

JB Hi-Fi NZ Limited

CN 1902259

Financial report

for the financial year ended 30 June 2017

JB Hi-Fi NZ Limited
Consolidated financial statements
for the financial year ended 30 June 2017

	Page
Directors' responsibility statement	1
Independent auditor's report	2
Statement of profit or loss	4
Statement of profit or loss and other comprehensive income	5
Balance sheet	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are pleased to present the financial statements of JB Hi-Fi NZ Limited and its subsidiaries ('the NZ Group') for the year ended 30 June 2017.

The shareholders of the Company have exercised their right under section 211(3) of the Companies Act 1993 ("the Act") and have unanimously agreed that this Financial Report need not comply with any of paragraphs (a), and (e) to (j) of section 211(1) of the Act.

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of the NZ Group as at 30 June 2017 and the results of their operations and cash flows for the year ended 30 June 2017.

The Directors consider that the financial statements of the NZ Group have been prepared using accounting policies appropriate to the NZ Group circumstances, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the NZ Group and enable them to ensure that the financial statements comply with the Companies Act 1993.

The Directors have responsibility for the maintenance of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. The Directors consider that adequate steps have been taken to safeguard the assets of the NZ Group and to prevent and detect fraud and other irregularities.

This Financial Report is dated 27 November 2017 and is signed in accordance with a resolution of the directors made pursuant to section 211(1)(k) of the Act.

For and on behalf of the Directors



Richard Murray
Director



Nick Wells
Director

27 November 2017

Independent Auditor's Report to the Shareholders of JB Hi-Fi NZ Limited

Opinion

We have audited the consolidated financial statements of JB Hi-Fi NZ Limited (the "Entity") and its subsidiaries (the "Group"), which comprises the consolidated balance sheet as at 30 June 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies as set out on pages 4 to 24.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the Group's financial position as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements of Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board (the Code) that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the directors for the consolidated financial statements

The directors of the Group are responsible, on behalf of the Group, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR), and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Andrew Reid
Partner

Chartered Accountants

Melbourne, Australia 27 November 2017

JB Hi-Fi NZ Limited
Statement of profit or loss
For the year ended 30 June 2017

	Consolidated	
	2017	2016
Notes	\$'000	\$'000
Revenue	234,002	234,631
Cost of sales	(191,525)	(191,424)
Gross profit	42,477	43,207
Other income	26	131
Sales and marketing expenses	(26,252)	(24,448)
Occupancy expenses	(14,248)	(13,497)
Administration expenses	(2,007)	(1,853)
Impairment charges	(28,962)	-
Other expenses	(2,653)	(2,425)
Finance costs	(125)	(60)
(Loss) / profit before income tax	(31,744)	1,055
Income tax benefit / (expense)	4,561	(299)
(Loss) / profit for the year attributable to Owners of the Company	(27,183)	756

The above statement of profit or loss should be read in conjunction with the accompanying notes.

JB Hi-Fi NZ Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

	Consolidated	
	2017	2016
	\$'000	\$'000
(Loss) / profit for the year	(27,183)	756
Other comprehensive income for the year	-	-
Total comprehensive (loss) / income for the year attributable to Owners of the Company	(27,183)	756

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

JB Hi-Fi NZ Limited
Balance sheet
As at 30 June 2017

	Notes	Consolidated	
		2017 \$'000	2016 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		-	1,067
Trade and other receivables	4	3,710	3,623
Inventories		43,808	41,562
Current tax receivables		63	90
Other current assets		82	245
Total current assets		47,663	46,587
Non-current assets			
Plant and equipment	5	-	15,430
Deferred tax assets	3	5,995	1,434
Intangible assets	6	-	15,437
Total non-current assets		5,995	32,301
Total assets		53,658	78,888
LIABILITIES			
Current liabilities			
Trade and other payables	7	14,452	17,515
Other financial liabilities	9	173	353
Borrowings	11	5,160	-
Provisions	8	1,991	1,894
Other current liabilities	10	275	239
Total current liabilities		22,051	20,001
Non-current liabilities			
Other non-current liabilities	10	818	915
Total non-current liabilities		818	915
Total liabilities		22,869	20,916
Net assets		30,789	57,972
EQUITY			
Contributed equity	12	60,000	60,000
Retained deficit		(29,211)	(2,028)
Total equity		30,789	57,972

The above balance sheet should be read in conjunction with the accompanying notes.

JB Hi-Fi NZ Limited
Statement of changes in equity
For the year ended 30 June 2017

Consolidated	Notes	Contributed equity \$'000	Retained deficit \$'000	Total equity \$'000
Balance at 1 July 2015		60,000	(2,784)	57,216
Profit/(loss) for the year		-	756	756
Total comprehensive income for the year		-	756	756
Issue of shares	12	-	-	-
Balance at 30 June 2016		60,000	(2,028)	57,972
Balance at 1 July 2016		60,000	(2,028)	57,972
Profit/(loss) for the year		-	(27,183)	(27,183)
Total comprehensive (loss) for the year		-	(27,183)	(27,183)
Issue of shares	12	-	-	-
Balance at 30 June 2017		60,000	(29,211)	30,789

The above statement of changes in equity should be read in conjunction with the accompanying notes.

JB Hi-Fi NZ Limited
Statement of cash flows
For the year ended 30 June 2017

		Consolidated	
		2017	2016
Notes		\$'000	\$'000
Cash flows from operating activities			
	Receipts from customers	270,212	268,488
	Payments to suppliers and employees	(274,447)	(266,258)
	Interest and bill discounts received	25	129
	Interest and other finance costs paid	(125)	(60)
	Income taxes received / (paid)	26	(23)
	Net cash (outflow) / inflow from operating activities	(4,309)	2,276
Cash flows from investing activities			
	Payments for plant and equipment	(1,918)	(5,791)
5	Proceeds from sale of plant and equipment	-	11
	Net cash (outflow) from investing activities	(1,918)	(5,780)
	Net cash inflow from financing activities	-	-
	Net (decrease) in cash and cash equivalents	(6,227)	(3,504)
	Cash and cash equivalents at the beginning of the financial year	1,067	4,571
	Cash and cash equivalents at end of year	(5,160)	1,067

The above statement of cash flows should be read in conjunction with the accompanying notes.

Contents of the notes to the financial statements

	Page
1 About this report	10
Group Performance	11
2 Expenses	11
3 Taxation	11
Operating Assets and Liabilities	13
4 Trade and other receivables	13
5 Plant and equipment	13
6 Intangible assets	15
7 Trade and other payables	16
8 Provisions	16
9 Other financial liabilities	17
10 Other liabilities	17
Capital Structure and Risk Management	18
11 Borrowings	18
12 Contributed equity	18
13 Financial risk management	19
14 Commitments	21
Other Disclosures	22
15 Subsidiaries	22
16 Related party transactions	22
17 Remuneration of auditors	23
18 Summary of other significant accounting policies	23
19 Events occurring after the reporting period	24

1 About this report

JB Hi-Fi NZ Limited ('Company') is a company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. Its registered office and principal place of business is Level 1, 7 Link Drive, Wairau Park, Auckland New Zealand. These are the consolidated financial statements of the Company and its controlled entities ('the NZ Group').

The NZ Group supplies consumer electronics, electrical goods, home appliances, DVDs, CDs and games to retail and commercial customers.

The consolidated financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). For the purposes of complying with NZ GAAP, the Company is a tier 2 for-profit entity. These financial statements comply with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime ('NZ IFRS (RDR)').

The NZ Group qualifies for NZ IFRS (RDR) as it does not have public accountability and it is not a large for-profit public sector entity and has applied disclosure concessions.

The financial statements are prepared in accordance with the Companies Act 1993.

The financial statements were authorised for issue by the directors on 27 November 2017.

(a) Basis of preparation

The financial statements have been prepared on the basis of historical cost.

Cost is based on the fair value of the consideration given in exchange for assets.

All amounts are presented in New Zealand dollars, unless otherwise noted.

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.

(b) Sections

The notes in these financial statements have been organised into the following sections to help users find and understand the information they need to know:

- (i)* **Group Performance:** focuses on the results and performance of the NZ Group;
- (ii)* **Operating Assets and Liabilities:** provides information on the assets and liabilities used to generate the NZ Group's performance;
- (iii)* **Capital Structure and Risk Management:** outlines how the NZ Group manages its capital and various financial risks;
- (iv)* **Other Disclosures:** provides information on items which require disclosure to comply with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime and other regulatory pronouncements.

Group Performance

2 Expenses

	Consolidated	
	2017	2016
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	8,363	7,249
<i>Employee benefits expenses</i>		
Defined contribution expense	528	478
Other employee benefits	20,442	20,855
	20,970	21,333

3 Taxation

	Consolidated	
	2017	2016
	\$'000	\$'000
(a) Income tax expense		
Current tax	-	(20)
Deferred tax	(4,561)	319
	(4,561)	299

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated	
	2017	2016
	\$'000	\$'000
(Loss) / profit from continuing operations before income tax expense	(31,744)	1,055
Income tax expense calculated at 28.0% (2016: 28.0%)	(8,888)	295
Effect of expenses that are not deductible in determining taxable profit	4,327	4
	(4,561)	299

3 Taxation (continued)

(c) Deferred tax

Consolidated	
2017	2016
\$'000	\$'000

The balance comprises temporary differences attributable to:

Deferred tax assets

Tax losses	962	404
Provisions	786	724
Trade and other receivables	19	24
Inventories	398	360
Trade and other payables	57	39
Plant and equipment	3,773	-
	5,995	1,551

Deferred tax liabilities

Plant and equipment	-	(117)
Net deferred tax assets	5,995	1,434

All movements in the above temporary differences have been charged to income.

(d) Recognition and measurement

Current tax

Current tax represents the amount expected to be paid to taxation authorities on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. 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 balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities under financial reporting and taxation purposes. Deferred tax is measured at the rates that are expected to apply in the period in which the liability is settled or asset realised, based on tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit or in relation to the initial recognition of goodwill.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case, the tax is also recognised in other comprehensive income or directly in equity.

Operating Assets and Liabilities

4 Trade and other receivables

	Consolidated	
	2017 \$'000	2016 \$'000
Trade receivables	1,321	2,470
Allowance for doubtful debts	(69)	(86)
	1,252	2,384
Non-trade receivables	2,458	1,239
	3,710	3,623

(a) Terms and conditions

Trade receivables

The average credit period on account sales of goods is 30 days. No interest is charged on trade receivables. An allowance has been made for estimated irrecoverable amounts arising from a review of individual debtors. Credit insurance is carried for most commercial debtor accounts. Trade receivables are recognised at amortised cost less provision for impairment.

Non-trade receivables

Non-trade receivables principally represent rebates receivable from suppliers for purchases of inventories. No amount is considered irrecoverable from suppliers and therefore no allowance has been made.

5 Plant and equipment

Consolidated	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
At 1 July 2015			
Cost	17,756	11,959	29,715
Accumulated depreciation and impairment	(8,756)	(7,048)	(15,804)
Net book amount	9,000	4,911	13,911
Year ended 30 June 2016			
Opening net book amount	9,000	4,911	13,911
Additions	3,672	2,119	5,791
Disposals	(362)	(1)	(363)
Depreciation charge	(1,779)	(1,445)	(3,224)
Impairment charge	(324)	(361)	(685)
Closing net book amount	10,207	5,223	15,430
At 30 June 2016			
Cost	20,621	14,076	34,697
Accumulated depreciation and impairment	(10,414)	(8,853)	(19,267)
Net book amount	10,207	5,223	15,430

5 Plant and equipment (continued)

	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Year ended 30 June 2017			
Opening net book amount	10,207	5,223	15,430
Additions	1,169	749	1,918
Disposals	(418)	(112)	(530)
Depreciation charge	(1,787)	(1,506)	(3,293)
Impairment charge	(9,171)	(4,354)	(13,525)
Closing net book amount	-	-	-
At 30 June 2017			
Cost	20,095	13,793	33,888
Accumulated depreciation and impairment	(20,095)	(13,793)	(33,888)
Net book amount	-	-	-

(a) Recognition and measurement

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment (if any). Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on plant and equipment and leasehold improvements. 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. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

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

- Leasehold improvements 2 to 13 years
- Plant and equipment 3 to 15 years

Plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered.

An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Where an impairment charge subsequently reverses, the carrying amount of the asset (cash-generating unit) other than goodwill 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 charge been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment charge is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment charge is treated as a revaluation increase.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognised in the profit or loss.

(b) Impairment charge

Plant and equipment and leasehold improvements of \$13,525 thousand was impaired following poor performance in the year ended 30 June 2017.

The impairment charge has been included in profit or loss in the impairment charges line item.

6 Intangible assets

Consolidated	Goodwill \$'000	Total \$'000
Year ended 30 June 2016		
Opening net book amount	15,437	15,437
Additions	-	-
Impairment charge	-	-
Closing net book amount	15,437	15,437
Year ended 30 June 2017		
Opening net book amount	15,437	15,437
Additions	-	-
Impairment charge	(15,437)	(15,437)
Closing net book amount	-	-

(a) Recognition and measurement

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets acquired at the date of acquisition. Goodwill is subsequently measured at its cost less any accumulated impairment charges.

(b) Impairment testing

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's 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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

For the purposes of impairment testing, goodwill is allocated to each of the NZ Group's cash-generating units ('CGUs'), or groups of CGUs, expected to benefit from the synergies of the business combination. If the recoverable amount of the CGU (or groups of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment charge is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets in the CGU (or groups of CGUs) pro rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment charge recognised for goodwill is recognised immediately in profit or loss.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(c) Impairment charge

The goodwill associated with JB Hi-Fi New Zealand of \$15,437 thousand was impaired following poor performance in the year ended 30 June 2017.

The impairment charge has been included in profit or loss in the impairment charges line item.

7 Trade and other payables

	Consolidated	
	2017	2016
	\$'000	\$'000
Trade payables	10,258	13,978
Goods and services tax (GST) payable	1,879	1,369
Other creditors and accruals	784	766
Deferred income	1,531	1,402
	14,452	17,515

These amounts represent liabilities for goods and services provided to the NZ Group prior to the end of financial year which are unpaid. Trade and other payables are stated at amortised cost.

8 Provisions

	Consolidated	
	2017	2016
	\$'000	\$'000
Current		
Employee benefits	1,777	1,705
Lease provision	214	189
	1,991	1,894

(a) Recognition and measurement

Provisions are recognised when the NZ Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the NZ Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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 cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(i) Employee benefits

A liability is recognised 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. Liabilities recognised 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. Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the NZ Group in respect of services provided by employees up to reporting date.

Contributions to defined contribution superannuation plans are expensed when employees have rendered services entitling them to the contributions.

(ii) Lease provision

The lease provision includes the NZ Group's best estimate of the amount required to return the NZ Group's leased premises to their original condition, taking into account due consideration of the NZ Group's past history of vacating stores and the NZ Group's best estimate of onerous lease obligations. Lease obligations are expected to be settled within 12 months.

9 Other financial liabilities

	Consolidated	
	2017	2016
	\$'000	\$'000
Loans from related parties	173	353

Other financial liabilities are stated at amortised cost. This loan is payable to a commonly controlled entity within the Consolidated Group, refer to note 16.

10 Other liabilities

	Consolidated	
	2017	2016
	\$'000	\$'000
Current		
Lease accrual	173	129
Lease incentive	102	110
	275	239
Non-current		
Lease accrual	560	555
Lease incentive	258	360
	818	915

(a) Lease accrual

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the NZ Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight line basis over the period of the lease. The lease accrual represents the difference between the expense incurred and the payments made.

(b) Lease incentives

In the event that lease incentives (for example rent free periods and upfront capital contributions) 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 over the period of the lease.

Capital Structure and Risk Management

11 Borrowings

	Consolidated	
	2017 \$'000	2016 \$'000
Unsecured		
Bank overdraft	5,160	-

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, and intends to do so.

12 Contributed equity

(a) Share capital

	Parent entity		Parent entity	
	2017 Shares	2016 Shares	2017 \$'000	2016 \$'000
Ordinary shares	100	100	-	-
Non-voting redeemable shares	60,000,000	60,000,000	60,000	60,000
	60,000,100	60,000,100	60,000	60,000

Ordinary shares issued are classified as equity and are fully paid, carry one vote per share and the right to dividends. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Non-voting redeemable shares carry the right to dividends but do not carry voting rights. The non-voting redeemable shares are redeemed at the option of the Issuer for the issue price. Non-voting redeemable shares have no right to share in any surplus assets on liquidation.

(b) Movements in ordinary share capital

Date	Details	Number of shares	\$'000
1 July 2015	Opening balance	100	-
	Issue of shares	-	-
30 June 2016	Closing balance	100	-
1 July 2016	Opening balance	100	-
	Issue of shares	-	-
30 June 2017	Closing balance	100	-

12 Contributed equity (continued)

(c) Movements in non-voting redeemable share capital

Date	Details	Number of shares	\$'000
1 July 2015	Opening balance	60,000,000	60,000
	Issue of shares	-	-
30 June 2016	Closing balance	60,000,000	60,000
1 July 2016	Opening balance	60,000,000	60,000
	Issue of shares	-	-
30 June 2017	Closing balance	60,000,000	60,000

(d) Capital management

The NZ Group's ultimate parent entity, JB Hi-Fi Limited has adopted a capital management program on behalf of itself and all of its wholly-owned subsidiaries ("the Consolidated Group") and therefore the policies set out below are those of the Consolidated Group.

The Board of JB Hi-Fi Limited reviews the capital structure on an ongoing basis. The Consolidated Group's objective is to maintain an optimal capital structure which seeks to reduce the cost of capital and to ensure the Consolidated Group has access to adequate capital to sustain the future development of the business.

In order to maintain or adjust the capital structure, the Consolidated Group may adjust the level of dividends paid to shareholders, return capital to shareholders, buy back shares, issue new shares or sell assets to reduce debt.

As part of its capital management program, the Consolidated Group monitors the return on invested capital and the gearing ratio. The Consolidated Group defines return on invested capital as earnings before interest and tax (EBIT) divided by the sum of total equity plus net debt and the gearing ratio as term debt excluding capitalised borrowing costs, plus bank overdrafts and hire purchase liabilities, divided by earnings before interest, taxation, depreciation, amortisation and impairment (EBITDA).

The Board of JB Hi-Fi Limited has adopted a policy of monitoring the dividend payout ratio and targeting a payout ratio of approximately 65% of net profit after tax for JB Hi-Fi Limited as it seeks to strike a balance between shareholder returns and ensuring adequate capital is retained for the growth of the business so as to maximise long term shareholder returns.

There were no changes in the Consolidated Group's approach to capital management during the year.

The Consolidated Group monitors compliance with its financial covenants on a monthly basis and reports compliance on a semi-annual basis to the banks. The Consolidated Group has complied with all such requirements during the current and previous year.

13 Financial risk management

The NZ Group's ultimate parent entity, JB Hi-Fi Limited, has adopted a risk management framework on behalf of itself and all its wholly-owned subsidiaries ("the Consolidated Group") and therefore the policies set out below are those of the Consolidated Group that are relevant to the NZ Group.

There have been no changes to the NZ Group's exposure to financial risks or the manner in which the Consolidated Group manages and measures these risks from the previous period.

13 Financial risk management (continued)

The NZ Group and the Company hold the following financial assets and liabilities at reporting date:

	Consolidated	
	2017	2016
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	-	1,067
Trade and other receivables	3,710	3,623
	3,710	4,690
Financial liabilities		
Trade and other payables	12,921	16,113
Bank overdraft	5,160	-
Loans from related parties	173	353
	18,254	16,466

(a) Market risk

(i) Foreign currency risk management

The majority of the NZ Group's operations are denominated in the functional currency of the country of operation therefore minimising the impact of most foreign currency risk. That is, transactions and balances related to the New Zealand operations are denominated in New Zealand dollars.

(ii) Interest rate risk

The NZ Group does not have any significant exposure to interest rate risk.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the NZ Group. The NZ Group has endeavoured to minimise its credit risk by dealing with creditworthy counterparties. The NZ Group's exposure to its counterparties is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

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

The carrying amount of financial assets recorded in the financial statements, net of any allowance for impairment, represents the NZ Group's maximum exposure to credit risk.

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the NZ Group's short, medium and long term funding and liquidity management requirements. The NZ Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows.

14 Commitments

(a) Non-cancellable operating leases

The NZ Group has entered into operating lease agreements in relation to its stores. These agreements have terms of between five to fifteen years, with, in some cases, an option to extend. Operating lease contracts generally contain market review clauses in the event that the NZ Group exercises its option to renew. The NZ Group does not have an option to purchase the leased asset at the expiry of the lease period.

Consolidated	
2017	2016
\$'000	\$'000

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	7,437	6,114
Later than one year but not later than five years	20,466	19,257
Later than five years	6,610	3,847
	34,513	29,218

Other Disclosures

15 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described below:

Name of entity	Country of incorporation	Equity holding	
		2017 %	2016 %
Parent entity JB Hi-Fi NZ Limited	New Zealand		
Subsidiaries JB Hi-Fi Group (NZ) Limited	New Zealand	100	100

(a) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the NZ Group, being the Company (the parent entity) and its subsidiaries as defined in NZ IAS-27 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the NZ Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under NZ IFRS 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with NZ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

The interest of non-controlling shareholders is stated at the non-controlling interests 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 the subsidiary.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the NZ Group are eliminated in full.

16 Related party transactions

(a) Parent entity

The parent entity of the Group is JB Hi-Fi NZ Limited, which is 100% owned by the ultimate parent entity, JB Hi-Fi Limited a listed public company, incorporated in Australia. The immediate parent entity of the NZ Group is JB Hi-Fi (A) Pty Ltd, a subsidiary of JB Hi-Fi Limited.

(b) Equity interests in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 15.

(c) Transactions with related parties

The only transactions with related parties during the current and previous financial years were the on charge of goods and services.

Remuneration for Key Management Personnel is borne by JB Hi-Fi Limited.

16 Related party transactions (continued)

(d) Terms and conditions

Sales to, and purchases from, related parties for goods and services are made in arm's length transactions at normal prices and on normal commercial terms.

Sales to and purchases from related parties are charged to a related party loan account (refer to note 9). The related party loan is at call and is not interest-bearing.

17 Remuneration of auditors

	Consolidated	
	2017	2016
	\$	\$
<i>Audit and other services</i>		
Audit and review of financial statements	32,609	32,505
Other services	-	-
Total remuneration for audit and other services	32,609	32,505

The auditor of the NZ Group is Deloitte Touche Tohmatsu.

18 Summary of other significant accounting policies

The remaining principal accounting policies adopted in the preparation of these financial statements that have not already been disclosed are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(b) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs necessary to make the sale. Costs are assigned to the individual items of inventory on the basis of weighted average costs.

(c) Foreign currency translation

In preparing the financial statements of the individual entities within the NZ Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

18 Summary of other significant accounting policies (continued)

(d) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are included in the statement of cash flows 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 within operating cash flows.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the NZ Group and the revenue can be reliably measured.

Revenue is recognised for the major business activities as follows:

(i) *Sale of goods - retail*

Revenue from the sale of goods is recognised when the NZ Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Risks and rewards are considered passed to the buyer at the point of sale if the goods are taken by the customer at that time, or on delivery of the goods to the customer.

(ii) *Commissions*

When the NZ Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the NZ Group.

(f) Standards and interpretations effective in the current period

In the current year, the NZ Group has adopted all mandatory new and amended standards and interpretations. None of the new and amended standards and interpretations had a material impact on these financial statements.

(g) Consistency of presentation

These financial statements demonstrate consistent presentation and classification for each annual reporting period.

19 Events occurring after the reporting period

There have been no matters or circumstances occurring subsequent to the end of the financial year end, that have significantly affected, or may significantly affect, the operations of the NZ Group, the results of those operations or the state of affairs of the NZ Group or economic entity in future financial years.