



JB HI-FI LIMITED  
14 SPINK STREET  
BRIGHTON VIC 3186  
PHONE: (03) 8530 7333  
FACSIMILE: (03) 9596 9816  
ABN: 80 093 220 136  
[www.jbhifi.com.au](http://www.jbhifi.com.au)

COMPANY ANNOUNCEMENT

15 February 2006

## **JB Hi-Fi Reports Sales Up 36%, Profit Up 29%**

JB Hi Fi Limited today reported a record half year net profit\* of \$18.8 million (2004 \$14.6m) from \$510 million of sales (2004 \$376m) for the six months ended 31 December 2005.

Comparable store growth for the six months was 7.1% for JB Hi-Fi stores and -5.0% for Clive Anthonys stores, resulting in consolidated comparable store growth of 5.3%. Operating expenditure as a percentage of sales remained a low 15.8%. Gross profit remained steady at 22.8% after backing out the impact of games.

The Company has declared a fully franked dividend of 3.6 cents per share to be paid on 13 April 2006. The record date for determining the entitlement is the 31 March 2006.

CEO Richard Uechtritz commented "After strong Christmas and post Christmas sales consumers seem to have reverted to similar spending patterns experienced in 2005 with sales in January and February to date softer than the growth achieved in December."

The company opened 12 new JB stores in the six month period and expects to open 6 new JB stores in the second half to bring the total for the year to 18. The company expects to open approximately 13 new stores in FY 2007.

Visual, portable audio and games showed strong growth, music, movies and cameras were steady whilst audio and car audio were slowing. The move into the games business in particular has been a great success with the company already placed as one of the major retailers in the market.

The Clive Anthonys business in south east Queensland has traded well in a difficult market, and December and January were good months with stronger sales in air conditioning and computers.

"We are very pleased with this strong result in what has been a difficult trading period for all retailers. We were chasing some big numbers from the previous corresponding period before weaker consumer spending became evident early in calendar year 2005." Mr Uechtritz said.

"Our unique and low cost model is proving to be very resilient in these difficult times. Notwithstanding more intense competition and a shift in our product mix to lower margin items our scale and discount positioning has protected our gross margin."

"All 12 new stores traded well and we continue to grow our national market share. We were particularly pleased with our 7 new Sydney stores. Sydneysiders have taken to our retail concept enthusiastically and we look forward to good growth in this market."

Richard Uechtritz  
Chief Executive Officer  
M: 0412 678 299

\* Based on new International Financial Reporting Standards (IFRS). Under previous AGAAP accounting standards, the half year NPAT for the six months ended 31 December 2005 would have been \$19.4m (2004 \$15.4m)

***JB....you've done it again!***

Half Year Report Of  
JB Hi-Fi Limited  
for the Period Ended 31 December 2005

ABN 80 093 220 136

*This Half Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3*

Current Reporting Period: Half Year Ended 31 December 2005

Previous Corresponding Period: Half Year Ended 31 December 2004

**JB Hi-Fi Limited**  
**Half Year Report**  
**For the Period Ended 31 December 2005**

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## Section A: Results for Announcement to the Market

### Revenue and Net Profit

		<b>Percentage Change %</b>	<b>Amount \$'000</b>
Revenue from ordinary activities	Up	35.5%	To 509,836
Profit from ordinary activities after tax attributable to members	Up	28.5%	To 18,818
Net profit after tax attributable to members	Up	28.5%	To 18,818

### Dividends (Distributions)

	<b>Amount per security</b>	<b>Franked amount per security</b>
Final dividend	3.60¢	3.60¢
Interim dividend	3.60¢	3.60¢

Record date for determining entitlements to the dividend

- final dividend 7 October 2005
- interim dividend 31 March 2006

Dividend payment date:

- final dividend 21 October 2005
  - interim dividend 13 April 2006
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## Section B: Commentary on Results

### Brief Explanation of Revenue, Net Profit and Dividends

Refer company release

# JB Hi-Fi Limited

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## Financial Report

### for the Half-Year Ended 31 December 2005

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# JB Hi-Fi Limited

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## Directors' Report

The directors of JB Hi-Fi Limited submit herewith the financial report for the half-year ended 31 December 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the half year are:

Patrick Elliott

Richard Uechtritz

Terry Smart

Gary Levin

William Fraser

James King

The above named directors held office during and since the end of the half-year.

### **Review of Operations**

The consolidated net profit for the half year was \$18,818,000 (2004 \$14,640,000). A review of the operations of the company during the half-year and the results of these operations are set out in the attached results announcement.

### **Dividends**

In respect of the financial year ended 30 June 2005, a final dividend of \$3.7m (3.6 cents per ordinary share) franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 21 October 2005.

On 14 February 2006, the directors declared a dividend of \$3.7m (3.6 cents per ordinary share) franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares.

### **Auditor's Independence Declaration**

Our auditors have provided the Board of Directors with a signed Independence Declaration in accordance with s307C of the Corporations Act 2001. This declaration is included on page 2 of this Half Year Report.

### **Rounding Off Of Amounts**

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars.

Signed in accordance with a resolution of directors.

On behalf of the Directors



R A Uechtritz  
Director

Melbourne, 14 February 2006

Audit & Risk Management Committee  
JB Hi-Fi Limited  
14 Spink Street  
Brighton Vic 3186

14 February 2006

Dear Board Members

**JB Hi-Fi Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of JB Hi-Fi Limited.

As lead audit partner for the review of the financial statements of JB Hi-Fi Limited for the half-year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



B PORTER  
Partner  
Chartered Accountants

# JB Hi-Fi Limited

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## Directors' Declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable ;
- (b) In the directors' opinion, the attached financial statements and notes thereto, are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity;

Signed in accordance with a resolution of the directors made pursuant to s303(5) of the Corporations Act 2001.

On behalf of the Directors



R A Uechritz  
Director

Melbourne, 14 February 2006



# JB Hi-Fi Limited

## Consolidated Income Statement for the Half-Year Ended 31 December 2005

	Half-Year Ended 31 Dec 2005 \$'000	Half-Year Ended 31 Dec 2004 \$'000
Sales revenue	509,836	376,177
Cost of sales	(395,024)	(290,453)
<b>Gross profit</b>	<b>114,812</b>	<b>85,724</b>
Other income	521	387
Share of net profits of associates accounted for using the equity method	74	78
Sales and marketing expenses	(58,203)	(42,346)
Occupancy expenses	(14,975)	(10,515)
Administration expenses	(6,213)	(5,412)
Finance costs	(3,037)	(2,574)
Other expenses	(4,948)	(3,302)
<b>Profit before income tax expense</b>	<b>28,031</b>	<b>22,040</b>
Income tax expense	(8,508)	(6,648)
<b>Net profit</b>	<b>19,523</b>	<b>15,392</b>
Net profit attributable to minority interests	(705)	(752)
<b>Profit attributable to members of the parent entity</b>	<b>18,818</b>	<b>14,640</b>
<b>Earnings per share:</b>		
Basic (cents per share)	18.29	14.29
Diluted (cents per share)	17.99	14.10

Notes to the financial statements are included on pages 8 to 23

**JB Hi-Fi Limited**  
**Consolidated Balance Sheet**  
**as at 31 December 2005**

	Note	31 Dec 2005 \$'000	30 Jun 2005 \$'000
<b>Current assets</b>			
Cash and cash equivalents		45,541	1,631
Trade and other receivables	4	44,001	19,852
Inventories		160,058	102,157
Other		2,001	2,648
<b>Total current assets</b>		<u>251,601</u>	<u>126,288</u>
<b>Non-current assets</b>			
Investments accounted for using the equity method		524	568
Other financial assets		6	6
Property, plant and equipment		50,593	35,908
Intangible assets		66,652	66,652
Deferred tax assets		3,849	3,692
Other		296	205
<b>Total non-current assets</b>		<u>121,920</u>	<u>107,031</u>
<b>Total assets</b>		<u>373,521</u>	<u>233,319</u>
<b>Current liabilities</b>			
Trade and other payables		198,748	78,183
Borrowings	5(a)	197	6,345
Provisions		8,599	7,549
Current tax liabilities		4,695	2,284
Other		1,001	843
<b>Total current liabilities</b>		<u>213,240</u>	<u>95,204</u>
<b>Non-current liabilities</b>			
Trade and other payables		564	564
Borrowings	5(b)	75,822	71,291
Provisions		378	313
Deferred tax liabilities		1,801	1,708
Other		3,068	2,000
<b>Total non-current liabilities</b>		<u>81,633</u>	<u>75,876</u>
<b>Total liabilities</b>		<u>294,873</u>	<u>171,080</u>
<b>Net assets</b>		<u>78,648</u>	<u>62,239</u>
<b>Equity</b>			
Issued capital		32,616	32,428
Reserves		1,046	644
Retained earnings		40,609	25,495
Parent entity interest		74,271	58,567
Minority interest	6	4,377	3,672
<b>Total equity</b>		<u>78,648</u>	<u>62,239</u>

Notes to the financial statements are included on pages 8 to 23

## JB Hi-Fi Limited

### Consolidated Statement of Changes in Equity for the Half-Year Ended 31 December 2005

	<u>31 Dec 2005 \$'000</u>	<u>31 Dec 2004 \$'000</u>
<b>a) Retained earnings</b>		
Retained earnings at the beginning of the period	25,495	13,407
Net profit attributable to members of the parent entity	18,818	14,640
Dividends	(3,703)	(3,691)
Retained earnings at the end of the period	<u>40,609</u>	<u>24,356</u>
<b>b) Reserves</b>		
Reserves at the beginning of the period	644	125
Equity-settled share based payments	402	245
Reserves at the end of the period	<u>1,046</u>	<u>370</u>
<b>c) Share capital</b>		
	<b>No. '000</b>	<b>No. '000</b>
Share capital at the beginning of the period - 102,839,334 fully paid ordinary shares (30-Jun- 2004: 102,452,666)	102,839	102,453
Issue of shares under executive and employee share option plan	149	120
Share capital at the end of the period - 102,988,002 fully paid ordinary shares (31-Dec- 2004: 102,572,999)	<u>102,988</u>	<u>102,573</u>
<b>d) Total income and expenses for the period</b>		
Net profit/(loss) attributable to members of the parent entity	18,818	14,640
Minority interest	705	752
Total income and expenses for the period	<u>19,523</u>	<u>15,392</u>

Notes to the financial statements are included on pages 8 to 23

# JB Hi-Fi Limited

## Consolidated Statement of Cash Flows for the Half-Year Ended 31 December 2005

	Inflows/(Outflows)	
	Half-Year Ended 31 Dec 2005 \$'000	Half-Year Ended 31 Dec 2004 \$'000
Note		
<b>Cash flows from operating activities</b>		
Receipts from customers	534,485	403,716
Payments to suppliers and employees	(459,708)	(377,254)
Interest and bill discounts received	313	348
Interest and other costs of finance paid	(2,813)	(2,574)
Income tax paid	(6,161)	(5,441)
	<u>66,116</u>	<u>18,795</u>
<b>Cash flows from investing activities</b>		
Dividend received from associate	118	-
Payment for property, plant and equipment	(17,004)	(8,301)
Proceeds from sale of property, plant and equipment	127	16
Payment for investment	-	(450)
Payment for businesses	-	(21,637)
	<u>(16,759)</u>	<u>(30,372)</u>
<b>Cash flows from financing activities</b>		
Borrowing activities:		
Proceeds from borrowings	18,303	25,000
Repayment of borrowings	-	(46)
Payment of debt issue costs	(315)	(135)
Repayment of lease liabilities	(19,920)	(2,232)
Proceeds from lease liabilities	-	8,235
	<u>(1,932)</u>	<u>30,822</u>
Equity activities:		
Proceeds from issue of equity securities	188	100
Dividends paid to members of the parent entity	(3,703)	(3,691)
	<u>(3,515)</u>	<u>(3,591)</u>
Net cash (used in)/provided by financing activities	<u>(5,447)</u>	<u>27,231</u>
<b>Net increase in cash and cash equivalents</b>	<b>43,910</b>	<b>15,654</b>
<b>Cash and cash equivalents at the beginning of the half-year</b>	<b>1,631</b>	<b>16,432</b>
<b>Cash and cash equivalents at the end of the half-year</b>	<b>45,541</b>	<b>32,086</b>

Notes to the financial statements are included on pages 8 to 23

# JB Hi-Fi Limited

## Half Year Report

### For the Period Ended 31 December 2005

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#### 1. Basis of preparation

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's financial position, financial performance and cash flows is discussed in note 8.

The accounting policies set out below have been applied in preparing the financial statements for the half-year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 8), the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments.

The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information are consistent with those adopted and disclosed in the lodged 2005 annual financial report. The impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is discussed further in note 1(c).

#### Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the half-year financial report:

##### (a) Borrowings

Borrowings are recorded initially at fair value, net of transaction and ancillary costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

##### (b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts if any are shown within borrowings in current liabilities in the balance sheet.

##### (c) Comparative Information financial instruments

The consolidated entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement, as permitted on the first-time adoption of A-IFRS. There is a nil effect of changes in the accounting policies for financial instruments on the balance sheet as at 1 July 2005 and 31 December 2005.

# JB Hi-Fi Limited

## Half Year Report

### For the Period Ended 31 December 2005

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#### 1. Basis of preparation (continued)

##### (d) Derivative financial instruments

The consolidated entity enters into derivative financial instruments to manage its exposure to interest rate including interest rate swaps and options.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The consolidated entity designates its interest rate swaps and options as hedges of highly probable forecast transactions (cash flow hedges).

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

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

##### (e) Dividends

A provision for dividend is not recognised as a liability unless the dividend is declared, determined or publicly recommended on or before the reporting date.

##### (f) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

**JB Hi-Fi Limited**  
**Half Year Report**  
**For the Period Ended 31 December 2005**

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**1. Basis of preparation (continued)**

**(g) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

**(h) Impairment of assets**

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

# JB Hi-Fi Limited

## Half Year Report

### For the Period Ended 31 December 2005

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#### 1. Basis of preparation (continued)

##### (i) Income Tax

###### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

###### Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affect neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

###### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

###### Tax consolidation

The company and all its wholly-owned entities are part of a tax-consolidated group under Australian taxation law. JB Hi-Fi Limited is the head entity in the tax-consolidated group.

Entities within the tax-consolidated group have entered into a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, JB Hi-Fi Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the net accounting profit or loss of the entity and the current tax rate.



**JB Hi-Fi Limited**  
**Half Year Report**  
**For the Period Ended 31 December 2005**

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**1. Basis of preparation (continued)**

**(j) Intangible assets**

Intangible assets acquired in a business combination

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Brand names and trademarks

Brand names, namely JB Hi-Fi and Clive Anthonys are recorded at the cost of acquisition. The directors gave due consideration to the technical and commercial life of the brand names to determine their useful life and have assessed them to have an indefinite life. Brand names are not amortised and the carrying value is tested for impairment as part of the annual testing of cash generating units.

Rights to Profit Share

Management rights in relation to the profit share agreement of the Highpoint store have been recorded at the cost of acquisition. The directors gave due consideration to the technical and commercial life of the brand names to determine their useful life and have assessed them to have an indefinite life. The profit share is not amortised and the carrying value is tested for impairment as part of the annual testing of cash generating units.

Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

**(k) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price.

**(l) Investments**

Investments at recorded entities are recorded at cost. Investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. Other investments are recorded at cost.

**JB Hi-Fi Limited**  
**Half Year Report**  
**For the Period Ended 31 December 2005**

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**1. Basis of preparation (continued)**

**(m) Leased assets**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**(n) Payables**

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

**(o) Principles of consolidation**

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

**JB Hi-Fi Limited**  
**Half Year Report**  
**For the Period Ended 31 December 2005**

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**1. Basis of preparation (continued)**

**(p) Property, plant and equipment**

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus any costs incidental to the acquisition. In the event that settlement of all or part of the purchase consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Leasehold Improvements	2 to 10 years
Plant and equipment	4 to 12 years
Equipment under finance lease	2 to 10 years

**(q) Provisions**

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligations exceeds the economic benefits estimated to be received.

**JB Hi-Fi Limited**  
**Half Year Report**  
**For the Period Ended 31 December 2005**

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**1. Basis of preparation (continued)**

**(r) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

**(s) Trade Receivables**

Trade receivables are recognised and carried at amounts due, less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad Debts are written off as incurred.

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**For the Period Ended 31 December 2005**

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**2. Dividends**

	31 Dec 2005		31 Dec 2004	
	Cents per Share	Total \$'000	Cents per Share	Total \$'000
<u>Fully Paid Ordinary Shares</u>				
Recognised amounts:				
Final dividend in respect of prior financial year - franked to 100%	3.60	3,703	3.60	3,691
Paid to the holders of fully paid ordinary shares on 21 October 2005				
Unrecognised amounts:				
Interim dividend in respect of current financial period - franked to 100%	3.60	3,708	3.60	3,693

The interim dividend for the half year ended 31 December 2005 has not been recognised because the interim dividend was declared subsequent to 31 December 2005. As a result, amounts recognised will be the final dividend in respect of the prior year.

**3. Net tangible assets per share**

	31 Dec 2005 \$	31 Dec 2004 \$
Consolidated net tangible assets per share attribute to members of the parent entity	0.07	(0.09)

**JB Hi-Fi Limited**  
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	<b>31 Dec 2005 \$'000</b>	<b>30 Jun 2005 \$'000</b>
<b>4. Trade and other receivables</b>		
Trade receivables	7,985	4,324
Allowance for doubtful debts	(239)	(178)
	7,746	4,146
Rebates	36,255	15,706
	44,001	19,852
<b>5. Borrowings</b>		
<b>a. Current</b>		
<i>Secured:</i>		
Hire purchase lease liability	197	6,345
	197	6,345
<b>b. Non-Current</b>		
<i>Secured:</i>		
Bank loan	75,303	57,000
Hire purchase lease liability	519	14,291
	75,822	71,291
Total borrowings	76,019	77,636
<b>6. Minority interest</b>		
Outside equity interest in controlled entities comprises:		
Issued capital	152	152
Retained earnings	4,230	3,525
Reserves	(5)	(5)
Balance at end of financial period	4,377	3,672

**7. Segment Information**

The consolidated entity retails consumer electronics, electrical goods, music, movies and games, and operates only in Australia.

**JB Hi-Fi Limited**  
**Half Year Report**  
**For the Period Ended 31 December 2005**

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**8. Impact of adopting Australian equivalents to IFRS**

**Management of the transition to A-IFRS**

JB Hi-Fi Limited is required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS') for annual reporting periods beginning on, or after 1 January 2005. Accordingly, this is JB Hi-Fi Limited's first half-year report prepared under A-IFRS. The company's first annual financial report prepared under A-IFRS will be for the year ended 30 June 2006.

An explanation of how the transition from superseded policies to A-IFRS has affected the consolidated entity's Balance Sheet and Income Statement is set out in the following tables and notes that accompany the tables

**JB Hi-Fi Limited**  
**Half Year Report**  
**For the Period Ended 31 December 2005**

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**8. Impact of adopting Australian equivalents to IFRS (Cont'd)**

Effect of A-IFRS on the Balance Sheet for the financial year ended 30 June 2004

	Note	Superseded policies*	Effect of transition to A-IFRS	A-IFRS
		\$'000	\$'000	\$'000
<b>Current assets</b>				
Cash and cash equivalents		16,432	-	16,432
Trade and other receivables		13,170	-	13,170
Inventories	a	70,349	(1,601)	68,748
Other financial assets		-	-	-
Other		1,127	-	1,127
<b>Total current assets</b>		<b>101,078</b>	<b>(1,601)</b>	<b>99,477</b>
<b>Non-current assets</b>				
Other financial assets		6	-	6
Property, plant and equipment	b,g	21,940	(171)	21,769
Intangibles	c,d	46,518	118	46,636
Deferred tax assets	h	414	2,223	2,637
Other		247	-	247
<b>Total non-current assets</b>		<b>69,125</b>	<b>2,170</b>	<b>71,295</b>
<b>Total assets</b>		<b>170,203</b>	<b>569</b>	<b>170,772</b>
<b>Current liabilities</b>				
Trade and other payables		68,962	-	68,962
Borrowings		4,364	-	4,364
Current tax liabilities	h	2,448	-	2,448
Provisions	f	5,170	658	5,828
Other	g	-	401	401
<b>Total current liabilities</b>		<b>80,944</b>	<b>1,059</b>	<b>82,003</b>
<b>Non-current liabilities</b>				
Trade and other payables		-	564	564
Borrowings		39,235	-	39,235
Deferred tax liabilities	h	323	1,530	1,853
Provisions	f	825	(658)	167
Other	g	-	1,222	1,222
<b>Total non-current liabilities</b>		<b>40,383</b>	<b>2,658</b>	<b>43,041</b>
<b>Total liabilities</b>		<b>121,327</b>	<b>3,717</b>	<b>125,044</b>
<b>Net assets</b>		<b>48,876</b>	<b>(3,148)</b>	<b>45,728</b>
<b>Equity</b>				
Issued capital		32,196	-	32,196
Reserves	e	-	125	125
Retained earnings	i,c	16,680	(3,273)	13,407
Parent entity interest		48,876	(3,148)	45,728
Minority interest		-	-	-
<b>Total equity</b>		<b>48,876</b>	<b>(3,148)</b>	<b>45,728</b>

\* Reported financial results under previous Australian GAAP.



# JB Hi-Fi Limited

## Half Year Report

### For the Period Ended 31 December 2005

#### 8. Impact of adopting Australian equivalents to IFRS (Cont'd)

Effect of A-IFRS on the Income Statement for the half-year ended 31 December 2004 and the financial year ended 30 June 2005

	Note	Half year ended 31 December 2004			Financial year ended 30 June 2005		
		Superseded policies*	Effect of transition to A-IFRS	A-IFRS	Superseded policies*	Effect of transition to A-IFRS	A-IFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales revenue		376,177	-	376,177	693,943	-	693,943
Cost of sales		(289,641)	(812)	(290,453)	(534,474)	(788)	(535,262)
<b>Gross profit</b>		<b>86,536</b>	<b>(812)</b>	<b>85,724</b>	<b>159,469</b>	<b>(788)</b>	<b>158,681</b>
Other income		387	-	387	955	-	955
Share of net profits of associates accounted for using the equity method		78	-	78	118	-	118
Marketing expenses	e	(42,101)	(245)	(42,346)	(84,211)	(519)	(84,730)
Occupancy expenses	g	(10,309)	(206)	(10,515)	(22,260)	(730)	(22,990)
Administration expenses		(5,412)	-	(5,412)	(9,185)	-	(9,185)
Finance costs		(2,574)	-	(2,574)	(5,705)	-	(5,705)
Other expenses	c	(3,432)	130	(3,302)	(7,903)	263	(7,640)
Profit before income tax expense		23,173	(1,133)	22,040	31,278	(1,774)	29,504
Income tax expense	h	(7,031)	383	(6,648)	(9,442)	505	(8,937)
<b>Profit from ordinary activities after related income tax expense</b>		<b>16,142</b>	<b>(750)</b>	<b>15,392</b>	<b>21,836</b>	<b>(1,269)</b>	<b>20,567</b>
<b>Net profit</b>		<b>16,142</b>	<b>(750)</b>	<b>15,392</b>	<b>21,836</b>	<b>(1,269)</b>	<b>20,567</b>
Net profit attributable to minority interests		(757)	5	(752)	(1,159)	70	(1,089)
<b>Profit attributable to members of the parent entity</b>		<b>15,385</b>	<b>(745)</b>	<b>14,640</b>	<b>20,677</b>	<b>(1,199)</b>	<b>19,478</b>

\* Reported financial results under previous Australian GAAP.

# JB Hi-Fi Limited

## Half Year Report

### For the Period Ended 31 December 2005

#### 8. Impact of adopting Australian equivalents to IFRS (Cont'd)

Effect of A-IFRS on the Balance Sheet for the half-year ended 31 December 2004 and the financial year ended 30 June 2005

	Note	Half year ended 31 December 2004			Financial year ended 30 June 2005		
		Superseded policies*	Effect of transition to A-IFRS	A-IFRS	Superseded policies*	Effect of transition to A-IFRS	A-IFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Current assets</b>							
Cash and cash equivalents		32,086	-	32,086	1,631	-	1,631
Trade and other receivables		23,854	-	23,854	19,852	-	19,852
Inventories	a	130,923	(2,413)	128,510	104,546	(2,389)	102,157
Other financial assets		-	-	-	-	-	-
Other		1,750	-	1,750	2,648	-	2,648
<b>Total current assets</b>		<b>188,613</b>	<b>(2,413)</b>	<b>186,200</b>	<b>128,677</b>	<b>(2,389)</b>	<b>126,288</b>
<b>Non-current assets</b>							
Investments accounted for using the equity method		528	-	528	568	-	568
Other financial assets		6	-	6	6	-	6
Property, plant and equipment	b,g	30,577	181	30,758	35,587	321	35,908
Intangibles	c,d	66,383	248	66,631	66,270	382	66,652
Deferred tax assets	h	1,352	1,431	2,783	1,531	2,161	3,692
Other		297	-	297	205	-	205
<b>Total non-current assets</b>		<b>99,143</b>	<b>1,860</b>	<b>101,003</b>	<b>104,167</b>	<b>2,864</b>	<b>107,031</b>
<b>Total assets</b>		<b>287,756</b>	<b>(553)</b>	<b>287,203</b>	<b>232,844</b>	<b>475</b>	<b>233,319</b>
<b>Current liabilities</b>							
Trade and other payables		137,610	-	137,610	78,183	-	78,183
Borrowings		3,277	-	3,277	6,345	-	6,345
Current tax liabilities	h	3,348	115	3,463	2,470	(186)	2,284
Provisions	f	6,048	778	6,826	6,686	863	7,549
Other	g	-	589	589	-	843	843
<b>Total current liabilities</b>		<b>150,283</b>	<b>1,482</b>	<b>151,765</b>	<b>93,684</b>	<b>1,520</b>	<b>95,204</b>
<b>Non-current liabilities</b>							
Trade and other payables		-	564	564	-	564	564
Borrowings		71,683	-	71,683	71,291	-	71,291
Deferred tax liabilities	h	741	238	979	559	1,149	1,708
Provisions	f	1,038	(778)	260	1,176	(863)	313
Other	g	-	1,594	1,594	-	2,000	2,000
<b>Total non-current liabilities</b>		<b>73,462</b>	<b>1,618</b>	<b>75,080</b>	<b>73,026</b>	<b>2,850</b>	<b>75,876</b>
<b>Total liabilities</b>		<b>223,745</b>	<b>3,100</b>	<b>226,845</b>	<b>166,710</b>	<b>4,370</b>	<b>171,080</b>
<b>Net assets</b>		<b>64,011</b>	<b>(3,653)</b>	<b>60,358</b>	<b>66,134</b>	<b>(3,895)</b>	<b>62,239</b>
<b>Equity</b>							
Issued capital		32,296	-	32,296	32,428	-	32,428
Reserves	e	-	370	370	-	644	644
Retained earnings	i,c	28,374	(4,018)	24,356	29,964	(4,469)	25,495
Parent entity interest		60,670	(3,648)	57,022	62,392	(3,825)	58,567
Minority interest		3,341	(5)	3,336	3,742	(70)	3,672
<b>Total equity</b>		<b>64,011</b>	<b>(3,653)</b>	<b>60,358</b>	<b>66,134</b>	<b>(3,895)</b>	<b>62,239</b>

\* Reported financial results under previous Australian GAAP.

**JB Hi-Fi Limited**  
**Half Year Report**  
**For the Period Ended 31 December 2005**

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**8. Impact of Adopting Australian Equivalents to IFRS (Cont'd)**

**Explanatory notes to the financial statements**

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards (A-IFRS). The transition to A-IFRS is accounted for in accordance with Accounting Standards AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the effect was immaterial at the date of transition being 1 July 2005. An explanation of how the superseded policies to A-IFRS has affected the consolidated entity's profit and loss, balance sheet and cash flows is set out in the following tables and the notes that accompany the tables.

**(a) Inventories**

On transition to A-IFRS, JB have taken stretch rebates and settlement discounts into account in the determination of the cost of inventory and revised the basis for the determination of net realisable value. The effect of the change is to decrease inventories by \$1,601, \$2,414 and \$2,383 thousand as at 30 June 2004, 31 December 2004 and 30 June 2005 respectively, to reduce retained profits as at 30 June 2004 by \$1,601 thousand and with a decrease in cost of sales for the half year ended 31 December 2004 and for the year ended 30 June 2005.

**(b) Property, plant and equipment Impairment**

On transition to A-IFRS, JB assessed the recoverable amount of assets as described in Note 1(h). The effect of this change is to decrease the carrying amount of leasehold improvements included in property, plant and equipment and retained profits by \$463 thousand as at 30 June 2004, and a corresponding decrease in amortisation for the half year ended 31 December 2004 and for the year ended 30 June 2005.

**(c) Intangibles**

On transition to A-IFRS, goodwill and intangible assets with indefinite lives are not amortised. The effect of this change is to increase intangible assets and retained profits by \$118 thousand as at 30 June 2004 with a corresponding decrease in amortisation for the half year ended 31 December 2004 and for the year ended 30 June 2005.

**(d) Business Combinations**

At the date of transition, the directors elected to restate business combinations that occurred before 1 July 2004. The only effect of this change was to reverse amortisation of intangible assets as described in note (c) above.

**(e) Share-based payments**

Under A-IFRS, the fair value equity-settled share-based payments is determined at grant date and expensed on a straight-line basis over the vesting period, based on the number of equity instruments expected to vest. The effect of this change is to increase equity reserves and reduce retained profits by \$125 thousand as at 30 June 2004, and to reduce profits and increase reserves by \$245 and \$519 thousand for the half year ended 31 December 2004 and for the year ended 30 June 2005.

**(f) Employee Benefits**

Under A-IFRS, the provision for employee benefits is classified as a current liability to the extent the entity does not have an unconditional right to defer settlement. The effect of this change is a decrease in current provisions and decrease non-current provisions by \$658, \$778 and \$863 thousand as at 30 June 2004, 31 December 2004 and 30 June 2005 respectively.

# JB Hi-Fi Limited

## Half Year Report

### For the Period Ended 31 December 2005

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#### 8. Impact of Adopting Australian Equivalents to IFRS (Cont'd)

##### (g) Leases

Under A-IFRS, the fixed rate increases on operating leases is recognised as an expense on a straight line basis over the period of the lease. In addition, any lease incentives are also recognised on a straight-line basis. Previously lease incentives were included as part of property, plant and equipment and effectively recognised as the related assets were amortised. The effect of these changes is to increase property plant and equipment by \$291 thousand, increase deferred income by \$1,526 thousand, increase liabilities by \$660 thousand and reduce retained profits by \$1,895 thousand as at 30 June 2004, with a corresponding increase in lease costs for the half year ended 31 December 2004 and for the year ended 30 June 2005 respectively.

##### (h) Income tax

Under A-IFRS, deferred tax is determined using the comprehensive balance sheet liability method in respect of temporary difference arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases. The effect of this change is to increase net deferred tax balances and increase retained profits by \$693 thousand as at 30 June 2004, with a corresponding decrease in income tax expense for the half year ended 31 December 2004 and for the year ended 30 June 2005.

##### (i) Retained earnings

A summary of the impact of A-IFRS on retained earning is disclosed below.

	Note	Consolidated		
		30 June 2004	31 December 2004	30 June 2005
		\$'000	\$'000	\$'000
<b>Retained earnings under superseded GAAP policies</b>				
Inventories	a	16,680	28,374	29,964
Expensing of share based payments	e	(1,601)	(2,414)	(2,384)
Write down of leasehold improvements	b	(125)	(370)	(644)
Lease adjustments	g	(463)	(437)	(412)
Amortisation of intangibles	c	(1,895)	(2,126)	(2,674)
Adjustments to tax balances	h	118	248	382
Minority interest		693	1,076	1,198
		-	5	65
<b>Retained earnings under A-IFRS</b>		<b>13,407</b>	<b>24,356</b>	<b>25,495</b>

Under A-IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases. The effect of the above adjustments on the deferred tax balances are as follows:

	Note	Consolidated		
		30 June 2004	31 December 2004	30 June 2005
		\$'000	\$'000	\$'000
<b>Deferred tax under superseded GAAP policies</b>				
Deferred tax not recognised under previous GAAP		91	611	972
<b>Deferred tax balances under A-IFRS</b>		<b>693</b>	<b>1,193</b>	<b>1,012</b>
		<b>784</b>	<b>1,804</b>	<b>1,984</b>

## Independent review report to the members of JB Hi-Fi Limited

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, selected explanatory notes and the directors' declaration for the consolidated entity for the half-year ended 31 December 2005 as set out on pages 4 to 23. The consolidated entity comprises both JB Hi-Fi Limited (the company) and the entities it controlled at the end of the half-year or from time to time during the half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### *Review Approach*

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standards AASB 134 'Interim Financial Reporting' and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations, its changes in equity and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of JB Hi-Fi Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standards AASB 134 'Interim Financial Reporting' and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" and the Corporations Regulations 2001.

*Deloitte Touche Tohmatsu.*

DELOITTE TOUCHE TOHMATSU



B PORTER  
Partner  
Chartered Accountants  
Melbourne, 14 February 2006