

Chairman's Address 2005 Annual General Meeting

The year ended 30 June 2005 was another record year for the company with the strong performance of existing stores, the roll out of additional stores and the acquisition of a 70% interest in Clive Anthonys. This all resulted in

- § an increase in revenue of 53.4% to \$693.9 million
- § an increase in net profit after tax of 49.8% to \$20.7 million
- § an increase in earnings per share of 49.2% to 20.1 cents

Dividends were held constant with the previous year at 7.2 cents per share as operating cash surplus was reinvested in the store opening program.

Shareholders who invested in the IPO in October, 2003 have achieved an annual compound return of 33.8% compared to 14.5% for the ASX 200 Accumulation Index over the same period.

Richard will address the operating result in more detail later in the presentation.

The company's strategy has been very straight forward. Every day we look for ways to build upon our competitive advantage of one of the lowest, if not the lowest, operating cost bases in the industry to be able to deliver a broad range of every day low priced products to our customers.

For the year ended 30 June, 2005 our operating costs to sales was 17.0% an improvement from 17.8% the previous year. This is achieved by JB's unique product ranging, mix and branding that drives very high levels of store productivity.

This cost advantage is reinforced by:

- § increasing store sales and the new store roll out that improves our economies of scale in buying (both product and services)
- § an appropriate application of technology and training to constrain our growth in costs at a slower rate than revenue.

We have been pleased to see that the JB Hi-Fi brand and offering have travelled well outside our roots in Melbourne. We have successfully expanded into Queensland, NSW, South Australia, Western Australia and Canberra. A number of these locations are outside the major cities drawing from smaller populations which provides significant encouragement for the potential size of the group. We have also been successful in operating within shopping centres, home maker or big box centres and stand alone destination stores, again something that is unique amongst retailers and one which provides a high degree of flexibility to secure the best possible locations in each area. The store opening program in 2005/2006 will give the company critical mass for the first time in the key market of Sydney.

Another strength of JB Hi-Fi is its diversified product offering. A large number of product categories are driven by the adoption and increasing penetration of new technology such as plasma and LCD TVs, MP3 players and DVD recorders. The company continues to shift its product mix to be an early leader in new technologies promising high growth and significant volume. Categories such as music and movies may be lower growth but provide constant foot traffic through the stores. Other categories such as speakers, hi-fi components and car audio still represent a strong and profitable stream of business.

The company has been able to fund its growth over recent years through the combination of strong levels of cashflow generated from established stores and a prudent level of borrowings. At year end the company had fixed charges cover of 3.05 times and an interest earned multiple of 6.49. In determining what is an appropriate and prudent level of debt, management and the board consider both operational and financial leverage. Operational leverage is best described as the fixed operating costs that must be met whether the business trades or not. As in any retail business, the largest of these is rent. For the reasons discussed already, JB Hi-Fi enjoys one of the lowest rental burdens of any retailer at less than 2% of sales. The fixed charges cover ratio captures the company's ability to meet both its rental burden and its financial burden and at 3.05 times, JB is one of the more conservatively geared listed retailers.

Finally, our ability to operate profitably and to expand as quickly and successfully as we have is a testament to our people and the company's continued ability to attract and retain them. Store staff are typically enthusiasts of the product categories they work in, enjoy the interaction with the customer and understand the opportunities that a fast growing and successful company offers. Our support staff are equally dedicated and responsible for our success to date. It is our ability to continue to attract high calibre people and motivate them that will be the ultimate constraint on our growth. Fortunately, we are well positioned to maintain our growth for many more years.

I will now invite CEO Richard Uechtritz to address the meeting.