Appendix 4E

Preliminary Final Report

For the Year Ended 30 June 2006

JB Hi-Fi Ltd

ACN 093 220 136

This preliminary final report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A.

In accordance with ASX Listing Rule 4.3C.2, this Preliminary Final Report should be read in conjunction with the most recent annual financial report, being 30 June 2006.

Current Reporting Period:	Financial year ended 30 June 2006
Previous Corresponding Period:	Financial year ended 30 June 2005

Name of entity

JB HI-FI LTD

DETAILS OF THE REPORTING PERIOD

ABN or equivalent company reference	Financial year ended
ACN 093 220 136	**30-June-2006** (Comparative period – 30 June 2005)

The June 2006 report represents JB Hi-Fi Group consolidated financial statements.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenue and Net Profit/(Loss)

		Percentage Change %		Amount $'000
Revenue from ordinary activities	up	36.30%	to	$945,821
Profit/(loss) from ordinary activities after tax attributable to members	up	30.52%	to	$26,846
Net profit/(loss) attributable to members of the parent entity	up	32.52%	to	$25,813

Dividends (Distributions)

	Amount per security	Franked amount per security
Final dividend	4.00¢	4.00¢
Interim dividend	3.60¢	3.60¢

Record date for determining entitlements to the dividend:	
• final dividend	4 October 2006
• interim dividend	31 March 2006
Dividend payment date:	
• final dividend	18 October 2006
• interim dividend	13 April 2006

Net Tangible Assets Per Security

	2006 $	2005 $
Net tangible assets per security	0.16	-0.04

For a brief explanation of the figures above please refer to the Announcement on the results for the year ended 30 June 2006. The comments should be read in conjunction with the details and explanations provided herewith.

COMPANY ANNOUNCEMENT **16 August 2006**

JB Hi-Fi reports Sales up 36% and NPAT up 32.5%

JB Hi Fi Limited today reported a record full year net profit of $25.8 million (2005 $19.5 million) from $946 million of sales (2005 $694 million) for year ending 30 June 2006.

Comparable store growth for the 12 months was 7.1% for JB Hi Fi stores and -5.5% for Clive Anthony stores. Resulting in a consolidated comparable store growth of 5.3%. Our cost of doing business was down at 17.1% (2005 17.2%). Gross Profit remained steady at 22.9% after backing out the impact of games.

The company has raised its dividend for the first time since its float in 2003 declaring a fully franked dividend of 4 cents per share, an increase of 11%, to be paid on 18 October 2006. The record date for determining the entitlement is the 4 October 2006.

The company had 66 stores at the end of the year having opened 18 new JB stores during the year and expects to open approximately 13 new stores in FY07.

"We are pleased with this strong result in what has been a challenging year for most retailers." said CEO Richard Uechtritz.

"With rising interest rates and high petrol prices we expect FY07 to be equally challenging however our unique and low cost model continues to prove to be very resilient in these difficult times. The maturing of the 18 new stores into FY07 on top of the 11 stores opened in FY05 should help the company achieve another strong result in FY07."

Visual, portable audio and games showed strong growth. Games in particular has been a great success with the company already placed as one of the major retailers in the market. The introduction of computers into JB has met with considerable success in the early stages.

"We are quietly confident about the tremendous opportunity for JB in the computer category with early sales better than expected. We expect to have about 35 JB stores with computers by Christmas and will continue with the rollout during the rest of the year to most stores."

Richard Uechtritz
Chief Executive Officer

JB Hi-Fi Limited

ABN 80 093 220 136

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Corporate governance statement

JB Hi-Fi's directors and management are committed to ensuring that the company's business is conducted ethically and in accordance with high standards of corporate governance. This statement describes JB Hi-Fi's approach to corporate governance.

The Board believes that JB Hi-Fi's policies and practices comply in all substantial respects with the ASX Corporate Governance Council Principles of Good Corporate Governance. JB Hi-Fi respects and values the rigour of the ASX Principles of Good Corporate Governance and Best Practice Recommendation. The Board believes that it has been compliant with the spirit of The Corporate Governance Principles and Best Practice Recommendations during the 2006 financial year.

The Board has determined having regard to the company's current size, not to establish a Nominations Committee. The Board has retained this responsibility. In August 2004, the Board completed a process of reviewing and adopting formal policies and procedures with regard to Corporate Governance. The Board will continually review and monitor developments in respect to corporate governance to ensure compliance with best practice.

THE BOARD

Role

The primary role of the JB Hi-Fi Board is to protect and enhance long-term shareholder value. The Board is accountable to shareholders for the performance of the company, it directs and monitors the business and affairs of the company on behalf of shareholders and is responsible for the company's overall corporate governance.

The Board responsibilities include the corporate governance of the company, overseeing the business and affairs of the company, communicating with the company's shareholders and the community, evaluating the performance of senior executives, ensuring that appropriate procedures are in place so that company business is conducted in an honest, open and ethical manner and the establishment of a formal and transparent procedure for the selection, appointment and review of Board directors.

The Chief Executive Officer, who is accountable to the Board, is responsible for managing, directing and promoting the profitable operation and development of the consolidated entity.

A copy of the Board Charter can be found on the company's website at www.jbhifi.com.au

Composition

The Board seeks to ensure that the combination of its members provides an appropriate range of experience, skills, knowledge and perspective to enable it to carry out its obligations and responsibilities. In reviewing the Board's composition and in assessing nominations for appointment as non-executive directors, the Board uses its own internal resources to identify candidates for appointment as directors. External resources may also be used, if suitable candidates are not identified.

The Board considers that its current structure, size, focus, experience and use of committees enables it to add value to the company and to operate effectively. The Board regularly reviews this balance.

JB Hi-Fi maintains a majority of non-executive directors on its Board. The Board currently comprises six directors, comprising four independent non-executive directors, including the Chairman, and two executive directors, including the Chief Executive Officer.

Details of the directors as at the date of this report, including their experience, expertise and term of office are set out in the Directors' Report in the Annual Report.

Independence
The JB Hi-Fi Board regards a director as an independent director if they are free from any business or other relationship that could compromise their ability to act in the best interests of the company.

If a conflict of interest arises, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Directors must keep the Board advised, on an ongoing basis, of any interests that could potentially conflict with those of the company. Directors are required to promptly disclose to the Board interests in contracts, other directorships or offices held, possible related party transactions and sales or purchases of the company's shares.

Selection and Appointment of directors
In considering Board membership, the directors are conscious of the need to ensure that Board members possess the diversity of skill and experience required to fulfil the Board's obligations. The Board considers nominations for appointment to the Board. Apart from the Chief Executive Officer, directors are subject to shareholder re-election by rotation at least every three years.

A copy of the procedure for the selection and appointment of Directors can be found on the company's website at www.jbhifi.com.au.

Board meetings
The Board meets monthly for scheduled meetings. Dependent on business requirements, the Board may have such additional unscheduled meetings as the business of the company may require. Prior to any meeting, the Directors receive all necessary Board papers. As well as holding regular Board meetings, the Board sets aside time to meet to comprehensively review business plans and company strategy.

Access to information and Independent advice
Each director has the right of access to all relevant company information and to the company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the company's expense.

Pursuant to a deed executed by each director and the company, a director also has the right to have access to all documents which have been presented to Board meetings or made available in relation to their position as director for a term of seven years after ceasing to be a director or such longer period as is necessary to determine relevant legal proceedings that commenced during this term.

Code of Ethics
JB Hi-Fi acknowledges the need for directors, executives and employees to observe the highest ethical standards of corporate behaviour. JB Hi-Fi has adopted a Code of Ethics to provide employees with guidance on what the company deems is acceptable behaviour.

The key elements of the code are characterised by:

As a company: (a) respecting every employee's dignity, rights, freedoms and individual needs; (b) providing a working environment that is safe, challenging and rewarding; (c) recognising the work of each of our employees; (d) respecting customers', suppliers' and employees' personal and sensitive information; (e) reinforcing JB Hi-Fi's commitment to the highest standards in business and professional ethics and (f) obeying the law.

As employees: (a) treating customers, the public and fellow employees with honesty, courtesy and respect; (b) respecting and safeguarding the property of customers, JB Hi-Fi and fellow workers; (c) maintaining confidentiality of all customers, JB Hi-Fi or other parties' information gained through our work; (d) performing our duties, as best we can, taking into account our skills, experience, qualifications and position; (e) doing our jobs in a safe, responsible and effective manner; (f) respecting personal and sensitive information in accordance with Privacy Legislation; (g) ensuring our personal business and financial interests do not conflict with our duty to JB Hi-Fi; (h) working within JB Hi-Fi's policies and rules; and (i) obeying the law.

The company has developed appropriate policies and guidelines to assist employees in applying the code in practice. A copy of the Code of Conduct can be found on the company's website at www.jbhifi.com.au.

Shareholdings of directors and employees
Directors' current shareholdings are detailed in the company's annual report and as updated by notification to the Australian Stock Exchange as required. The Board has approved a Share Trading Policy for dealing in securities.

Directors and Employees may only trade in JB Hi-Fi shares and any other securities during designated Trading Periods, which are conducted several times each year. These Trading Periods will follow the release of JB Hi-Fi's Final Results (Aug/Sept), Interim Results (Feb/March) and the Annual General Meeting (Oct/Nov), for a period of four weeks. Any transaction conducted by directors in shares of the company is notified to the Australian Stock Exchange.

A copy of the Share Trading Policy can be found on the company's website at www.jbhifi.com.au

INTEGRITY OF REPORTING
The company has put in place controls designed to safeguard the company's interests and to ensure the integrity of its reporting. These controls aim to ensure that the company complies with all regulatory requirements and community standards.

Both the Chief Executive Officer and Chief Financial Officer are required to state in writing to the Board that:

a. the company's financial reports represent a true and fair view, in all material respects, of the group's financial condition and operational results and are in accordance with relevant accounting standards, and
b. the statement in (a) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board, and that
c. the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The company's financial accounts are subject to an annual audit by an independent, professional auditor who also reviews the company's half yearly financial statements. The Audit and Risk Management Committee oversees this process on behalf of the Board. The company's external audit firm was most recently appointed in 2002. The audit engagement partner is to be rotated every five years in line with the agreement between the audit firm and JB Hi-Fi.

Information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners can be found on the company's website at www.jbhifi.com.au.

Continuous Disclosure
The company seeks to provide relevant and timely information to its shareholders and is committed to fulfilling its obligations to the broader market for continuous disclosure. JB Hi-Fi aims to ensure timely provision of equal access to material information about the company.

The Board has approved a continuous disclosure policy to ensure that the procedures for identifying and disclosing material and price sensitive information in accordance with the Corporations Act and ASX Listing Rules are clearly articulated. This policy sets out the obligations of employees relating to the type of information that must be disclosed. The Company Secretary, in consultation with the Chief Executive Officer and Chairman, is responsible for communication with the Australian Stock Exchange.

A copy of the Continuous Disclosure Policy can be found on the company's website at www.jbhifi.com.au.

Shareholders Communications
The company's website www.jbhif.com.au currently carries the following information for shareholders:

- All market announcements and related information which is posted immediately after release to the ASX;
- Details relating to the company's directors and senior management; and
- Board and Board committee charters and other corporate governance documents.

The company will request that the external auditor attend its annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

A copy of the Shareholder Communication Policy can be found on the company's website at www.jbhifi.com.au.

RISK IDENTIFICATION AND MANAGEMENT

The Board has delegated to the Audit and Risk Management Committee 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, the environment, company assets and reputation as well as to realise opportunities. JB Hi-Fi's policy is to consider the balance of risk and reward, as far as practicable, in order to optimise the returns gained from its business activities and to meet the expectations of its stakeholders.

A copy of the company's Risk Oversight and Management Policy can be found on the company's website at www.jbhifi.com.au.

Board performance

JB Hi-Fi monitors and evaluates the performance of its Board, its Board committees, individual directors, and key executives in order to fairly review and actively encourage enhanced board and management effectiveness. It has a range of processes in place to evaluate Board performance, Board Committees, individual directors and executives.

A description of the process for Board performance evaluation, its committees and individual directors, and key executives can be found on the company's website at www.jbhifi.com.au.

DIRECTORS' FEES AND EXECUTIVE REMUNERATION

Directors' fees

In line with the JB Hi-Fi Constitution, total remuneration for non-executive directors must not exceed $400,000 per annum or any other amount per annum determined by the company in an Annual General Meeting. The Board within the aggregate amount of $400,000, determines non-executive directors' individual fees.

The details of remuneration paid to each non-executive director during the financial year are included in the company's Annual Report. Directors receive superannuation in accordance with statutory requirements. In determining fee levels, the Board reviews data on fees paid by comparable companies and where appropriate may receive expert independent advice regarding remuneration levels required to attract and compensate directors of the appropriate calibre and for the nature of the directors' work and responsibilities.

Non-executive directors do not participate in any incentive schemes and are not entitled to receive retirement allowances.

Executive Remuneration

The Board believes that executive remuneration should be fair and reasonable, structured effectively to motivate and retain valued executives and designed to produce value for shareholders.

At JB Hi-Fi, remuneration of senior executives is evaluated against comparative positions in similar companies and industries and comprises (a) fixed remuneration and (b) variable remuneration consisting of (i) short-term incentives (annual bonus based on specified performance targets as agreed with the executive) and (ii) long term incentives (options under the JB Hi-Fi Executive Share Option Plan).

The Board is aware of the Executive Share and Option Scheme Guidelines, issued by the Investment and Financial Services Association (IFSA) in May 2000. The Board is satisfied that its executive remuneration policies, specifically as they relate to the executive share option plan (as detailed in this annual report), are consistent with the aims, objectives and outcomes detailed in the IFSA guidance note no.12.

The amount of remuneration, both monetary and non-monetary, for the executives who are directly accountable and responsible for the strategic direction and operational management of the company during the year are included in the company's Annual Report.

Details of the existence and conditions of all share and option schemes currently in operation, including the details of performance hurdles are summarised, included in the company's Annual Report and have been lodged with the ASX.

BOARD COMMITTEES

The Board has established charters for the operation of its committees. The charters are reviewed annually and objectives are set for each committee. The minutes of these committees are circulated to the Board.

Audit and Risk Management Committee

The board has established an Audit and Risk Management Committee that has a formal charter.

The committee is charged with, in part, (a) 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; (b) advising the board on matters of internal control; and (c) establishing and maintaining processes to ensure that there is compliance with all applicable laws, regulations and company policy; and adequate systems of internal control and risk management.

A copy of the Audit and Risk Management Committee Charter can be found on the Company's website at www.jbhifi.com.au.

The Audit and Risk Management Committee comprises three non-executive directors all of whom are independent with relevant financial, commercial and risk management experience and an independent chairperson who is not the chairperson of the Board:

- Patrick Elliott: Ongoing member of committee. Was appointed as chairperson 1 March 2006.
- Jim King: Ongoing member of committee.
- Gary Levin: Resigned from chair 1 March 2006. Continues as a member of the committee.

The Audit and Risk Committee meets regularly. Details of the meetings held and members' attendance during the 2006 Financial Year are listed in the Director's Report of the Annual Report. Directors who are not members of a committee may attend any committee meeting following consultation with the Chairperson of the relevant committee.

Remuneration Committee

The board has established a Remuneration Committee that has a formal charter.

The Remuneration Committee is charged with, in part, reviewing and making 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 generally and administration of remuneration and compensation programs.

The Remuneration Committee comprises three directors, two of whom are non-executive directors:

- Jim King: Joined committee as chairperson 1 March 2006
- Patrick Elliott: Resigned from committee and chair 1 March 2006
- Richard Uechtritz: Ongoing member of committee
- Will Fraser: Ongoing member of committee

The Remuneration Committee meets as required. Details of the meetings held and members' attendance during the 2006 Financial Year are listed in the Director's Report of the Annual Report.

A copy of the Remuneration Committee Charter can be found on the company's website at www.jbhifi.com.au.

Nominations Committee

The Board, having regard to the size of the company, has not established a Nominations Committee.

The Board is charged with, in part, selecting, appointing and regularly evaluating the performance of, determining the remuneration of, and plan for the successor of the Chief Executive Officer; establishing formal and transparent procedures for the selection and appointment of new directors to the Board; regularly reviewing the succession plans in place for Board membership to ensure that an appropriate balance of skills, experience and expertise is maintained; and instituting internal procedures for evaluating Board performance, individual directors and Board Committees.

A copy of the Board Charter can be found on the company's website at www.jbhifi.com.au. A copy of the Board's policy for the appointment of directors can be found on the company's website at www.jbhifi.com.au.

Directors' report

The directors of JB Hi-Fi Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the company during or since the end of the financial year are:

Directors

Name	Particulars
James King Chairman, Non-Executive Director B.Comm	Mr King has had over twenty five years experience in fast moving consumer goods in major multi-national corporations in Australia and internationally. He was previously with Foster's Group Limited as Managing Director Carlton & United Breweries, Managing Director Foster's Asia and Senior Vice President Strategy & Business Development. Prior to joining Fosters he spent six years in Hong Kong as President of Kraft Foods (Asia Pacific). He is currently a non executive director of IBT Education Limited and Tattersalls Limited. Mr King is also Chairman of Juvenile Diabetes Research Foundation (Victoria) and on the Council of Xavier College. Mr King attended an senior Management Program at Harvard University and is a Fellow of the Australian Institute of company Directors.
Richard Uechtritz Chief Executive Officer and Executive Director	Mr. Uechtritz has over 20 years experience in retailing. He was co-founder of Australia's two leading photo chains Rabbit Photo and Smith Kodak Express. Mr. Uechtritz was also a director of Kodak (Australasia) Pty Ltd. Mr. Uechtritz led the management buy-in of JB Hi-Fi in July 2000.
Terry Smart Chief Operating Officer and Executive Director	Mr. Smart is a former director of Kodak's retail operations and General Manager of Kodak's retail operations. During his career with JB Hi-Fi he has led the implementation of the company's management information system, including a point of sale system, in-store reporting systems and an electronic data interface with the company's major suppliers. Mr Smart has been responsible for the set up of the companies operational processes which help underpin the store roll out strategy. Mr Smart joined the management buy-in of JB Hi-Fi in July 2000.
Patrick Elliott Non-Executive Director B.Comm LLB, MBA (Hon), CA	Mr Elliott is an executive director of Next Capital Pty Limited, a private equity manager. He is also a non executive director of Steelforce Holdings Pty Limited. Prior to founding Next Capital Pty Limited, Mr. Elliott was an executive director of Macquarie Direct Investment Limited, the private equity division of Macquarie Bank Limited.
Gary Levin Non-Executive Director B.Comm, LLB	Mr. Levin has been a director of JB Hi Fi since November 2000. He is currently Managing Director of Babcock & Brown Environmental Investments Limited and EarthPower Technologies Sydney Pty Ltd, and a director of Natural Fuels Australia Limited and Southern Oil Refining Limited. He was formerly the founder and Managing Director of TLC Dry Cleaners and a previous joint Managing Director of Rabbit Photo Holdings Limited. He has over 25 years experience running public and private companies in the retail, real estate and renewable energy fields. He was admitted to the Bar of New South Wales in 1978 and is a member of the New South Wales Bar Association.
Will Fraser Non-Executive Director Ph.D	Dr Fraser retired in 1999 as Chairman and Managing Director of Kodak Australasia Pty Ltd; an appointment that followed two years in London as a Corporate Vice President of Eastman Kodak and Regional Business General Manager, Consumer Imaging of Europe, Africa, India and the Middle East region. He is currently a member of the Board of Trustees of the Baker Foundation.

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Gary Levin	Babcock & Brown Environmental Investments Limited	Since 2002
James King	IBT Education Limited	Since 2004
	Tattersalls Limited	Since 2005

Company Secretary

Richard Murray
B. Comm, Grad.Dip. Applied Finance & Investment, CA

Mr. Murray is a Chartered Accountant with over ten years experience in finance and accounting. Mr. Murray joined JB Hi-Fi as Chief Financial Officer in 2003 and took the business through the IPO (Initial Public Offer) process. Mr. Murray is assisted in his role as Company Secretary by an external consultant specialising in company secretarial processes and procedures, who attends all board and committee meetings.

Principal activities

The consolidated entity's principal activity in the course of the financial year was the retailing of home consumer products, with particular focus on:

- consumer electronics (televisions, Hi-Fi, DVD players, home theatres, digital still and video cameras and accessories)
- electrical goods (whitegoods, computing equipment, kitchen equipment, air conditioners and small electrical appliances)
- car sound systems (audio & visual)
- music, games and movies

from stand alone and shopping centre locations, offering a wide range of leading brands. There have been no significant changes in the principal activity of the consolidated entity during the financial year.

Review of operations

The consolidated profit after tax of the consolidated entity for the financial year, that was attributable to member of the parent entity was $25,813,000 (2005: $19,478,000) which is 33% greater than the consolidated profit after tax for the previous financial year.

Consolidated sales for the financial year were $945,821,000, which is 36% greater than the consolidated sales for the previous financial year.

In preparing the Review of Operations, the directors have omitted material that would otherwise have been included under s.299A(1)(c) concerning the consolidated entity's business strategies and prospects for future financial years, as they believe it is likely to result in unreasonable prejudice to the consolidated entity or any entity that is part of the consolidated entity.

A. Overview

Objectives of the consolidated entity are to create shareholder value through a national roll out of JB Hi-Fi and Clive Anthonys branded retail stores in both stand alone destination sites and shopping centre locations. The cornerstone of the consolidated entity's success has been, and will continue to be, its ability to consistently offer everyday low prices. The consolidated entity is able to do this through the scale of its operations, high stock turnover and low cost of doing business.

Management consider the following indicators in assessing the performance of the business:

- Comparable store sales growth
- Gross margin by store and product category
- Operating costs as a percentage of sales
- Store EBIT contribution
- EBIT Margin

- Earnings per share (EPS)
- Financial covenants and measures including gearing, interest cover and fixed charges ratio
- Working capital measures including inventory and creditors turnover
- Return on capital and return on invested capital

Dynamics of the consolidated entity:
The following factors are considered important in understanding the dynamics of the consolidated entity and the main opportunities and threats that may have a major effect on results regardless of whether they were significant in the period under review.

Opportunities:
- JB Hi-Fi offers one of Australia's largest ranges of home entertainment and electrical products at discounted prices, positioned to appeal to all customers, through its JB Hi-Fi and Clive Anthonys stores. The consolidated entity maintains a low cost operating model designed to underpin competitive pricing in its store network.
- JB Hi-Fi's strategic initiatives for growth include:
  - targeting high growth segments of the home entertainment market in both JB Hi-Fi and Clive Anthonys stores;
  - focussed expansion of Clive Anthonys stores once back office functions are upgraded and consolidated;
  - ensuring recently opened stores mature rapidly and profitably;
  - continuing to improve the efficiency and profitability of existing stores;
  - opening new stor–s - the consolidated entity has opened 51 new stores over the last 6 years, and has plans to continue expanding with a number of new stores forecast to open in the 2007 financial year. JB Hi-Fi has a strong store representation in all mainland Australian states.

Threats:
- There are a number of factors, both specific to JB Hi-Fi and of a general nature, which may threaten the future operating and financial performance of the consolidated entity and the outcome of an investment in JB Hi-Fi. There can be no guarantee that JB Hi-Fi will achieve its stated objectives or that forward looking statements will be realised.
- The operating and financial performance of JB Hi-Fi is influenced by a variety of general economic and business conditions, including the Australian housing construction cycle, levels of consumer spending, inflation, interest rates and exchange rates, access to debt and capital markets, government fiscal, monetary and regulatory policies. A prolonged deterioration in general economic conditions, including an increase in interest rates or a decrease in consumer and business demand, may have an adverse impact on the consolidated entity's business or financial condition.
- Competiti–n - the markets in which JB Hi-Fi operates are fragmented and competitive. The consolidated entity's financial performance or operating margins could be adversely affected if the actions of competitors or potential competitors become more effective, or if new competitors enter the market, and JB Hi-Fi is unable to counter these actions.
- Leasing arrangemen–s - the ability to identify suitable sites and negotiate suitable leasing terms is key to consolidated entity's growth plans. Further, management's ability to renegotiate acceptable lease terms for existing stores where leases are due to expire is vital to ongoing profitability.
- Operating costs - the consolidated entity's ability to consistently offer low prices and operate profitably is dependent on a combination of the scalability of its operations, relatively high stock turns and low cost operating structure. It is important that the consolidated entity maintain these drivers of profitability**.**

B. Review of operations

Sales and earnings performance:
- The consolidated entity recorded a full year net profit after tax of $25,813,000 for the 12 months ending June 2006, up 32.5% on the previous corresponding period of $19,478,000.
- Total sales were up 36.3% to $945,821,000 and comparable store growth was 5.3%. JB Hi-Fi stand alone 7.1%, Clive Anthonys (5.5%) and consolidated 5.3%.
- Gross margin was 22.46% for the period, down 0.41%. JB Hi-Fi stand alone down 0.34%, Clive Anthonys down 0.49% and consolidated down 0.41%.
- EBIT was $44,537,000 up from $34,651,000 last year and the resulting EBIT margin was 4.7%, down from 5.0% for same period last year.
- Operating expenditure as a percentage of sales continued to improve at 17.1% for the period. Improving from 17.2% for same period last year
- The consolidated entity opened 18 new stores during the 2006 financial year, all branded JB Hi-Fi, bringing the total stores to 66 at year end.

Material developments:

- There were no material developments during the financial year other than as referred to elsewhere in this financial report.

Overall returns to shareholders
- Refer to details of dividends paid and declared by the company in the section below.

C. Details of investments for future performance

- Investments of $28,737,000 were made during the financial year in capital expenditure projects. A majority of this capital expenditure related to the 18 new stores opened during the period. These stores are anticipated to contribute towards solid earnings growth in the 2007 financial year.
- The consolidated entity's investment in Clive Anthonys, will provide it with exposure to the substantial white goods, cooking, air conditioning and computer markets and provide a platform to expand outside the consumer offering of its JB Hi-Fi store formats.

D. Review of financial conditions

- The capital structure of the consolidated entity has remained stable during the period. The increase in equity during the period related to ordinary shares issued to employees under the Employee Share Option Plan. The consolidated entity increased its borrowings to fund its continued new store rollout program
- The key financial covenants included in the company's financing facilities are the leverage/gearing ratio and fixed charges cover.
- The consolidated entity has total interest bearing liabilities of $100,561,000 at the end of the period. The consolidated entity has a senior debt facility of $110,000,000 in place, which expires in October 2008, with an option to extend for up to two years to October 2010. In addition, the consolidated entity has an annual working capital facility of $30,000,000, with an additional seasonal facility in February to April each year of $10,000,000.

E. Risk management and corporate governance practices

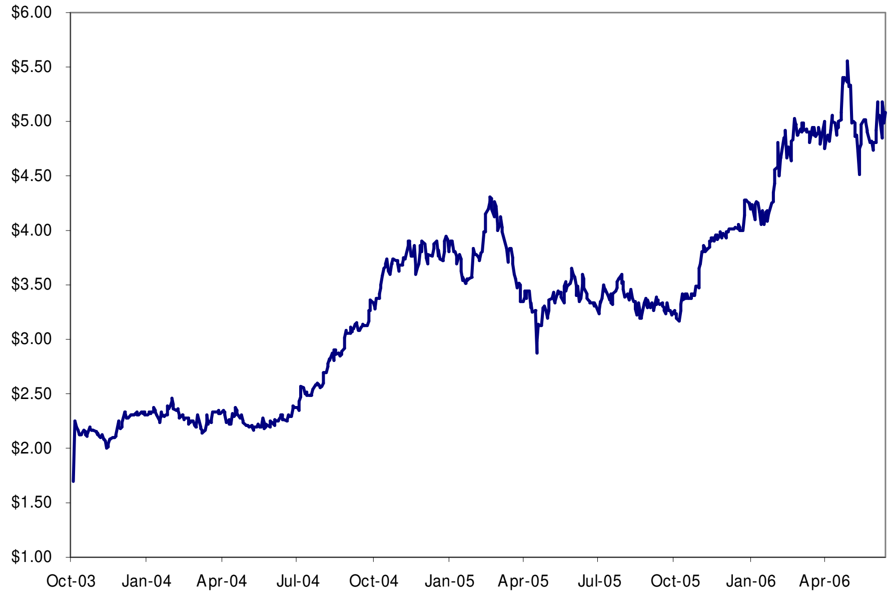
The Board has delegated to the Audit and Risk Management Committee responsibility for overseeing the implementation of policies and procedures aimed at ensuring that the consolidated entity conducts its operations in a manner that manages risk to protect its people, the environment, consolidated entity assets and reputation as well as to realise opportunities. JB Hi-Fi's policy is to consider the balance of risk and reward, as far as practicable, in order to optimise the returns gained from its business activities and to meet the expectations of its stakeholders.

F. Discussion of Performance

Sales and earnings performance:
- Consolidated sales for the financial year were $945,821,000, which is 36.3% greater than the consolidated sales for the previous financial year.
- The consolidated profit after tax for the financial year of $25,813,000 is 32.6% greater than the consolidated profit after tax for the previous financial year.

This report only discusses the consequences of the company's performance on shareholder wealth for the last three financial years, since the company's listing on the ASX.

The following graph plots the closing share price of JB Hi-Fi on a daily basis since listing on the Australian Stock Exchange.



The following table details the changes in earnings per share and shareholder wealth since the company listed on the Australian Stock Exchange.

Measures of Performance and Shareholder Value	2003[(1)]	2004[(1)]	2005	2006	M'mnt FY04	M'mnt FY05	M'mnt FY06
1. Earnings per share	8.4	13.5	19.0	25.0	61%	41%	33%
2. Shareholder Value Created:							
Company share price at the end of the reporting period ($)	1.71 [(2)]	2.30	3.56	5.08	35%	55%	43%
Market Capitalisation ($m)	174.6 [(3)]	235.5	366.0	525.6	35%	55%	44%
Enterprise Value [(4)] ($m)	201.7 [(3)]	262.8	442.0	621.7	30%	68%	41%
Movement in enterprise value during the financial year ($m)	-	61.1	179.2	179.7			
Dividends paid to shareholders during the financial year ($m)	-	3.7 [(5)]	7.4	7.4			
Shareholder Value Created ($m) [(6)]	**-**	**64.8**	**186.6**	**187.1**			

1. 2003 and 2004 financial analysis is based on AGAAP results, 2005 and 2006 financial analysis is based on A-IFRS results
2. Values are based on a weighted calculation of the retail and institutional IPO issue price applied to total shares on issue.
3. Values are based on 23 October 2003, the date on which the company first listed on the Australian Stock Exchange. Refer to the company's prospectus dated 18 September 2003 for further details.
4. Measured as the sum of market capitalisation and net debt.
5. The dividends paid in the 2004 financial year excludes a special dividend of $10,000,000 paid to shareholders before the company was listed.
6. Shareholder Value Created is measured as the increase in the enterprise value of the company, plus cash dividends paid during the financial year.

The company has not returned any capital to shareholders since its listing in October 2003.

For further discussion of the Company's performance during the financial year, refer to the Chairman's and Chief Executive Officer's Report included in the Annual Report to shareholders.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity.

Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial year, that has 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 years.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The consolidated entity 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 consolidated entity or it's compliance with the relevant environmental agencies or regulatory authorities.

Dividends

In respect of the financial year ended 30 June 2005, as detailed in the directors' report for that financial year, a final dividend of 3.6 cents per share fully franked at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 21 October 2005.

In respect of the financial year ended 30 June 2006, an interim dividend of 3.6 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 13 April 2006.

In respect of the financial year ended 30 June 2006, the directors recommend the payment of a final dividend of 4 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares on 18 October 2006.

Share options

Share options granted to directors and executives

During and since the end of the financial year an aggregate of 431,664 share options were granted to the following directors and executives of the company as part of their remuneration:

Directors and executives	Issuing entity	Number of options granted during the financial year	Number of options granted since the end of the financial year	Number of ordinary shares under option
R Uechtritz	JB Hi-Fi Limited	101,568	- (1)	101,568
T Smart	JB Hi-Fi Limited	101,568	- (1)	101,568
F Garonzi	JB Hi-Fi Limited	76,176	80,000 (2)	156,176
R Murray	JB Hi-Fi Limited	76,176	80,000 (2)	156,176
S Browning	JB Hi-Fi Limited	76,176	80,000 (2)	156,176
		431,664	240,000	671,664

(1) Excludes the options approved by the board in August 2006 of 200,000 options to R. Uechtritz and 150,000 T. Smart, both group executive directors of the company. The issue of these options is subject to shareholder approval at the company's Annual General Meeting in October 2006. The options will vest subject to the following performance conditions – 70% of the options will require compound annual earnings per share (EPS) growth of 10%, the remaining 30% will require compound annual earnings per share (EPS) growth of 15%.

(2) The board in August 2006 approved the issue of 80,000 options each to F.Garonzi, R.Murray and S.Browning, all group executives of the company. The options will vest subject to the following performance conditions – 70% of the options will require compound annual earnings per share (EPS) growth of 10%, the remaining 30% will require compound annual earnings per share (EPS) growth of 15%.

Share options on issue at year end or exercised during the year

Details of unissued shares or interests under option at the date of this report are:

	Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
1	JB Hi-Fi Limited	86,667	Ordinary	0.50	7/02/2007
2	JB Hi-Fi Limited	26,667	Ordinary	1.25	19/09/2007
3	JB Hi-Fi Limited	26,667	Ordinary	1.25	22/10/2007
4	JB Hi-Fi Limited	26,666	Ordinary	1.25	1/10/2007
5	JB Hi-Fi Limited	122,666	Ordinary	1.25	18/09/2008
6	JB Hi-Fi Limited	390,000	Ordinary	1.45	18/09/2008
7	JB Hi-Fi Limited	25,818	Ordinary	2.32	29/01/2009
8	JB Hi-Fi Limited	150,000	Ordinary	2.23	21/03/2009
9	JB Hi-Fi Limited	201,000	Ordinary	2.25	28/04/2009
10	JB Hi-Fi Limited	1,856,412	Ordinary	2.29	23/07/2009
11	JB Hi-Fi Limited	50,000	Ordinary	2.29	27/10/2009
12	JB Hi-Fi Limited	50,000	Ordinary	3.68	28/01/2010
13	JB Hi-Fi Limited	50,000	Ordinary	3.61	12/04/2010
14	JB Hi-Fi Limited	543,528	Ordinary	3.33	22/07/2010
15	JB Hi-Fi Limited	50,000	Ordinary	3.37	8/08/2010
16	JB Hi-Fi Limited	50,000	Ordinary	3.29	26/09/2010
17	JB Hi-Fi Limited	203,136	Ordinary	3.33	22/07/2010
18	JB Hi-Fi Limited	50,000	Ordinary	4.89	3/04/2011
19	JB Hi-Fi Limited	50,000	Ordinary	4.98	26/06/2011
20	JB Hi-Fi Limited	285,000	Ordinary	4.81	15/08/2011
21	JB Hi-Fi Limited	168,000	Ordinary	4.81	15/08/2011
22	JB Hi-Fi Limited	72,000	Ordinary	4.81	15/08/2011
		4,534,227			

The holders of such options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

Details of shares or interests issued during or since the end of the financial year as a result of exercise of an option are:

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
JB Hi-Fi Limited	287,331	Ordinary	0.50	-
JB Hi-Fi Limited	144,002	Ordinary	1.25	-
JB Hi-Fi Limited	195,000	Ordinary	1.45	-
	626,333			

Indemnification of officers and auditors

As provided under the constitution, the company indemnifies directors and senior officers for any loss arising from any claim by reason of any wrongful act committed by them in their capacity as a director or officer. During the year, the company has paid a premium in respect of a contract, insuring its directors and senior employees against any liability of this nature. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of the premiums paid are confidential.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 14 board meetings, 3 remuneration committee meetings and 5 audit and risk management committee meetings were held.

	Board of directors		Remuneration committee		Audit and Risk Management committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
J King	14	14	1	1	5	5
P Elliott	14	14	2	2	5	5
G Levin	14	14	-	-	5	5
W Fraser	14	13	3	3	-	-
R Uechtritz	14	14	3	3	-	-
T Smart	14	14	-	-	-	-

Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the company or a related body corporate as at the date of this report.

Directors	Fully paid ordinary shares - direct	Fully paid ordinary shares - indirect	Executive share options - direct	Executive share options - indirect
J King	-	32,258	-	-
P Elliott	238,600	260,000	-	-
G Levin	300,000	-	-	-
W Fraser	-	6,451	-	-
R Uechtritz	4,000,000	-	851,319 (1)	-
T Smart	2,080,000	-	604,603 (1)	-
	6,618,600	298,709	1,455,922	-

Excludes the options approved by the board in August 2006 of 200,000 options to R. Uechtritz and 150,000 T. Smart, both group executive directors of the company. The issue of these options is subject to shareholder approval at the company's Annual General Meeting in October 2006. The options will vest subject to the following performance conditions – 70% of the options will require compound annual earnings per share (EPS) growth of 10%, the remaining 30% will require compound annual earnings per share (EPS) growth of 15%.

Remuneration report

Remuneration policy for directors and executives

The remuneration committee reviews the remuneration packages of all directors and executive officers on an annual basis and makes recommendations to the board. Remuneration packages are reviewed with due regard to performance, data on remuneration paid by comparable companies and where appropriate, the remuneration committee may receive expert independent advice regarding remuneration levels required to attract and compensate directors and executives, given the nature of their work and responsibilities.

The remuneration for the 2006 financial year for non-executive directors was $65,000 per annum and $110,000 per annum for the Chairman. In addition, non executive directors (including the Chairman) receive fees of $5,000 per annum, per board committee they are appointed to.

The remuneration for the 2005 financial year for non-executive directors was $40,000 per annum and $75,000 per annum for the Chairman. In addition, non executive directors (including the Chairman) received fees of $5,000 per annum, per board committee they were appointed to. Patrick Elliott also received fees of $10,000 for acting as a non-executive director of Clive Anthonys Pty Ltd, a subsidiary of the company for the 2005 financial year.

It is the policy of the company not to pay lump sum retirement benefits to non-executive directors. Superannuation contributions are made by the company on behalf of non-executive directors in line with legislative requirements. Some non-executive directors, as a result of their personal superannuation circumstances, have notified the company that they would prefer their superannuation contributions to be received as increased board fees. Directors also have the right to enter into salary packaging arrangements with the company. The result of these arrangements is no net increase to the cost of directors' remuneration to the company.

Further details of the company's remuneration policy is contained in the Corporate governance statement contained in the annual report. The directors consider the policy appropriate given the Measures of Performance and Shareholder Value as detailed in the Review of operations.

Director and executive details

The directors of JB Hi-Fi Limited during the year were:

- J King (Chairman, Board and Remuneration Committee, Non-executive Director)
- P Elliott (Chairman, Audit and Risk Management Committee , Non-executive Director)
- G Levin (Non-executive Director)
- W Fraser (Non-executive Director)
- R Uechtritz (Chief Executive Officer and Executive Director – JB Hi-Fi)
- T Smart (Chief Operating Officer and Executive Director – JB Hi-Fi)

The company and group executives of JB Hi-Fi Limited during the year were:

- F Garonzi (General Manager – JB Hi-Fi)
- R Murray (Chief Financial Officer – JB Hi-Fi)
- S Browning (Marketing Director – JB Hi-Fi)
- C Savage (Executive Chairman – Clive Anthonys)
- R Pamenter (Managing Director – Clive Anthonys)

Elements of director and executive remuneration

Remuneration packages contain the following key elements:

a. Primary benefits – salary/fees, bonuses and non monetary benefits including the provision of motor vehicles;
b. Post employment benefits – includes superannuation;
c. Equity – share options granted under the executive share option plan as disclosed in note 5 to the financial statements; and
d. Other benefits.

The following table discloses the remuneration of the directors of the company:

	Primary			Post-employment		Equity	
2006	Salary & fees $	Bonus $	Other benefits $	Superannuation $	Other $	Options $	Total $
J King	86,667	-	-	7,800	-	-	94,467
P Elliott	103,333	-	-	9,300	-	-	112,633
G Levin	70,000	-	-	6,300	-	-	76,300
W Fraser	70,000	-	-	6,300	-	-	76,300
R Uechtritz	630,631	587,000	35,000	69,369	8,230	157,950	1,488,180
T Smart	330,000	309,000	26,000	36,300	-	115,173	816,473
	1,290,631	896,000	61,000	135,369	8,230	273,123	2,664,353

The following table discloses the remuneration of the five highest paid group executives with the greatest authority and who were directly accountable and responsible for the strategic direction and operational management of the company and the consolidated entity during the financial year ended 30 June 2006:

	Primary			Post-employment		Equity	
2006	Salary & fees $	Bonus $	Other benefits $	Superannuation $	Other $	Options $	Total $
F Garonzi	185,300	100,000	25,000	25,677	-	68,210	404,187
R Murray	200,000	115,000	-	27,000	-	79,480	421,480
S Browning	205,000	115,000	25,000	27,450	-	86,952	459,402
C Savage	190,000	-	23,257	13,500	-	-	226,757
R Pamenter	200,000	-	25,000	18,000	-	-	243,000
	980,300	330,000	98,257	111,627	-	234,643	1,754,826

All group executives are employed under standard company employment agreements. None of these agreements provide for onerous termination conditions or payments with respect to the company or executive.

Elements of remuneration related to performance

Elements of remuneration	Summary of performance condition
Base salary packages include base salary, motor vehicle provisions or allowances, other benefits and post employment superannuation	No elements are dependent on performance conditions.
Cash bonus (short term incentive)	Under the consolidated entity's short term incentive program, group executive directors and group executives annual cash bonus payments are based on performance against annual budgets, business plans and other relevant qualitative objectives such as corporate governance, investor relations, succession planning and human capital development. The consolidated entity undertakes a rigorous and detailed annual planning and budgeting process. The Remuneration Committee in considering the short term performance of group directors and executives considers the most relevant short term performance conditions are achieving or exceeding annual budgets, business plans and relevant qualitative objectives. Since listing, the management team has met or exceeded its annual targets and as a result the Board has not had to consider other factors that may have been relevant in determining whether an executive would still be entitled to a proportion of their annual cash bonus.
Equity options (long term incentive)	The options under the Executive Share Option Plan (ESOP) were issued to executives and management as part of the listing of the company. They form part of the consolidated entity's long term incentive program, however their vesting is not subject to performance conditions. In July 2004 the Remuneration Committee, as part of its annual review of the Company's remuneration policy determined all options issued to group directors and executives under the consolidated entity's long term incentive program would include a performance hurdle requiring compound annual earnings per share (EPS) growth of 10%. The Remuneration Committee considers this equity performance linked remuneration structure is effective in aligning the long term interests of executives and shareholders. Options issued to group directors and executives prior to this date were not subject to performance conditions.
Equity options (long term incentive) with performance conditions	Since July 2004 all options issued to group directors and executives under the consolidated entity's long term incentive program have included a performance hurdle requiring compound annual earnings per share (EPS) growth of 10%. The Remuneration Committee considers this equity performance linked remuneration structure is effective in aligning the long term interests of executives and shareholders. It is anticipated all long term incentives issued to group directors and executives in subsequent financial periods will continue to be subject to appropriate performance conditions that ensure an alignment of the long term interests of management and shareholders.

Long Term Incentive 2006

Since July 2004 certain group directors and executives have been issued with options under the ESOP as part of the Company's long term incentive program. Vesting of the options issued is subject to a performance hurdle which requires compound annual earnings per share growth of between 10% and 15% per annum. If the performance hurdle is achieved, a third of the options will vest on each of the second, third and fourth anniversary of issue. The following table details the current options outstanding which feature performance hurdles:

Option Series	Grant Date	Performance Condition – Cumulative EPS Growth per annum	Date for testing Performance Condition	Relevant Financial Year	Vested Subject to Performance Condition	Vested due to achievement of Performance Condition
10.1	23/7/04	10.0%	23/07/06	2006	Yes	Yes
10.2	23/7/04	10.0%	23/07/07	2007	No	No
10.3	23/7/04	10.0%	23/07/08	2008	No	No
14.1	22/7/05	10.0%	22/07/07	2007	No	No
14.2	22/7/05	10.0%	22/07/08	2008	No	No
14.3	22/7/05	10.0%	22/07/09	2009	No	No
17.1	22/7/05	10.0%	22/07/07	2007	No	No
17.2	22/7/05	10.0%	22/07/08	2008	No	No
17.3	22/7/05	10.0%	22/07/09	2009	No	No
21.1	15/8/06	10.0%	15/08/08	2008	No	No
21.2	15/8/06	10.0%	15/08/09	2009	No	No
21.3	15/8/06	10.0%	15/08/10	2010	No	No
21.1	15/8/06	15.0%	15/08/08	2008	No	No
21.2	15/8/06	15.0%	15/08/09	2009	No	No
21.3	15/8/06	15.0%	15/08/10	2010	No	No

Value of options issued to directors and executives

The following table discloses the value of options granted, exercised or lapsed during the year:

	Options Granted	Options Exercised	Options Lapsed	Total value of options granted, exercised and lapsed	Value of options included in remuneration for the year	Percentage of total remuneration for the year that consists of options
	Value at grant date	Value at exercise date	Value at time of lapse			
	$	$	$	$	$	%
R Uechtritz	82,123	350,750	-	432,873	157,950	10.5
T Smart	82,123	157,600	-	239,723	115,173	14.1
F Garonzi	61,592	-	-	61,592	68,210	16.9
R Murray	61,592	46,295	-	107,887	79,480	19.6
S Browning	61,592	-	-	61,592	86,952	19.6
	349,021	554,645	-	903,667	507,765	14.2

Value of options - basis of calculation

Options exercised during the year were granted on 18 September 2003
The total value of options granted, exercised and lapsed is calculated based on the following:

- Fair value of the option at grant date multiplied by the number of options granted during the year; plus
- Fair value of the option at the time it is exercised multiplied by the number of options exercised during the year; plus
- Fair value of the option at the time of lapse multiplied by the number of options lapsed during the year.

The total value of options included in remuneration for the year is calculated in accordance with Accounting Standard AASB 124 'Related Party Disclosures'. This requires the value of the options is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date. Where the options immediately vest the full value of the option is recognised in remuneration in the current year.

Non-audit services

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.
Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 6 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 19, of the annual 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 financial report are rounded off to the nearest thousand dollars. Amounts in the directors' report have been rounded off to the nearest whole dollar.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

James King	Richard Uechtritz
Chairman	Chief Executive Officer

Melbourne,
15 August 2006

Deloitte.

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The Board of Directors
JB Hi-Fi Limited
14 Spink Street
BRIGHTON VIC 3186

15 August 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 audit of the financial statements of JB Hi-Fi Limited for the year ended 30 June 2006, 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 audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

B PORTER
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
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Independent audit 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, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both JB Hi-Fi Limited (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 21 to 62. 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.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial 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.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of JB Hi-Fi Limited is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

DELOITTE TOUCHE TOHMATSU

B PORTER
Partner
Chartered Accountants
Melbourne, 15 August 2006

Liability limited by a scheme approved under Professional Standards Legislation.

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 company and the consolidated entity; and

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

James King	Richard Uechtritz
Chairman	Chief Executive Officer

Melbourne,
15 August 2006

Income statement

for the financial year ended 30 June 2006

		Consolidated		Company	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue	2	945,821	693,943	-	-
Cost of sales	2	(733,395)	(535,262)	-	-
Gross profit		212,426	158,681	-	-
Other income	2	1,550	955	10,474	11,764
Share of profits of associates accounted for using the equity method	10	170	118	-	-
Sales and marketing expenses		(113,921)	(84,730)	(743)	(519)
Occupancy expenses		(33,181)	(22,990)	-	-
Administration expenses		(12,231)	(9,185)	(340)	(236)
Finance costs		(6,410)	(5,705)	(1,297)	(4,062)
Other expenses		(9,603)	(7,640)	-	(1)
Profit before income tax expense	2	38,800	29,504	8,094	6,946
Income tax expense	3	(11,954)	(8,937)	(407)	(109)
Profit for the period		26,846	20,567	7,687	6,837
Profit attributable to minority interest		(1,033)	(1,089)	-	-
Profit attributable to members of the parent entity		25,813	19,478	7,687	6,837
Earnings per share:					
Basic (cents per share)	26	25.03	18.98		
Diluted (cents per share)	26	24.53	18.69		

Key statistical data

Gross margin percentage (%)	22.46%	22.87%
Rent as a percentage of sales (%) (i)	1.98%	1.80%
Operating expenditure as a percentage of sales (%) (ii)	17.07%	17.22%
EBIT margin (%)	4.71%	4.99%
Number of stores at end of the period	66	48

(i) Based on actual rent and outgoings for the financial year, excluding impact of A-IFRS straight-line rent adjustment. If this adjustment had been included, rent as a percentage of sales would be 2.05% (2005: 1.85%).

(ii) Excludes borrowing costs and depreciation.

Notes to the financial statements are included on pages 26 to 62.

Balance sheet
as at 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Current assets					
Cash and cash equivalents	34	4,493	1,631	1	57
Trade and other receivables	7	28,282	19,852	100	1
Inventories	8	161,137	102,157	-	-
Other	9	2,845	2,648	-	-
Total current assets		196,757	126,288	101	58
Non-current assets					
Investments accounted for using the equity method	10	689	568	450	450
Other financial assets	11	674	6	39,137	93,063
Property, plant and equipment	12	57,206	35,908	-	-
Deferred tax assets	3	4,867	1,984	-	-
Goodwill	13	20,015	20,015	-	-
Other intangibles assets	14	46,636	46,636	-	-
Other		-	205	-	205
Total non-current assets		130,087	105,322	39,587	93,718
Total assets		326,844	231,610	39,688	93,776
Current liabilities					
Trade and other payables	15	122,762	78,183	8	774
Borrowings	16	519	6,345	-	-
Current tax payables	3	4,453	2,284	4,449	2,381
Provisions	17	9,508	7,128	-	-
Other	18	1,102	843	-	-
Total current liabilities		138,344	94,783	4,457	3,155
Non-current liabilities					
Trade and other payables	19	660	564	-	-
Borrowings	20	100,042	71,291	-	57,000
Provisions	21	771	734	-	-
Other	22	3,370	2,000	-	-
Total non-current liabilities		104,843	74,589	-	57,000
Total liabilities		243,187	169,372	4,457	60,155
Net assets		83,657	62,238	35,231	33,621
Equity					
Issued capital	23	33,036	32,428	33,036	32,428
Reserves	24	2,036	644	1,387	644
Retained earnings	25	43,880	25,494	808	549
Parent entity interest		78,952	58,566	35,231	33,621
Minority interest		4,705	3,672	-	-
Total equity		83,657	62,238	35,231	33,621

Notes to the financial statements are included on pages 26 to 62.

Statement of changes in equity for the financial year ended 30 June 2006

		Consolidated		Company	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Retained earnings	25				
Retained earnings at the beginning of the year		25,494	13,408	549	1,105
Net profit attributable to members of the parent entity		25,813	19,479	7,687	6,837
Dividends		(7,428)	(7,393)	(7,428)	(7,393)
Retained earnings at the end of the period		43,880	25,494	808	549
(b) Reserves	24				
Reserves at the beginning of the period		644	125	644	125
Movement in employee equity-settled benefits reserve		743	519	743	519
Movement in hedging reserve		649	-	-	-
Reserves at the end of the period		2,036	644	1,387	644
(c) Share capital	23				
Share capital at the beginning of the period - 102,839,334 fully paid ordinary shares		32,428	32,196	32,428	32,196
Issue of shares under employee and executive share option plan		608	232	608	232
Share capital at the end of the period - 103,465,667 fully paid ordinary shares		33,036	32,428	33,036	32,428
(d) Total recognised income and expenses for the period					
Net profit for the period		26,846	20,567	7,687	6,837
Profit attributable to minority interest		(1,033)	(1,089)	-	-
Net profit attributable to members of the parent entity		25,813	19,478	7,687	6,837
Net income recognised directly in equity: Interest rate swap		649	-	-	-
Total recognised income and expenses for the period		26,462	19,478	7,687	6,837

Notes to the financial statements are included on pages 26 to 62.

Cash flow statement
for the financial year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Company* 2006 $'000	Company* 2005 $'000
Cash flows from operating activities					
Receipts from customers		1,038,663	757,964	-	-
Payments to suppliers and employees		(1,006,089)	(747,094)	-	-
Dividend received		118	-	7,718	7,100
Interest and bill discounts received		672	560	2,756	4,664
Interest and other costs of finance paid		(6,410)	(5,705)	(527)	(3,506)
Income tax paid		(11,333)	(9,142)	(9,887)	(7,808)
Net cash provided by/(used in) operating activities	34(d)	15,621	(3,417)	60	450
Cash flows from investing activities					
Proceeds from repayment of related party loans		-	-	63,704	6,472
Payment for property, plant and equipment		(29,046)	(15,812)	-	-
Proceeds from sale of property, plant and equipment		200	52	-	-
Payment for investment		-	(450)	-	(450)
Payment for businesses	34(b)	-	(21,660)	-	(24,316)
Net cash (used in)/provided by investing activities		(28,846)	(37,870)	63,704	(18,294)
Cash flows from financing activities					
Borrowing activities:					
Proceeds from lease liabilities		-	13,142	-	-
Repayment of lease liabilities		(20,117)	(4,495)	-	-
Proceeds/(repayments) from borrowings		43,024	25,000	(57,000)	25,000
Equity activities:					
Proceeds from issue of equity securities		608	232	608	232
Dividends paid to members of the parent entity		(7,428)	(7,393)	(7,428)	(7,393)
Net cash provided by/(used in) financing activities		16,087	26,486	(63,820)	17,839
Net increase in cash/(decrease) and cash equivalents		2,862	(14,801)	(56)	(5)
Cash and cash equivalents at the beginning of the financial year		1,631	16,432	57	62
Cash and cash equivalents at the end of the financial year	34(a)	4,493	1,631	1	57

* All cash movements are conducted through the JB Hi-Fi Group Pty Ltd bank account and are included here for disclosure purposes only.

Notes to the financial statements are included on pages 26 to 62.

Notes to the financial statements

1. Summary of accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

The financial statements were authorised for issue by the directors on 15 August 2006.

Basis of preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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 company's and consolidated entity's financial position, financial performance and cash flows is discussed in note 36.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 36), 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 and 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).

1. Summary of accounting policies (cont'd)

The following significant accounting policies have been adopted in the preparation and presentation of the 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 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 financials 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 no financial effect of changes in the accounting policies for financial instruments on the balance sheet as at 1 July 2005.

(d) Derivative financial instruments

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

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 certain interest rate swaps as hedges of highly probable forecast transactions (cash flow hedges).

The effective portion of charges 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 and 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 dividends 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 and long service 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.

Contributions to defined contribution superannuation plans are expensed when incurred.

1. Summary of accounting policies (cont'd)

(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 on intangibles with indefinite useful lives 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.

(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 affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

1. Summary of accounting policies (cont'd)

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 Australian resident 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. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 3 to the financial statements.

(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, is recorded at the cost of acquisition. The directors gave due consideration to the technical and commercial life of the brand name to determine its useful life and have assessed it 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 rights to determine their useful life 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.

1. Summary of accounting policies (cont'd)

(l) Investments

Investment in subsidiaries 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.

(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.

<u>Lease incentives</u>

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, 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'.

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 interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

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.

1. Summary of accounting policies (cont'd)

(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.

Depreciation

Depreciation is provided on plant and equipment and equipment under finance lease. 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 are 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.

(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 reliable measured. The following specific recognition criteria must 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 an accrual basis.

(s) Trade Receivables

Trade receivables are carried at amortised cost less impairment.

(t) Financial Instruments Issued by the Company

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

Transaction costs are the costs that are incurred directly in connection with the issue of these equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instrument or component parts of compound instruments.

1. Summary of accounting policies (cont'd)

(u) Share Based Payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of the black scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

New and Revised Accounting Standards and Interpretations

JB Hi-Fi Limited has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2005.

The directors have given due consideration to new and revised standards and interpretations issued by the AASB that are not yet effective and do not believe they will have any material financial impact on the financial statements of the Company or the Consolidated entity.

2. Profit from operations

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(a) Revenue				
Revenue from continuing operations consisted of the following items:				
Revenue from the sale of goods	945,821	693,943	-	-
(b) Income				
Interest income:				
Wholly-owned controlled entities	-	-	2,756	4,664
Other entities	672	560	-	-
Dividends:				
Wholly-owned controlled entities	-	-	7,600	7,100
Other entities	-	-	118	-
Other income	878	395	-	-
	1,550	955	10,474	11,764
(c) Profit before income tax				
Profit before income tax has been arrived at after charging the following expenses from continuing operations:				
Cost of sales including write-down of inventory to net realisable value	733,395	535,262	-	-
Inventory:				
Write-down of inventory to net realisable value	6,332	4,248	-	-
Finance costs:				
Interest on loans	5,683	4,393	1,092	3,879
Other interest expense	279	183	205	183
Total interest expense	5,962	4,576	1,297	4,062
Finance lease charge	448	1,129	-	-
	6,410	5,705	1,297	4,062
Net bad and doubtful debts arising from:				
Other entities	183	151	-	-
Depreciation of non-current assets	7,439	5,029	-	-
Operating lease rental expenses:				
Minimum lease payments	16,872	12,217	-	-
Employee benefit expense:				
Post employment benefits:				
Defined contribution plans	7,461	5,649	-	-
Share-based payments:				
Equity settled share-based payments	743	519	743	519
Other employee benefits	96,915	71,554	-	-
	105,119	77,722	743	519

3. Income taxes

(a) Income tax recognised in profit or loss

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Tax expense comprises:				
Current tax expense	14,725	10,105	407	109
Adjustments recognised in the current year in relation to the current tax of prior years	113	-	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(2,884)	(1,168)	-	-
Total tax expense/(income)	11,954	8,937	407	109
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Profit from operations	38,800	29,504	8,094	6,946
Income tax expense calculated at 30%	11,640	8,852	2,428	2,084
Non-deductible expenses	201	119	223	155
Non-assessable income	-	-	(2,244)	(2,130)
	11,841	8,937	407	109
(Over)/under provision of income tax in previous year	113	-	-	-
	11,954	8,937	407	109

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Current tax liabilities

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Current tax payables:				
Income tax payable attributable to:				
Parent entity	407	109	407	109
Entities in the tax-consolidated group	4,042	2,272	4,042	2,272
Other	4	(97)	-	-
	4,453	2,284	4,449	2,381

(c) Deferred tax balances

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Deferred tax assets comprise:				
Temporary differences	4,868	1,984	-	-

3. Income taxes (cont'd)

Taxable and deductible temporary differences arise from the following:

2006	Consolidated Opening balance $'000	Consolidated Charged to income $'000	Consolidated Closing balance $'000
Gross deferred tax liabilities:			
Trade and other receivables	(1,374)	576	(798)
Property, plant and equipment	(334)	46	(288)
Cash flow Hedge	-	(200)	(200)
	(1,708)	422	(1,286)
Gross deferred tax assets:			
Trade and other receivables	54	31	85
Inventories	268	973	1,242
Property, plant and equipment	125	222	347
Tax bases without an asset carrying amount	-	195	195
Trade and other payables	494	148	642
Provisions	2,751	893	3,644
	3,692	2,462	6,154
Net	1,984	2,884	4,868

2005	Consolidated Opening balance $'000	Consolidated Charged to income $'000	Consolidated Closing balance $'000
Gross deferred tax liabilities:			
Trade and other receivables	(1,092)	(282)	(1,374)
Property, plant and equipment	(324)	(13)	(334)
	(1,414)	(295)	(1,708)
Gross deferred tax assets:			
Trade and other receivables	23	31	54
Inventories	78	190	268
Property, plant and equipment	-	125	125
Other assets	108	(108)	-
Trade and other payables	202	292	494
Provisions	1,819	933	2,751
	2,230	1,463	3,692
Net	816	1,168	1,984

The company has no taxable and deductible temporary differences.

Tax consolidation

Relevance of tax consolidation to the consolidated entity

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is JB Hi-Fi Limited. The members of the tax-consolidated group are identified at note 31.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and 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 current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

4. Key management personnel remuneration

Details of key management personnel

The directors and other key management personnel of JB Hi-Fi Limited during the year were:

- J King (Chairman, Board and Remuneration Committee, Non-executive Director)
- P Elliott (Chairman, Audit and Risk Management Committee, Non-executive Director)
- G Levin (Non-executive Director)
- W Fraser (Non-executive Director)
- R Uechtritz (Executive Director, Chief Executive Officer)
- T Smart (Executive Director, Chief Operating Officer)
- F Garonzi (General Manager)
- R Murray (Chief Financial Officer, Company Secretary)
- S Browning (Marketing Director)

Key management personnel compensation policy

The remuneration committee reviews the remuneration packages of all directors and executive officers on an annual basis and makes recommendations to the board. Remuneration packages are reviewed with due regard to performance, data on remuneration paid by comparable companies and where appropriate, the remuneration committee may receive expert independent advice regarding remuneration levels required to attract and compensate directors and executives, given the nature of their work and responsibilities.

The remuneration for the 2006 financial year for non-executive directors was $65,000 per annum and $110,000 per annum for the Chairman. In addition, non executive directors (including the Chairman) receive fees of $5,000 per annum, per board committee they are appointed to.

The remuneration for the 2005 financial year for non-executive directors was $40,000 per annum and $75,000 per annum for the Chairman. In addition, non executive directors (including the Chairman) received fees of $5,000 per annum, per board committee they were appointed to. Patrick Elliott also received fees of $10,000 for acting as a non-executive director of Clive Anthonys Pty Ltd, a subsidiary of the company for the 2005 financial year.

It is the policy of the company not to pay lump sum retirement benefits to non-executive directors. Superannuation contributions are made by the company on behalf of non-executive directors in line with legislative requirements. Some non-executive directors, as a result of their personal superannuation circumstances, have notified the company that they would prefer their superannuation contributions to be received as increased board fees. This results in no net increase to the cost of directors' remuneration to the company.

At JB Hi-Fi, remuneration of senior executives is evaluated against comparative positions in similar companies and industries and comprises (a) fixed remuneration and (b) variable remuneration consisting of (i) short-term incentives (annual bonus based on specified performance targets as agreed with the executive) and (ii) long term incentives (options under the JB Hi-Fi Executive Share Option Plan).

The Board is aware of the Executive Share and Option Scheme Guidelines, issued by the Investment and Financial Services Association (IFSA) in May 2000. The Board is satisfied that its executive remuneration policies, specifically as they relate to the executive share option plan (as detailed in this annual report), are consistent with the aims, objectives and outcomes detailed in the IFSA guidance note no.12.

4. Key management personnel remuneration (cont'd)

Elements of remuneration	Summary of performance condition
Base salary packages include base salary, motor vehicle provisions or allowances, other benefits and post employment superannuation	No elements are dependent on performance conditions.
Cash bonus (short term incentive)	Under the consolidated entity's short term incentive program, group executive directors and group executives annual cash bonus payments are based on performance against annual budgets, business plans and other relevant qualitative objectives such as corporate governance, investor relations, succession planning and human capital development. The consolidated entity undertakes a rigorous and detailed annual planning and budgeting process. The Remuneration Committee in considering the short term performance of group directors and executives considers the most relevant short term performance conditions are achieving or exceeding annual budgets, business plans and relevant qualitative objectives. Since listing, the management team has met or exceeded its annual targets and as a result the Board has not had to consider other factors that may have been relevant in determining whether an executive would still be entitled to a proportion of their annual cash bonus.
Equity options (long term incentive)	The options under the Executive Share Option Plan (ESOP) were issued to executives and management as part of the listing of the company. They form part of the consolidated entity's long term incentive program, however their vesting is not subject to performance conditions. In July 2004 the Remuneration Committee, as part of its annual review of the Company's remuneration policy, determined all options issued to group directors and executives under the consolidated entity's long term incentive program would include a performance hurdle requiring compound annual earnings per share (EPS) growth of 10%. The Remuneration Committee considers this equity performance linked remuneration structure is effective in aligning the long term interests of executives and shareholders. Options issued to group directors and executives prior to this date were not subject to performance conditions.

4. Key management personnel remuneration (cont'd)

Key management personnel compensation

The aggregate compensation of the key management personnel of the consolidated entity and the company is set out below:

	Consolidated 2006 $	Consolidated 2005 $	Company 2006 $	Company 2005 $
Short term employee benefits	2,887,931	1,785,230	359,700	220,000
Post-employment benefits	194,026	170,450	-	-
Share-based payment	507,766	424,935	-	-
	3,589,723	2,380,615	359,700	220,000

The compensation of each member of the key management personnel of the consolidated entity is set out below:

2006	Short-term employee benefits			Post-employment benefits	Share based payment		
					Equity Settled		
	Salary & fees $	Bonus $	Other $	Superannuation $	Options & rights $		Total $
J King	86,667	-	-	7,800	-		94,467
P Elliott	103,333	-	-	9,300	-		112,633
G Levin	70,000	-	-	6,300	-		76,300
W Fraser	70,000	-	-	6,300	-		76,300
R Uechtritz	630,631	587,000	43,230	69,369	157,950	*1	1,488,180
T Smart	330,000	309,000	26,000	36,300	115,173	*2	816,473
F Garonzi	185,300	100,000	25,000	25,677	68,210	*3	404,187
R Murray	200,000	115,000	-	27,000	79,480	*4	421,480
S Browning	205,000	115,000	25,000	27,450	86,952	*5	459,402
Total	1,550,931	1,226,000	119,230	185,796	507,766		3,949,422

2005	Short-term employee benefits			Post-employment benefits	Share based payment		
					Equity Settled		
	Salary & fees $	Bonus $	Other $	Superannuation $	Options & rights $		Total $
J King	45,000	-	-	-	-		45,000
P Elliott	95,000	-	-	-	-		95,000
G Levin	45,000	-	-	-	-		45,000
W Fraser	45,000	-	-	-	-		45,000
R Uechtritz	475,000	125,000	34,230	66,000	147,700	*1	847,930
T Smart	285,000	100,000	26,000	42,350	99,757	*2	553,107
F Garonzi	220,000	50,000	25,000	24,300	49,928	*3	369,228
R Murray	150,000	50,000	-	18,000	61,043	*4	279,043
S Browning	170,000	50,000	25,000	19,800	66,507	*5	331,307
Total	1,300,000	375,000	110,230	170,450	424,935		2,380,615

* Equity settled options relate to the following series:

*1: Series #6, 10 and 17 (2005: Series #6 and 10)
*2: Series #6, 10 and 17 (2005: Series #6 and 10)
*3: Series #1, 10 and 14 (2005: Series #1 and 10)
*4: Series #5, 9, 10 and 14 (2005: Series #5, 9 and 10)
*5: Series #8, 10 and 14 (2005: Series #8 and 10)

5. Executive share option plan

The consolidated entity has an ownership-based remuneration scheme for employees and executives (including non-executive directors). In accordance with the provisions of the scheme, executives within the consolidated entity are granted options to purchase parcels of ordinary shares at various issue prices. The options vest a third each, on the second, third and fourth anniversary of issue providing that performance conditions, where they exit, are met. The options expire within five years of their issue, or one month after the executive's resignation, whichever is earlier.

The following share-based payment arrangements were in existence during the period:

Options series	Number at 30 June 2006	Grant date	Expiry date	Exercise price $	Fair value at grant date $
1	86,667	7/02/2002	7/02/2007	0.50	0.22
2	26,667	19/09/2002	19/09/2007	1.25	0.22
3	26,667	22/10/2002	22/10/2007	1.25	0.22
4	26,666	22/10/2002	1/10/2007	1.25	0.22
5	122,666	18/09/2003	18/09/2008	1.25	0.56
6	390,000	18/09/2003	18/09/2008	1.45	0.51
7	25,818	29/01/2004	29/01/2009	2.32	0.45
8	150,000	21/03/2004	21/03/2009	2.23	0.45
9	201,000	28/04/2004	28/04/2009	2.25	0.48
10	1,856,412	23/07/2004	23/07/2009	2.29	0.48
11	50,000	27/10/2004	27/10/2009	2.29	0.48
12	50,000	28/01/2005	28/01/2010	3.68	0.97
13	50,000	12/04/2005	12/04/2010	3.61	0.92
14	543,528	22/07/2005	22/07/2010	3.33	0.81
15	50,000	8/08/2005	8/08/2010	3.37	0.83
16	50,000	26/09/2005	26/09/2010	3.29	0.83
17	203,136	22/07/2005	22/07/2010	3.33	0.81
18	50,000	3/04/2006	3/04/2011	4.89	1.25
19	50,000	26/06/2006	26/06/2011	4.98	1.21

The weighted average fair value of the share options granted during the financial year is \$0.86 (2005: \$0.50). Options were priced using the Black-Scholes model.

Volatility is based on:

<u>Options Granted before ASX listing on 23 October 2003:</u>

- AASB 1046 outlined that where the underlying stock is not publicly traded, *"the expected average volatility in the entity's industry"* may be used to determine the price volatility. A search identified Australian listed companies that operated in a similar industry to JB Hi-Fi. After appropriate analysis Harvey Norman Holding Ltd and Brazin Ltd were considered comparable for the purchase of determining price volatility during the period prior to JB Hi-Fi listing on the ASX. This volatility methodology has been applied to Series 1 to 6.

<u>Options Granted after ASX listing on 23 October 2003:</u>

- Series 7 to 9 expected volatility was based on the daily closing share price since listing, which was a period less than 12 months.
- Series 10 to 13, expected volatility is based on the daily closing share price for the 12 months preceding the issues of the series.
- Series 14 and onwards, expected volatility is based on the daily closing share price since listing

All option series have an expiry of 5 years from grant date. However, from Series 14, expected life was reduced to 3.44 years to allow for the effects of early exercise based on prior years experience.

5. Executive share option plan (cont'd)

Option Series	Grant Date	Grant date share price	Exercise price	Expected volatility	Option life	Dividend yield	Risk-free interest rate
1	7 February 2002	N/A	0.50	41.0%	5.00	0.0%	5.47%
2	19 September 2002	N/A	1.25	41.0%	5.00	0.0%	5.33%
3	22 October 2002	N/A	1.25	41.0%	5.00	0.0%	5.33%
4	22 October 2002	N/A	1.25	41.0%	5.00	0.0%	5.33%
5	18 September 2003	N/A	1.25	53.0%	5.00	5.0%	5.31%
6	18 September 2003	N/A	1.45	53.0%	5.00	5.0%	5.31%
7	29 January 2004	2.33	2.32	24.0%	5.00	3.3%	5.04%
8	21 March 2004	2.20	2.23	24.0%	5.00	3.3%	5.17%
9	28 April 2004	2.22	2.25	24.0%	5.00	3.3%	5.65%
10	23 July 2004	2.57	2.29	24.3%	5.00	2.8%	5.54%
11	29 October 2004	3.47	2.29	23.5%	5.00	2.1%	5.20%
12	28 January 2005	3.70	3.68	25.0%	5.00	1.9%	5.34%
13	12 April 2005	3.52	3.61	26.3%	5.00	2.0%	5.54%
14	22 July 2005	3.38	3.33	28.4%	3.44	2.1%	5.29%
15	8 August 2005	3.44	3.37	28.3%	3.44	2.1%	5.34%
16	26 September 2005	3.39	3.29	28.3%	3.44	2.1%	5.25%
17	22 July 2005	3.38	3.33	28.4%	3.44	2.1%	5.29%
18	3 April 2006	4.94	4.89	28.3%	3.44	1.5%	5.37%
19	26 June 2006	4.85	4.98	29.4%	3.44	1.5%	5.85%

The following reconciles the outstanding share options granted under the employee and executive share option plan at the beginning and end of the financial year:

	2006		2005	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	3,688,896	1.91	2,069,152	1.23
Granted during the financial year	946,664	3.50	2,006,412	2.36
Forfeited during the financial year	-	-	-	-
Exercised during the financial year (i)	(626,333)	0.97	(386,668)	0.60
Expired during the financial year	-	-	-	-
Balance at end of the financial year (ii)	4,009,227	2.43	3,688,896	1.91
Exercisable at end of the financial year	228,272	1.51	53,999	0.87

(i) Exercised during the financial year

The following share options granted under the employee and executive share option plan were exercised during the financial year:

2006 Option Series	Grant Date	Number exercised	Exercise date	Share price at exercise date $
1	7 February 2002	20,000	29/08/2005	3.37
1	7 February 2002	667	31/10/2005	3.37
1	7 February 2002	266,664	15/02/2006	4.35
2	19 September 2002	26,667	31/10/2005	3.37
3	22 October 2002	26,667	22/02/2006	4.50
4	22 October 2002	53,334	22/02/2006	4.50
5	18 September 2003	21,334	31/10/2005	3.37
5	18 September 2003	16,000	22/02/2006	4.50
6	18 September 2003	80,000	31/10/2005	3.37
6	18 September 2003	115,000	22/02/2006	4.50
		626,333		

2005 Options series	Grant Date	Number exercised	Exercise date	Share price at exercise date $
1	7 February 2002	40,000	17/08/2004	2.57
1	7 February 2002	143,334	16/02/2005	3.81
1	7 February 2002	96,668	23/02/2005	3.74
1	7 February 2002	26,667	17/09/2004	3.06
1	7 February 2002	26,667	15/03/2005	4.27
2	19 September 2002	26,666	25/10/2004	3.37
4	22 October 2002	26,666	25/10/2004	3.37
		386,668		

(ii) Balance at end of the financial year

The share options outstanding at the end of the financial year had a weighted exercise price of $2.43, and a weighted average remaining contractual life of 1,114 days.

	Consolidated		Company	
	2006 $	2005 $	2006 $	2005 $
6. Remuneration of auditors				
Auditor of the parent entity				
Audit of the financial report				
- Current year	275,000	219,000	-	-
- Prior year	-	3,500	-	-
Taxation services	38,570	72,000	-	-
Other non-audit services:				
Due diligence on business acquired	-	104,000	-	-
Review on transition to A-IFRS	26,900	69,850	-	-
	340,470	468,350	-	-

The auditor of JB Hi-Fi Limited is Deloitte Touche Tohmatsu.

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
7. Current trade and other receivables				
Trade receivables	5,946	4,324	-	1
Allowance for doubtful debts	(284)	(178)	-	-
	5,662	4,145	-	1
Goods and services tax (GST) recoverable	983	-	-	-
Non-trade receivables	21,637	15,706	100	-
	28,282	19,852	100	1
8. Current inventories				
Finished goods:				
At the lower of cost or net realisable value	161,137	102,157	-	-
9. Other current assets				
Prepayments	1,714	1,926	-	-
Security deposits	1,131	722	-	-
	2,845	2,648	-	-

10. Investments accounted for using the equity method

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Investments in associates (Company: at cost)	689	568	450	450

Name of entity	Principal activity	Country of incorporation	Ownership interest 2006 %	Ownership interest 2005 %	Published fair value 2006 $'000	Published fair value 2005 $'000
Rocket Replacements Pty Ltd	Insurance Replacements	Australia	50% (i)	50% (i)	n/a	n/a

(i) Pursuant to a shareholder agreement the company has the right to cast 50% of the votes at shareholder meetings.

	Consolidated 2006 $'000	Consolidated 2005 $'000
Summarised financial information of associates:		
Current assets	4,440	955
Non-current assets	906	900
	5,346	1,855
Current liabilities	2,863	719
Non-current liabilities	1,243	-
	4,106	719
Net assets	1,240	1,136
Revenue	7,998	5,972
Net profit	340	236
Share of associates' profit or loss:		
Share of profit/(loss) before income tax	239	169
Income tax expense	(69)	(51)
Share of associate's profit/(loss)	170	118

11. Other non-current financial assets

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Investments in subsidiaries	-	-	24,316	24,316
Shares in listed entities	6	6	-	-
	6	6	24,316	24,316
Interest-bearing loans advanced to:				
Wholly owned controlled entity	-	-	14,821	68,747
	-	-	14,821	68,747
Hedge – Interest rate swap	668	-	-	-
	674	6	39,137	93,063

12. Property, plant and equipment

	Consolidated			
	Leasehold improve-ments at cost $'000	Plant and equipment at cost $'000	Equipment under finance lease at cost $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2004	2,179	8,083	18,749	29,011
Additions	1,588	1,598	13,142	16,328
Disposals	-	(163)	(87)	(250)
Acquisitions through business combinations	1,903	1,486	425	3,814
Balance at 1 July 2005	5,670	11,004	32,229	48,903
Additions	10,062	18,983	-	29,046
Disposals	(5)	(252)	(392)	(649)
Transfers	7,571	23,160	(30,731)	-
Balance at 30 June 2006	23,298	52,895	1,107	77,300
Accumulated depreciation/ amortisation and impairment				
Balance at 1 July 2004	(1,677)	(3,106)	(3,553)	(8,135)
Disposals	-	122	48	170
Depreciation expense	(282)	(632)	(3,221)	(4,135)
Acquisitions through business combinations	(342)	(444)	(108)	(894)
Balance at 1 July 2005	(2,301)	(4,060)	(6,634)	(12,995)
Disposals	4	136	200	341
Depreciation expense	(2,356)	(5,075)	(8)	(7,439)
Transfers	(1,221)	(4,860)	6,081	-
Balance at 30 June 2006	(5,874)	(13,859)	(360)	(20,093)
Net book value				
As at 30 June 2005	3,370	6,943	25,596	35,908
As at 30 June 2006	17,425	39,036	747	57,206

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 2 to the financial statements.

13. Goodwill

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Gross carrying amount				
Balance at beginning of financial year	20,015	-	-	-
Acquisition of goodwill	-	20,015	-	-
Balance at end of financial year	20,015	20,015	-	-
Net book value			-	-
At the beginning of the financial year	20,015	-	-	-
At the end of the financial year	20,015	20,015	-	-

The goodwill relates to the group's acquisition of Clive Anthonys and the assets of Impact Records, Canberrra on 1 July 2004. The recoverable amount is based on the cash flow generated by the Clive Anthonys business and Canberra City store. During the period, there has been no indication of impairment to the current value of goodwill. The company used a discount rate of 15% in determining value in use of goodwill.

14. Other intangible assets

	Consolidated			Company
	Brand Names $'000	Rights to profit share $'000	Total $'000	Total $'000
Gross carrying amount				
Balance at 1 July 2004	43,094	3,542	46,636	-
Additions	-	-	-	-
Balance at 1 July 2005	43,094	3,542	46,636	-
Additions	-	-	-	-
Balance at 30 June 2006	43,094	3,542	46,636	-
Net book value				
As at 30 June 2005	43,094	3,542	46,636	-
As at 30 June 2006	43,094	3,542	46,636	-

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000

15. Current trade and other payables

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Trade payables	114,650	70,032	-	-
Other creditors and accruals	4,014	2,875	8	774
Deferred income	4,098	3,968	-	-
Goods and services tax (GST) payable	-	1,308	-	-
	122,762	78,183	8	774

16. Current borrowings

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Secured				
At amortised cost (2005: cost):				
Hire purchase lease liabilities (i)	519	6,345	-	-

(i) Secured by the assets leased, the current market value of which exceeds the value of the hire purchase liability.

17. Current provisions

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Employee benefits	9,508	7,128	-	-

18. Other current liabilities

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Lease accrual	1,020	452	-	-
Lease Incentive	82	391	-	-
	1,102	843	-	-

19. Non-current trade and other payables

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Lease accrual	660	564	-	-

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
20. Non-current borrowings				
Secured				
At amortised cost (2005: cost):				
Bank loans (i)	100,042	57,000	-	57,000
Hire purchase liabilities (ii)	-	14,291	-	-
	100,042	71,291	-	57,000

(i) Secured by a fixed and floating charge over the consolidated entity's assets, the current market value of which exceeds the value of the loan.

(ii) Secured by the assets leased, the current market value of which exceeds the value of the hire purchase liability.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
21. Non-current provisions				
Employee benefits	771	734	-	-
22. Other non-current liabilities				
Non Current Lease Incentive	3,370	2,000	-	-
23. Issued capital				
103,465,667 fully paid ordinary shares (2005: 102,839,334)	33,036	32,428	33,036	32,428

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2006		2005	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares				
Balance at beginning of financial year	102,839	32,428	102,453	32,196
Issue of shares under employee and executive share option plan (note 5)	626	608	387	232
Balance at end of financial year	103,466	33,036	102,839	32,428

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share options

In accordance with the provisions of the employee and executive share option plan, as at 30 June 2005, employees and executives had options over 3,688,896 ordinary shares, in aggregate, with various expiry dates. As at 30 June 2006, employees and executives have options over 4,009,227 ordinary shares (of which 3,780,955 are unvested), in aggregate, with various expiry dates.

Employee and executive share options carry no rights to dividends and no voting rights. Further details of the employee and executive share option plan are contained in note 5 to the financial statements.

24. Reserves

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Employee equity-settled benefits	1,387	644	1,387	644
Hedging – Interest rate swap	649	-	-	-
	2,036	644	1,387	644
Employee equity-settled benefits reserve				
Balance at beginning of financial year	644	125	644	125
Share-based payment	743	519	743	519
Balance at end of financial year	1,387	644	1,387	644

The employee equity-settled benefits reserve arises on the grant of share options to executives under the executive share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 5 to the financial statements.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Hedging Reserve				
Balance at beginning of financial year				
Gain/(loss) recognised:				
Interest Rate Swaps	669	-	-	-
Transferred to profit or loss:				
Interest Rate Swaps	(20)	-	-	-
Balance at end of financial year	649	-	-	-

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis judgment to the non-financial hedged item, consistent with the applicable accounting policy.

25. Retained earnings

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Balance at beginning of financial year	25,494	13,409	549	1,105
Net profit attributable to members of the parent entity	25,813	19,478	7,687	6,837
Dividends provided for or paid (note 27)	(7,428)	(7,393)	(7,428)	(7,393)
Balance at end of financial year	43,880	25,494	808	549

26. Earnings per share

	Consolidated 2006 Cents per share	Consolidated 2005 Cents per share
Basic earnings per share:		
From continuing operations	25.03	18.98
Diluted earnings per share:		
From continuing operations	24.53	18.69

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Consolidated 2006 $'000	Consolidated 2005 $'000
Earnings (a)	25,813	19,478
Earnings from continuing operations (a)	25,813	19,478

	2006 No.'000	2005 No.'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	103,117	102,638

(a) The consolidated entity does not have any discontinued operations

Diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

	2006 $'000	2005 $'000
Earnings (a)	25,813	19,478
Earnings from continuing operations (a)	25,813	19,478

	2006 No. '000	2005 No. '000
Weighted average number of ordinary shares for the purposes of diluted earnings per share (b)	105,253	104,229

(a) The consolidated entity does not have any discontinued operations

(b) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

Weighted average number of ordinary shares used in the calculation of basic EPS	103,117	102,639
Shares deemed to be issued for no consideration in respect of:		
Employee options	2,136	1,590
Weighted average number of ordinary shares used in the calculation of diluted EPS	105,253	104,229

27. Dividends

	2006 Cents per share	2006 Total $'000	2005 Cents per share	2005 Total $'000
Recognised amounts				
Fully paid ordinary shares				
Interim dividend:	3.6	3,725	3.6	3,702
Franked to 30% (Prior year: 30%)				
Final dividend:	3.6	3,703	3.6	3,691
Franked to 30% (Prior year: 30%)				
		7,428		7,393
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend				
Franked to 30% (Prior year: 30%)	4	4,138	3.6	3,702

	Company 2006 $'000	Company 2005 $'000
Adjusted franking account balance	16,739	8,529
Impact on franking account balance of dividends not recognised	1,241	1,111
Income tax consequences of unrecognised dividends	-	-

28. Leases

Hire purchase liabilities

Leasing arrangements

Hire purchase leases principally relate to motor vehicles and store fit out expenditure with lease terms of between three and five years. The consolidated entity has the option to purchase the equipment for a nominal amount at the conclusion of the leasing arrangements.

	Minimum future lease payments				Present value of minimum future lease payments			
	Consolidated		Company		Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
No later than 1 year	522	7,464	-	-	519	6,345	-	-
Later than 1 year and not later than 5 years	-	15,667	-	-	-	14,291	-	-
Later than five years	-	-	-	-	-	-	-	-
Minimum lease payments*	522	23,131	-	-	519	20,636	-	-
Less future finance charges	(3)	(2,495)	-	-	-	-	-	-
Present value of minimum lease payments	519	20,636	-	-	519	20,636	-	-
Included in the financial statements as:								
Current borrowings (note 16)					519	6,345	-	-
Non-current borrowings (note 20)					-	14,291	-	-
					519	20,636	-	-

* Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

Operating leases

Leasing arrangements

Operating leases relate to stores with new lease terms of between two to ten years, with, in some cases an option to extend. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have the right to purchase the leased asset at the expiry of the lease period.

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Non-cancellable operating lease payments				
Not longer than 1 year	18,353	11,872	-	-
Longer than 1 year and not longer than 5 years	46,832	30,669	-	-
Longer than 5 years	39,837	24,225	-	-
	105,022	66,766	-	-

29. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2006 %	Ownership interest 2005 %
Parent entity			
JB Hi-Fi Limited (i)	Australia		
Subsidiaries			
JB Hi-Fi Group Pty Ltd (ii)	Australia	100	100
JB Hi-Fi (A) Pty Ltd (ii)	Australia	100	100
Clive Anthonys Pty Ltd (iii)	Australia	70	70

(i) JB Hi-Fi Limited is the head entity within the tax consolidated group
(ii) These companies are members of the tax consolidated group
(iii) Acquired a 70% stake on 1 July 2004

30. Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition $'000	Contribution to NPAT $'000
2006:					
none				-	-
				-	-
2005:					
Controlled Entities					
Clive Anthonys Pty Ltd	Retailer	1 July 2004	70%	24,316	3,630 (1)
Businesses					
Impact Records	Retailer	1 July 2004	-	2,358	85
				26,674	3,715

The cost of acquisition comprises cash for all of the acquisitions. In each acquisition, the consolidated entity has paid a premium for the acquiree as it believes the acquisitions will introduce additional synergies to its existing operations.

(1) NPAT prior to impact of outside equity interest

Net assets acquired	*Clive Anthonys Pty Ltd* Book value $'000	Fair value adjust-ment $'000	Fair value on acquisi-tion $'000	*Impact Records* Book value $'000	Fair value adjust-ment $'000	Fair value on acquisi-tion $'000	Total fair value on acquisition $'000
Current assets:							
Cash	5,014	-	5,014	-	-	-	5,014
Receivables	1,401	-	1,401	-	-	-	1,401
Inventories	10,539	-	10,539	804	(106)	698	11,237
Other	2,184	-	2,184	-	-	-	2,184
Non-current assets:							
Plant & Equipment	2,920	-	2,920	17	(17)	-	2,920
Current liabilities:							
Payables	(12,181)	-	(12,181)	-	-	-	(12,181)
Provisions	(532)	-	(532)	-	-	-	(532)
Other	(735)	-	(735)	(67)	-	(67)	(802)
Less Minority interest share of net assets	(2,582)	-	(2,582)	-	-	-	(2,582)
	6,028	-	6,028	754	(123)	631	6,659
Goodwill on acquisition							20,015
							26,674

31. Segment information

The consolidated entity operates in one segment being the home consumer products retail industry including audiovisual equipment, computing equipment, whitegoods, kitchen appliances and other related equipment, and operates only in Australia.

32. Related party disclosures

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 29 to the financial statements.

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 4 to the financial statements.

(c) Key management personnel equity holdings

Fully paid ordinary shares of JB Hi-Fi Limited

2006	Balance at 1 July No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June No.	Balance held nominally No.
J King	32,258	-	-	-	32,258	32,258
P Elliott	438,600	-	-	60,000	498,600	260,000
G Levin	400,000	-	-	(100,000)	300,000	-
W Fraser	6,451	-	-	-	6,451	6,451
R Uechtritz	5,107,096	-	115,000	(1,222,096)	4,000,000	-
T Smart	2,000,000	-	80,000	-	2,080,000	-
S Browning	-	-	-	-	-	-
F Garonzi	304,516	-	-	(64,516)	240,000	160,000
R Murray	3,225	-	21,334	(3,225)	21,334	-
	8,292,146	-	216,334	(1,289,837)	7,178,643	458,709

2005	Balance at 1 July No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance at 30 June No.	Balance held nominally No.
J King	32,258	-	-	-	32,258	32,258
P Elliott	238,600	-	-	200,000	438,600	200,000
G Levin	400,000	-	-	-	400,000	-
W Fraser	6,451	-	-	-	6,451	6,451
R Uechtritz	5,107,096	-	-	-	5,107,096	-
T Smart	1,798,000	-	-	202,000	2,000,000	-
F Garonzi	224,516	-	80,000	-	304,516	64,516
R Murray	3,225	-	-	-	3,225	-
	7,810,146	-	80,000	402,000	8,292,146	303,225

32. Related party disclosures (cont'd)

Executive share options of JB Hi-Fi Limited

2006	Bal at 1 July 2005	Granted as compen-sation	Exercised	Bal at 30 June 2006	Bal vested at 30 June 2006	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.
R Uechtritz	864,751	101,568	115,000	851,319	-	-	115,000
T Smart	583,035	101,568	80,000	604,603	-	-	80,000
F Garonzi	259,875	76,176	-	336,051	-	-	-
R Murray	359,875	76,176	21,334	414,717	-	-	21,334
S Browning	409,875	76,176	-	486,051	50,000	50,000	50,000
	2,477,411	431,664	216,334	2,692,741	50,000	50,000	266,334

2005	Bal at 1 July 2004	Granted as compen-sation	Exercised	Bal at 30 June 2005	Bal vested at 30 June 2005	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.
R Uechtritz	345,000	519,751	-	864,751	-	-	-
T Smart	240,000	343,035	-	583,035	-	-	-
F Garonzi	80,000	259,875	80,000	259,875	-	-	80,000
R Murray	100,000	259,875	-	359,875	-	-	-
S Browning	150,000	259,875	-	409,875	-	-	-
	915,000	1,642,411	80,000	2,477,411	-	-	80,000

All employee and executive share options issued to employees and executives during the financial year were made in accordance with the provisions of the employee and executive share option plan.

During the financial year, 216,334 (2005: 80,000) options were exercised by key management personnel at a weighted average exercise price of $1.43 for 216,334 ordinary shares in JB Hi-Fi Limited (2005: $0.50). No amounts remain unpaid on the options exercised during the financial year at year end.

Further details of the employee and executive share option plan and of share options granted during the financial year is contained in notes 4 and 5 to the financial statements.

33. Subsequent events

On 15 August 2006, the directors declared a final dividend for the financial year ended 30 June 2006, as set out in the Dividends section of this report. The board in August 2006 approved the issue of 200,000 options to R. Uechtritz and 150,000 T. Smart, both group executive directors of the company. The issue of these options is subject to shareholder approval at the company's Annual General Meeting in October 2006. The options will vest subject to the following performance conditions – 70% of the options will require compound annual earnings per share (EPS) growth of 10%, the remaining 30% will require compound annual earnings per share (EPS) growth of 15%. The board also in August 2006 approved the issue of 80,000 options each to F.Garonzi, R.Murray and S.Browning, all group executive of the company. The options will vest subject to the following performance conditions – 70% of the options will require compound annual earnings per share (EPS) growth of 10%, the remaining 30% will require compound annual earnings per share (EPS) growth of 15%.There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has 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 years.

34. Notes to the cash flow statement

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
(a) Reconciliation of cash and cash equivalents				
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	4,493	1,631	1	57

(b) Businesses acquired

During the financial year, no businesses were acquired. Details of the acquisition during the year ended 30 June 2005 are as follows (note 30):

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Consideration				
Cash and Cash equivalents	-	26,674	-	-
Fair Value of net assets acquired				
Current assets:				
Cash and Cash equivalents	-	5,014	-	-
Receivables	-	1,401	-	-
Inventories	-	11,237	-	-
Other	-	2,184	-	-
Non-current assets:				
Property, Plant & Equipment	-	2,920	-	-
Current liabilities:			-	-
Payables	-	(12,181)	-	-
Provisions	-	(532)	-	-
Other	-	(802)	-	-
Less minority interest of net assets	-	(2,582)	-	-
Net assets acquired	-	6,695	-	-
Goodwill on acquisition	-	20,015	-	-
	-	26,674	-	-
Net cash outflow on acquisition				
Cash and Cash equivalents	-	26,674	-	24,316
Less cash and cash equivalent balances acquired	-	(5,014)	-	-
	-	21,660	-	24,316

(c) Financing facilities

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Secured bank overdraft facility:				
• amount used	-	-	-	-
• amount unused	30,000	30,000	-	-
	30,000	30,000	-	-
Secured indemnity guarantees:				
• amount used	1,957	1,636	-	-
• amount unused	-	-	-	-
	1,957	1,636	-	-
Secured bank loan facilities (senior debt):				
• amount used	100,561	77,636	-	57,000
• amount unused	9,958	6,364	-	-
	110,519	84,000	-	57,000

34. Notes to the cash flow statement (cont'd)

(d) Reconciliation of profit for the period to net cash flows from operating activities

	Consolidated 2006 $'000	Consolidated 2005 $'000	Company 2006 $'000	Company 2005 $'000
Profit for the period	26,846	20,567	7,687	6,837
(Gain)/loss on sale or disposal of non-current assets	46	28	-	-
Share of associates' profit (less dividends)	(170)	(118)	-	-
Depreciation and amortisation of non-current assets	7,439	5,029	-	-
Equity settled share-based payment	743	519	743	519
Income tax paid in relation to other entities in the tax consolidated group	-	-	(9,778)	(7,116)
Increase/(decrease) in current tax liability	2,169	(230)	2,067	(170)
Increase/(decrease) in deferred tax balances	(2,883)	77	-	679
Changes in net assets and liabilities, net of effects from acquisition of businesses:				
(Increase)/decrease in assets:				
Current receivables	(8,430)	(5,280)	(99)	(1)
Current inventories	(58,980)	(22,240)	-	-
Other current assets	(197)	(295)	-	-
Other non current assets	-	42	205	454
Increase/(decrease) in liabilities:				
Current payables	44,896	(2,853)	(765)	(752)
Current provisions	2,380	1,112	-	-
Other current liabilities	259	-	-	-
Non-current payables	96	-	-	-
Non-current provisions	37	225	-	-
Other non-current liabilities	1,370	-	-	-
Net cash from operating activities	15,621	(3,417)	60	450

35. Financial instruments

Financial risk management objectives

The consolidated entity's Corporate Treasury function provides services to the business, co-ordinates access to domestic financial markets, and manages the financial risks relating to the operations of the consolidated entity.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's policies approved by the board of directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Audit and Risk Management committee on a continuous basis.

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(b) Interest rate risk management

The consolidated entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts.

Interest rate swap contracts

Under interest rate swap contracts, the consolidated entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

	Average contracted fixed interest rate		Notional principal amount		Fair value	
Outstanding floating for fixed contracts	2006 %	2005 %	2006 $'000	2005 $'000	2006 $'000	2005 $'000
2 to 5 years	5.7	-	55,000	-	668	-
			55,000	-	668	-

35. Financial instruments (cont'd)

From 1 July 2005, interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges. Interest rate swaps outstanding at 1 July 2005 were recognised as financial assets on adoption of the accounting policies specified in note 1(v)).

Maturity profile of financial instruments

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2006:

2006	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates: Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Non interest bearing	Total
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets:										
Cash and cash equivalents	4.9	4,493	-	-	-	-	-	-	-	4,493
Trade receivables		-	-	-	-	-	-	-	28,282	28,282
Security deposits		-	-	-	-	-	-	-	1,131	1,131
		4,493	-	-	-	-	-	-	29,413	33,906
Financial liabilities:										
Trade payables		-	-	-	-	-	-	-	114,650	114,650
Bank loans	6.0	45,042	-	-	55,000	-	-	-	-	100,042
Hire purchase lease liabilities	7.2	-	519	-	-	-	-	-	-	519
Employee benefits		-	-	-	-	-	-	-	10,279	10,279
		45,042	519	-	55,000	-	-	-	124,929	225,491

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2005:

2005	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates: Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Non interest bearing	Total
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets:										
Cash and cash equivalents	4.8	1,631	-	-	-	-	-	-	-	1,631
Trade receivables		-	-	-	-	-	-	-	19,852	19,852
Security deposits		-	-	-	-	-	-	-	722	722
		1,631	-	-	-	-	-	-	20,574	22,205
Financial liabilities:										
Trade payables		-	-	-	-	-	-	-	70,032	70,032
Bank loans	7.1	28,500	28,500	-	-	-	-	-	-	57,000
Hire purchase lease liabilities	7.2	-	6,345	5,254	4,064	3,554	1,419	-	-	20,636
Employee benefits		-	-	-	-	-	-	-	7,862	7,862
		28,500	34,345	5,254	4,064	3,554	1,419	-	77,894	155,530

Other financial assets and financial liabilities of the consolidated entity do not expose the entity to interest rate risk.

35. Financial instruments (cont'd)

(c) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the audit committee annually. The consolidated entity measures credit risk on a fair value basis.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

(d) Fair value of financial instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2005: net fair value).

(e) Liquidity risk management

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

36. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

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 Standard 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 date of transition is 1 July 2005 (refer note 1(c)).

An explanation of how the transition from superseded policies to A-IFRS has affected the company and consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Effect of A-IFRS on the balance sheet as at 1 July 2004

		Consolidated			Company		
	Note	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Current assets							
Cash & cash equivalents		16,432	-	16,432	62	-	62
Trade & other receivables		13,170	-	13,170	-	-	-
Inventories	a	70,349	(1,601)	68,748	-	-	-
Other		1,127	-	1,127	-	-	-
Total current assets		101,078	(1,601)	99,477	62	-	62
Non-current assets							
Other financial assets		6	-	6	67,495	91	67,586
Property, plant and equipment	b,g	21,940	(171)	21,769	-	-	-
Deferred tax assets	h	414	2,223	2,637	414	(414)	-
Intangible assets	c,d	46,518	118	46,636	247	-	247
Other		247	-	247	-	-	-
Total non-current assets		69,125	2,170	71,295	68,156	(323)	67,833
Total assets		170,203	569	170,772	68,218	(323)	67,895
Current liabilities							
Trade & other payables		68,962	-	68,962	21	-	21
Borrowings		4,364	-	4,364	-	-	-
Current tax payables		2,448	-	2,448	2,448	-	2,448
Provisions	f	5,170	658	5,828	-	-	-
Other		-	401	401	-	-	-
Total current liabilities		80,944	1,059	82,003	2,469	-	2,469
Non-current liabilities							
Trade & other payables		-	564	564	-	-	-
Borrowings		39,235	-	39,235	32,000	-	32,000
Deferred tax liabilities	h	323	1,530	1,853	323	(323)	-
Provisions		825	(658)	167	-	-	-
Other		-	1,222	1,222	-	-	-
Total non-current liabilities		40,383	2,658	43,041	32,323	(323)	32,000
Total liabilities		121,327	3,717	125,044	34,792	(323)	34,469
Net assets		48,876	(3,148)	45,728	33,426	-	33,426
Equity							
Issued capital		32,196	-	32,196	32,196	-	32,196
Employee equity-settled benefits reserve	e	-	125	125	-	125	125
Retained earnings	i	16,680	(3,273)	13,407	1,230	(125)	1,105
Parent entity interest		48,876	(3,148)	45,728	33,426	-	33,426
Minority interest		-	-	-	-	-	-
Total equity		48,876	(3,148)	45,728	33,426	-	33,426

* Reported financial position for the financial year ended 30 June 2004.

36. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the income statement for the financial year ended 30 June 2005

		Consolidated			Company		
	Note	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Sales revenue		693,943	-	693,943	-	-	-
Cost of sales		(534,474)	(788)	(535,262)	-	-	-
Gross Profit		159,469	(788)	158,681	-	-	-
Other income		955	-	955	11,764	-	11,764
Share of profits of associates accounted for using the equity method		118	-	118	-	-	-
Marketing expenses		(84,211)	(519)	(84,730)	-	(519)	(519)
Occupancy expenses		(22,260)	(730)	(22,990)	-	-	-
Administration expenses		(9,185)	-	(9,185)	(236)	-	(236)
Finance costs		(5,705)	-	(5,705)	(4,062)	-	(4,062)
Other expenses		(7,903)	263	(7,640)	(1)	-	(1)
Profit before income tax expense		31,278	(1,774)	29,504	7,465	(519)	6,946
Income tax expense	h	(9,442)	505	(8,937)	(109)	-	(109)
Profit for the period		21,836	(1,269)	20,567	7,356	(519)	6,837
Profit attributable to minority interest		(1,159)	70	(1,089)	-	-	-
Profit attributable to members of the parent entity		20,677	(1,199)	19,478	7,356	(519)	6,837

* Reported financial results for the year ended 30 June 2005.

36. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the balance sheet as at 30 June 2005

		Consolidated			Company		
	Note	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000	Super-seded policies* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Current assets							
Cash & cash equivalents		1,631	-	1,631	57	-	57
Trade & other receivables		19,852	-	19,852	1	-	1
Inventories		104,546	(2,389)	102,157	-	-	-
Current tax assets		-	-	-	-	-	-
Other		2,648	-	2,648	-	-	-
Total current assets		128,677	(2,389)	126,288	58	-	58
Non-current assets							
Investments accounted for using the equity method		568	-	568	450	-	450
Other financial assets		6	-	6	93,002	61	93,063
Property, plant and equipment	b	35,587	321	35,908	-	-	-
Deferred tax assets	h	1,531	2,161	3,692	805	(805)	-
Other intangible assets		46,254	382	46,636	-	-	-
Goodwill		20,015	-	20,015	-	-	-
Other		205	-	205	205	-	205
Total non-current assets		104,167	2,864	107,030	94,462	(745)	93,718
Total assets		232,844	475	233,318	94,520	(745)	93,776
Current liabilities							
Trade & other payables		78,183	-	78,183	774	-	774
Borrowings		6,345	-	6,345	-	-	-
Current tax payables		2,470	(186)	2,284	2,567	(186)	2,381
Provisions		6,686	442	7,128	-	-	-
Other		-	843	843	-	-	-
Total current liabilities		93,684	1,099	94,783	3,340	(186)	3,155
Non-current liabilities							
Trade & other payables		-	564	564	-	-	-
Borrowings		71,291	-	71,291	57,000	-	57,000
Deferred tax liabilities	h	559	1,149	1,708	-	-	-
Provisions		1,176	(442)	734	559	(559)	-
Other		-	2,000	2,000	-	-	-
Total non-current liabilities		73,026	3,271	76,297	57,559	(559)	57,000
Total liabilities		166,710	4,370	171,080	60,899	(745)	60,155
Net assets		66,134	(3,895)	62,238	33,621	-	33,621
Equity							
Issued capital		32,428	-	32,428	32,428	-	32,428
Employee equity-settled benefits reserve		-	644	644	-	644	644
Retained earnings	i	29,964	(4,469)	25,494	1,193	(644)	549
		62,392	(3,825)	58,566	33,621	-	33,621
Parent entity interest							
Minority interest		3,742	(70)	3,672	-	-	-
Total equity		66,134	(3,895)	62,238	33,621	-	33,621

* Reported financial position for the financial year ended 30 June 2005.

36. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

Notes to the reconciliations of income and equity

(a) Inventories

On transition to A-IFRS, JB Hi-Fi 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 consolidated inventories by $1,601 and $2,389 thousand as at 1 July 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 year ended 30 June 2005.

(b) Property, plant and equipment Impairment

On transition to A-IFRS, JB Hi-Fi 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 1 July 2004, and a corresponding decrease in amortisation 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 1 July 2004 with a corresponding decrease in amortisation 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 consolidated and company equity reserves and reduce retained profits by $125 thousand as at 1 July 2004, and to reduce consolidated profits and increase reserves by $519 thousand 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 increase in consolidated current provisions and a decrease in non-current provisions by $658 and $442 thousand as at 1 July 2004 and 30 June 2005 respectively.

(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 consolidated property plant and equipment by $291 thousand, increase lease accrual by $1,526 thousand, increase liabilities by $660 thousand and reduce retained profits by $1,895 thousand as at 1 July 2004, with a corresponding increase in lease costs for year ended 30 June 2005 respectively.

36. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

(h) Income tax

Under A-IFRS, deferred tax is determined 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 their corresponding tax bases. The effect of this change is to increase consolidated net deferred tax balances and increase retained profits by $505 thousand as at 1 July 2004, with a corresponding decrease in income tax expense for the year ended 30 June 2005.

(i) Retained earnings

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

	Consolidated		Company	
	1 July 2004 $'000	30 June 2005 $'000	1 July 2004 $'000	30 June 2005 $'000
Retained earnings under superseded GAAP policies	16,680	29,964	1,230	1,193
Inventories	(1,601)	(2,384)	-	-
Expensing share-based payments	(125)	(644)	(125)	(644)
Write down of leasehold improvements	(463)	(412)	-	-
Lease adjustments	(1,895)	(2,674)	-	-
Amortisation of intangibles	118	382	-	-
Adjustments to tax balances	693	1,198	-	-
Minority interest	-	65	-	
Retained earnings under A-IFRS	13,407	25,495	1,105	549

37. Additional company information

JB Hi-Fi Limited is a public company, incorporated and operating in Australia.
14 Spink Street
Brighton
Victoria 3186
Australia

Additional stock exchange information as at 2 August 2006

Distribution of holders of equity securities:

	Total Holders	Units	% Issued Capital
1 - 1,000	1,382	804,058	0.78
1,001 - 5,000	2,375	6,549,364	6.33
5,001 - 10,000	626	4,629,002	4.47
10,001 - 100,000	308	7,051,872	6.82
100,001 and over	44	84,431,371	81.6
Total	4,735	103,465,667	100
Holding less than a marketable parcel	30	566	-

Substantial shareholders

	Fully paid	
Ordinary shareholders	**Number**	**Percentage**
Concord Capital	9,114,982	8.81
Capital Group Companies	8,917,336	8.62
Hyperion Asset Management	8,145,757	7.87
National Australia Bank Limited	7,533,037	7.28
AMP Limited	7,442,142	7.19
Orion Asset Management Limited	6,855,028	6.63
Highbridge Capital Pty Ltd	5,151,117	4.98
	53,159,399	51.38

Twenty largest holders of ordinary securities:

	Fully paid	
Entity	**Number**	**Percentage**
J P Morgan Nominees Australia Limited	19,417,609	18.77
Westpac Custodian Nominees Limited	17,811,493	17.21
National Nominees Limited	8,509,027	8.22
Mr Richard Uechtritz	4,000,000	3.87
Cogent Nominees Pty Limited	3,385,496	3.27
Cogent Nominees Pty Limited	3,317,808	3.21
RBC Dexia Investor Services Australia Nominees Pty Limited	2,985,980	2.89
ANZ Nominees Limited	2,512,724	2.43
Mr Terry Smart	2,080,000	2.01
Citicorp Nominees Pty Limited	1,974,488	1.91
Queensland Investment Corporation	1,803,630	1.74
HSBC Custody Nominees (Australia) Limited	1,708,002	1.65
Australian Reward Investment Alliance	1,388,984	1.34
AMP Life Limited	1,232,620	1.19
Roseville Estate Pty Ltd	1,200,000	1.16
Shawville Pty Ltd	1,178,100	1.14
Australian Reward Investment Alliance 1	919,872	0.89
Citicorp Nominees Pty Limited	889,548	0.86
RBC Dexia Investor Services Australia Nominees Pty Limited	884,119	0.85
RBC Dexia Investor Services Australia Nominees Pty Limited	808,134	0.78
	78,007,634	75.39

Company secretary
Richard Murray

Share registry
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford, Victoria, 3067 Australia
1300 302 417 (Australia)
+61 3 9615 5970

Registered & Principal administration office
14 Spink Street
Brighton, Victoria 3186 Australia
(03) 8530 7333

Store Locations

JB Hi-Fi stores*

VIC
Brighton
Broadmeadows
Camberwell
Chadstone
Dandenong
Epping
Frankston
Geelong
Heidelberg
Keilor
Knox
Highpoint
Maribyrnong
Melbourne City (Elizabeth Street, Lonsdale Street & Elizabeth Street Cameras store)
Melbourne City (Bourke Street)
Ringwood
Nunawading
Narre Warren
Prahran
Preston
Southland
Werribee

ACT
Belconnen
Canberra City
Woden

NSW
Bankstown
Bondi
Castle Hill
Chatswood
Erina
Hornsby
Leichhardt
Liverpool
Macarthur Square
Macquarie
Miranda
Mt Druitt
Newcastle
Parramatta
Penrith
Sydney City
Tuggerah
Warringah Mall

QLD
Brisbane City
Capalaba
Gold Coast
Indooroopilly
Kawana
Kedron
Loganholme
Macgregor
Robina

WA
Cannington
Osborne Park
Perth City
Whitford

SA
Adelaide City
Colonnades
Marion
Modbury

NT
Casuarina

Clive Anthonys stores

QLD
Carseldine
Capalaba
Labrador
Mt Gravatt
Mermaid Waters

NSW
Tweed Heads