance in that:

- It is comprised of a majority of independent Directors
- The Chairman is an independent Director
- The Board has established the appropriate committees, including:
 - An Audit Committee, comprised of independent Directors and not chaired by the Chairman of the Company; and
 - A Remuneration Committee comprised of non-executive Directors only.

The Board has adopted a Board Charter which outlines in detail the structure of the Board including, but not limited to:

- Appointment of Directors
- Skills required on the Board
- Independence of the Board
- Ongoing Review of Board function
- Establishment of appropriate Board Committees and their composition
- Timing, attendance and record of Meetings
- Roles of public officers of the Company including the MD, CFO, Company Secretary and Chairman of the Board
- The role of Individual Directors and their obligations to the Company and Shareholders
- The Company's policy in dealing with the media, analysts and institution;
- The access to information by the board and independent advice;
- The level of insurance for Directors and officers of the Company; and
- Remuneration of Directors and senior management (**see Remuneration Committee Charter**).

THE REJECT SHOP LIMITED **CORPORATE GOVERNANCE POLICY**

Principle 3 – Act ethically and responsibly

Trading Policy

The Company has in place a policy for Directors, officers and employees in regard to trading in Company securities (see **Share Trading Guidelines**).

Code of Conduct

The Company has in place a code of conduct to guide the Directors, senior management and employees as to:

- The standards of ethical behaviour required of Directors and key executives and all employees; and
- The responsibility and accountability for reporting and investigating unethical practices.

Continuous Disclosure Policy

The Company has in place a continuous disclosure policy. The policy is reviewed and updated on a regular basis. The aim of the policy is to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. (See **Continuous Disclosure Policy**).

Communications Strategy

The Company has in place a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings (see **Continuous Disclosure Policy**).

Principle 4 – Safeguard Integrity in Corporate Reporting

The Company has in place a number of policies and procedures to ensure it safeguards the integrity in Corporate Reporting, including:

- Establishing an independent, financially competent Audit Committee with a defined charter (**see Audit Committee Charter**).
- Establishing a formal sign off by the MD and CFO with respect to The Company's financial reports;
- Established monthly financial and operational reporting guidelines to the Board which are also distributed monthly to the external auditors.

Role of Audit Committee

The Audit Committee is a committee of the Board of Directors established under the Company's constitution. The Audit Committee Charter sets out the role, composition, authority, responsibilities and operation of the Committee which includes:

- Assisting the Board in fulfilling its oversight of the reliability and integrity of financial management, accounting policies, asset management and financial reporting and disclosure practices;
- Advising the Board on the matter of internal control including financial statements, due diligence, financial systems integrity and risk management;
- Establishing and maintaining processes to ensure that there is:
 - Compliance with all applicable laws, regulations and company policy; and
 - Adequate systems of internal control, risk management and safeguarding of assets.
- Advising the board on appropriate ethical standards for the management of The Company;
- Overseeing the relationship, appointment and work of internal and external auditors; and
- Strengthening the role and influence of non-executive Directors.

Principle 5 – Make Timely and Balanced Disclosure

Continuous Disclosure Policy

The Company is committed to:

- Complying with the continuous disclosure obligations contained in the Listing Rules of the Australian Stock Exchange and under the Corporations Act; and
- Ensuring that all shareholders and the market have an equal opportunity to obtain and review full and timely information about The Reject Shop's securities.

A Continuous Disclosure Policy been developed and adopted by the Board to meet the above objectives (**See Continuous Disclosure Policy**).

In summary, information should and will be disclosed by the Company to the ASX if it is likely the information would influence investors in deciding whether or not to trade The Reject Shop securities except where all the following requirements are met:

- The information is confidential and the ASX has not formed the view that the information has ceased to be confidential; and
- A reasonable person would not expect the information to be disclosed; and
- One or more of certain conditions contained in the ASX Listing Rules are satisfied.

Communications Policy

The Company Secretary is The Reject Shop's Communications Officer and must authorise all market communications and where possible, be present during meetings with investors and analysts. In addition, only a limited number of executives are authorised to comment publicly on the Company's operations ("authorised spokespersons").

The Company's authorised spokespersons are the Chairman, MD, CFO and Company Secretary.

Generally, employees who are not authorised spokespersons should not comment publicly on the operations of The Reject Shop and must not disclose information which is potentially the subject of this policy to any person outside The Reject Shop, (and its professional advisors).

The Company's general policy on responding to market speculation and rumours is that "The Company does not respond to market rumours". This general policy must be observed by employees at all times.

The Company will only issue a statement in relation to market speculation where:

- The Reject Shop is required to respond to a formal request from the ASX for information; or
- The Reject Shop considers it has an obligation to make a statement to the market about a particular matter.

Principle 6 – Respect the Rights of Security Holders

The Company will use its best endeavours to provide its shareholders with all relevant information in a timely manner and in a form suitable to their needs.

The Company is listed on the Australian Stock Exchange and must comply with Listing Rule 3.1 - Continuous Disclosure (see **Continuous Disclosure Policy**).

Information is communicated to shareholders by the Company through:

- the annual financial report (for those shareholders who have requested a copy);
- disclosures to the Australian Stock Exchange and the Australian Securities & Investments Commission;
- notices and explanatory memoranda of annual general meetings;
- occasional letters from the Managing Director and Chairman to specifically inform shareholders of key matters of interest;
- presentations to analysts and other major announcements released to the ASX;
- all relevant announcements and information can be found on the Company's website at www.rejectshop.com.au;
- The Annual General Meeting where:
 - Shareholders are encouraged to ask questions; and
 - The External Auditor is requested to attend each year and be prepared to answer questions concerning their audit or the financial reports.

All shareholders are welcome to communicate directly with the Company. The current contact for shareholder queries at any time is:

Darren Briggs
Company Secretary
The Reject Shop Limited
245 Racecourse Road,
Kensington, VIC 3031

Ph: (03) 9371 5555
Fax: (03) 9372 1576

THE REJECT SHOP LIMITED

CORPORATE GOVERNANCE POLICY

Principle 7 – Recognise and Manage Risk

The Company has established policies and business practices to manage risk within the business. It is the role of the Audit Committee to oversee the management of risk within the business on behalf of the Board in particular:

- Advise the board on the matter of internal control including financial statements, due diligence, financial systems integrity and risk management; and
- Establish and maintain processes to ensure that there is:
 - Compliance with all applicable laws, regulations and company policies; and
 - Adequate systems of internal control, risk management and safeguarding of assets.

The Company's risk is mitigated by established policies and practices with regards to:

- Prevention and Detection of Fraud via an Audit and Loss Prevention function;
- Capital Expenditure;
- New Site Evaluations;
- Occupational, Health and Safety systems and processes;
- Public, regulatory and product liability exposure;
- Data Management;
- Foreign Exchange

Principle 8 – Remunerate Fairly and Responsibly

As outlined above the Company has comprehensive policies and procedures established to monitor the performance of Directors and senior executives. Performance evaluation is overseen by The Remuneration Committee (see **Remuneration Committee Charter**). The role of the Remuneration Committee is to review and make recommendations to the Board regarding:

- The remuneration and appointment of senior executive officers and non-executive Directors;
- Policies for remuneration and compensation programs of the Company;
- All equity based remuneration or compensation plans.

In addition, the Remuneration Committee reports to the board regularly on each of the above matters, including any independent advice sought thereby:

- Ensuring the board, management and the Committee are provided with sufficient information to ensure informed decision making, including:
 - Reviewing industry trends in remuneration policy and apply appropriate practice principles when making recommendations; and
 - Reviewing market rates of remuneration for the positions of MD, CFO, other senior executives and non-executive Directors;

The Remuneration Committee also reviews and makes recommendations to the Board regarding:

- Goals and performance objectives for all senior management;
- Policies and procedures for the appointment and cessation of senior executives including termination payments under such terms of appointment;
- The remuneration framework for Directors;
- The compensation of non-executive Directors annually; and
- The terms of share and performance rights and other incentive schemes offered by the Company as part of its remuneration policies;

The Remuneration Committee will also ensure the Company's compliance with respect to disclosure of remuneration in the Company's annual report.

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Other Relevant Policies

This document provides an overview of the Company's approach to Corporate Governance and should be read in conjunction with:

- The Board Charter;
- The Audit Committee Charter;
- The Remuneration Committee Charter
- The Continuous Disclosure Policy
- The Share Trading Policy