

# NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended  
30 July 2005 and 53 weeks  
ended 31 July 2004

**David Jones Limited  
and its controlled entities**

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## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been adopted in the preparation of the financial report are as follows:

### **(a) Basis of Preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act. It has been prepared in accordance with the historical cost convention except where stated and does not take into account changing money values or current valuations of non-current assets. The accounting policies have been consistently applied by each entity in the Consolidated Entity during the year and are consistent with those of the previous financial period.

### **(b) Principles of Consolidation**

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 30 July 2005 and the results of all controlled entities for the year then ended. The Company and its controlled entities together are referred to in this financial report as the Consolidated Entity. The effects of all transactions between entities in the Consolidated Entity are eliminated in full on consolidation. A list of controlled entities is contained in Note 34.

### **(c) Goodwill**

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired on acquisition of a controlled entity.

Goodwill is amortised on a straight-line basis not exceeding twenty years and reviewed in accordance with the policy set out in Note 1(d).

### **(d) Non-Current Assets**

The carrying amounts of non-current assets measured using the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The writedown is expensed in the reporting period in which it occurs. In assessing the recoverable amounts of non-current assets, the relevant cash-flows have been discounted to their present value using a discount rate of 10.8%.

### **(e) Other Financial Assets**

Investments in controlled entities are carried in the financial statements of the Company at the lower of cost and their recoverable amount.

### **(f) Plant, Equipment and Fittings**

#### **Acquisition**

Items of plant, equipment and fittings are initially recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. The cost of plant, equipment and fittings constructed by the Consolidated Entity includes the cost of materials, direct labour and a proportion of fixed and variable overheads.

#### **Depreciation**

Depreciation is calculated on a straight-line basis to write off the cost of each item of plant, equipment and fittings over its expected useful life to the Consolidated Entity. Estimates of remaining useful lives are made on a regular basis for all assets.

During the year the estimated useful life of all items of plant, equipment and software were assessed which resulted in revisions being made for certain assets. The net effect of the changes in the current financial year was a decrease in depreciation expense of the Consolidated Entity of \$8.644 million.

The expected useful lives following the reassessment made during the year are as follows:

Integral plant	10 years
Plant, fittings and fixtures	5–25 years
Computer hardware and software	5 years

#### **Leased Plant and Equipment**

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

#### **Finance Leases**

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight-line basis over the term of the lease, or, where it is likely that the Consolidated Entity will obtain ownership of the asset, the life of the asset. Lease assets are being amortised over periods ranging from three to five years.

### Operating Leases

Payments made under operating leases are charged to the statement of financial performance in equal instalments over the accounting periods covered by the lease term.

### (g) Opening Expenses

Pre-opening expenses in connection with new stores are charged to the statement of financial performance in the period in which they are incurred.

### (h) Foreign Currency

Transactions in foreign currencies of entities within the Consolidated Entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

Except for certain specific hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year. Any gains or costs on entering a hedge are deferred and amortised over the life of the contract.

Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transaction are deferred and included in the measurement of the purchase or sale. Exchange gains and losses arising on the hedge transaction after that date are taken to net profit.

It is the Consolidated Entity's policy not to engage in speculative foreign currency trading.

### (i) Taxes

#### Income Taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision

for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

### Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- in the case of receivables and payables, which are stated with the amount of GST included.

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (j) Inventories

Finished goods on hand or in transit are valued at the lower of cost and net realisable value with cost primarily being determined using the retail inventory method. This method utilises the current selling prices of inventories and reduces prices to cost by the application of average department mark up ratios. Further adjustments are made to ensure the carrying value of inventories is stated at the lower of cost and net realisable value.

Volume related supplier rebates are recognised as a reduction in the cost of inventory and are recorded as a reduction of cost of sales when the inventory is sold. Inventories do not include finished goods on hand in store concession departments as these goods are purchased from the supplier immediately prior to a sales transaction occurring.

### (k) Employee Entitlements

#### Wages, Salaries and Annual Leave

Liabilities for employee benefits for wages, salaries and annual leave represent the present obligations resulting from employees' services provided up to the reporting date. The provisions have been calculated at undiscounted amounts based on expected wage and salary rates that the Consolidated Entity expects to pay as at reporting date and include related on-costs, such as workers' compensation insurance and payroll tax.

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

### Long Service Leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made by the Consolidated Entity resulting from employees' services provided up to the reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rate attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

### Profit Sharing and Bonus Plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

### Equity-based Remuneration Schemes

The Company has four employee share ownership plans, an Executive Option Plan and the LTI Plan (refer Note 33(c)).

The fair value of equity based compensation grants (including options) to employees and Directors are not recognised as an expense in the statement of financial performance.

The market value of shares issued to employees under the equity-based remuneration schemes described in Note 33 is not being charged as an employee entitlement expense. When the shares are issued, their market value is recognised in the statement of financial position as share capital. The costs of administering these schemes, including losses incurred on the sale of forfeited shares by the trustee, are expensed as incurred.

### Superannuation

The Company and certain controlled entities contribute to several defined contributions superannuation plans. Contributions are made in accordance with the relevant trust deeds and the Superannuation Guarantee Charge.

### (l) Directors' Retirement Allowance

Contributions to the retirement allowance plan for non-executive directors (other than notional bank interest adjustments based on the accrued retirement allowance balance) were discontinued in October 2004. Since October 2003 no new directors have been entitled to join the Plan. For Directors participating in the Plan, the accrued benefits will be paid on retirement.

### (m) Revenue Recognition

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

#### Sale of Goods

Revenue from the sale of goods includes concession sales, and is net of actual returns made. Revenue from store sales is recognised when control and possession of the goods passes to the buyer. For online sales, revenue is recognised at the time payment is received. Sales made on interest free, deferred payment terms for periods of greater than one year are discounted to their fair value using as a discount rate the securitisation funding cost for credit card receivables.

#### Credit Card Receivables

Residual revenue arising from the securitisation of David Jones card receivables is recognised as it accrues (refer Note 29(b)).

#### Disruption Allowance

The disruption allowance received as a result of building works under the sale and leaseback arrangement (refer Note 29(a)) represents a reimbursement for rent incurred during a major refurbishment and compensates for the associated loss of sales and gross profit, and incremental expenses in the year.

Rent and occupancy expenses for the period are disclosed net of an amount of \$6,046,000 (2004: \$3,043,677) for disruption allowance. In the 2005 financial year, major refurbishment work was undertaken in the Market Street and Elizabeth Street, Sydney stores and the Bourke Street, Melbourne store.

#### Interest and Rent

Interest income is recognised as it accrues. Rent is recognised when the Consolidated Entity has attained control of a right to be compensated for the provision of its assets.

#### Sale of Non-Current Assets

The gross proceeds of asset sales are included as other revenue. Revenue on disposal of property, plant and equipment is brought to account at the date an unconditional contract of sale is signed.

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

### **Settlement Discount, Purchase and Promotional Incentives**

Promotional and advertising subsidies are offset against promotion and advertising costs. Settlement discounts are taken into income in the period to which the purchase relates.

### **Dividends**

Dividend revenue is recognised net of any franking credits. Revenue from distributions from controlled entities is recognised by the Company when they are declared by the controlled entities.

Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and are not recognised in revenue.

### **(n) Cost of Sales**

Cost of sales comprises cost of inventory sold during the period and normal retail shrinkage.

### **(o) Borrowing Costs**

Borrowing costs are recognised as expenses in the period in which they are incurred.

### **(p) Shareholder Discount**

Shareholder discount on sales is expensed in the same period that revenue from the related sale is recognised.

### **(q) Service Warranties**

Provision is made at balance date for the estimated liability relating to warranty claims on electrical goods covered by the Consolidated Entity's one year warranty extension program. The provision is estimated with reference to the level of sales of eligible products, the manufacturer's warranty period and the historical level of warranty claims. The Consolidated Entity's warranty extension program applies to sales made on eligible products prior to September 2003 (refer Note 22).

### **(r) Derivatives**

The Consolidated Entity is exposed to changes in interest rates and foreign currency exchange rates from its activities. It is the Consolidated Entity's policy to use derivative financial instruments to hedge these risks within established policy.

The accounting for forward foreign exchange contracts is in accordance with Note 1(h).

The net amount receivable or payable under interest rate swap agreements is progressively brought to account over the period to settlement. The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date.

When an interest rate swap is terminated early and the underlying hedged transactions are still expected to occur as designated, the gains or losses arising on the swap upon its early termination continue to be deferred and are progressively brought to account over the period during which the hedged transactions are recognised.

When an interest rate swap is terminated early and the underlying hedged transaction is no longer expected to occur as designated, the gains or losses arising on the swap upon its early termination are recognised in the statement of financial performance as at the date of the termination.

With the exception of an interest rate swap relating to dividends that may be payable on reset preference shares the Consolidated Entity's policy does not allow derivative financial instruments to be held for speculative trading purposes.

### **(s) Payables**

Liabilities for trade and other creditors are carried at cost, which is the fair value of the consideration that is payable in the future for goods and services received, whether or not billed to the Consolidated Entity. Trade liabilities are normally settled on terms up to 60 days.

### **(t) Interest Bearing Liabilities**

Loans are carried on the statement of financial position at their principal amount subject to set off arrangements. Interest expense is accrued at the contracted rate and included in payables.

### **(u) Cash Assets**

Cash on hand and in banks and short term deposits are stated at nominal value.

For purposes of the statement of cash flows, cash includes cash at bank and on hand, deposits at call and bank overdraft.

### **(v) Contributed Equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of shares are recognised directly in equity as a reduction of the share proceeds received.

### **(w) Financial Instruments**

Financial instruments, such as reset preference shares issued by the Company that have no fixed maturity, and have no cumulative dividend obligations are classified as equity and the related distributions as dividends.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

**(x) Earnings Per Share (EPS)**

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends; and
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares,

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(y) Provisions**

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate amount that reflects current market assessments of the time value of money and the risks specific to the liability (being the risk free rate on government bonds most closely matching the expected future payments). The unwinding of the discount is treated as part of the expense related to the particular provision.

**Dividends**

Provision is made for the amount of any dividend declared by the Directors on or before the end of the financial year but not distributed at balance date.

**Restructuring costs**

Liabilities arising directly from undertaking a restructuring program, not in connection with the acquisition of an entity or operations, are recognised when a detailed plan of the restructuring activity has been developed and implementation of the restructuring program as planned has commenced, by either entering into contracts to undertake the restructuring activities or making a detailed announcement such that the affected parties are in no doubt the restructuring program will proceed.

The costs of restructuring provided for, other than related employee termination benefits, is the estimated cash flow, having regard to the risks of the restructuring activities, discounted using market yields at balance date on national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payments, where the effect of discounting is material.

Liabilities for employee termination benefits associated with restructurings are brought to account on the basis described in the accounting policy note for employee benefits (Note 1(k)).

**(z) Trade Receivables**

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

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

**(aa) Comparatives**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

**(ab) Rounding of Amounts**

Amounts in the financial report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar, in accordance with the Class Order 98/0100 issued by the Australian Securities & Investments Commission.

**(ac) Use and Revision of Accounting Estimates**

The preparation of the financial report requires the making of estimates and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying value of assets and liabilities that are not readily apparent from other sources. 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.

The financial effect in the 2005 financial year of the reassessment of the estimated useful life of plant, equipment and fittings is shown in Note 1(f).

	Note	CONSOLIDATED		DAVID JONES LIMITED	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>2. REVENUE FROM ORDINARY ACTIVITIES</b>					
Revenue from sale of goods	l(m)	<b>1,799,123</b>	1,769,505	<b>1,799,123</b>	1,769,505
Other Revenue:	l(m)				
– Interest received or receivable from other persons		<b>5,049</b>	3,014	<b>2,426</b>	2,546
– Residual revenue – credit card securitisation		<b>41,217</b>	37,932	–	–
– Settlement discounts received		<b>17,789</b>	18,261	<b>17,789</b>	18,261
– Rental income		<b>414</b>	577	<b>414</b>	577
– Proceeds from sale of property, plant and equipment		<b>28,015</b>	112	<b>1,932</b>	112
– Sundry revenue		<b>7,053</b>	5,290	<b>5,626</b>	4,559
Total other revenue		<b>99,537</b>	65,186	<b>28,187</b>	26,055
<b>TOTAL REVENUE</b>		<b>1,898,660</b>	1,834,691	<b>1,827,310</b>	1,795,560
<b>3. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>					
Profit from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:					
Borrowing costs:	l(o)				
– controlled entities		–	–	–	466
– other persons		<b>2,165</b>	3,621	<b>823</b>	713
Total borrowing costs		<b>2,165</b>	3,621	<b>823</b>	1,179
Amount set aside to provide for Directors' retirement allowance	l(l)	<b>164</b>	238	<b>164</b>	238
Net bad and doubtful debts expense including movement in provision for doubtful debts	l(z)				
– David Jones' card receivables		<b>5,757</b>	5,782	–	–
– other		<b>845</b>	(636)	<b>845</b>	(636)
Rental charges on operating leases:	l(f)				
– controlled entities – minimum lease payments		–	–	<b>2,720</b>	2,647
– other persons – minimum lease payments		<b>80,130</b>	79,210	<b>80,130</b>	79,036
– contingent rentals		<b>5,059</b>	2,565	<b>5,059</b>	2,565
Total rental charges		<b>85,189</b>	81,775	<b>87,909</b>	84,248
Depreciation of:	l(f)				
– buildings		<b>282</b>	276	–	–
– plant, fittings and fixtures		<b>32,589</b>	40,635	<b>32,547</b>	40,660
Amortisation of:					
– goodwill	l(c)	<b>1,873</b>	1,873	–	–
– finance leased plant, fittings and fixtures		–	98	–	–
Total depreciation and amortisation		<b>34,744</b>	42,882	<b>32,547</b>	40,660
Loss on sale of assets		<b>669</b>	145	<b>669</b>	145
Net foreign exchange loss/(gain)	l(h)	<b>40</b>	(35)	<b>40</b>	(35)

# NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended  
30 July 2005 and 53 weeks  
ended 31 July 2004

David Jones Limited  
and its controlled entities

## 4. SEGMENT INFORMATION

### Business and Geographical Segments

The Consolidated Entity operates in Australia and was organised into the following divisions by product and service type for the financial period:

- Department Stores, comprising David Jones department stores, rack stores, David Jones Online and corporate head office;
- Credit, comprising the David Jones' Card; and
- Property, comprising the land and buildings owned by the Consolidated Entity.

### Segment Accounting Policies

Segment accounting policies are the same as the Consolidated Entity's policies described in Note 1. During the financial year, there were no changes in segment accounting policies that had a material effect on the segment information.

Rent is charged by the Property segment to the Department Stores segment at current market rates and eliminated on consolidation.

PRIMARY REPORTING – BUSINESS SEGMENTS	DEPARTMENT STORES		CREDIT		PROPERTY		ELIMINATIONS		CONSOLIDATED	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>REVENUE</b>										
Sales to customers outside the Consolidated Entity	<b>1,799,123</b>	1,769,505	–	–	–	–	–	–	<b>1,799,123</b>	1,769,505
Other revenues from customers outside the Consolidated Entity	<b>25,346</b>	23,105	<b>42,644</b>	38,490	<b>26,083</b>	–	–	–	<b>94,073</b>	61,595
Inter-segment revenues	–	–	–	–	<b>2,942</b>	2,898	<b>(2,942)</b>	(2,898)	–	–
Total segment revenues	<b>1,824,469</b>	1,792,610	<b>42,644</b>	38,490	<b>29,025</b>	2,898	<b>(2,942)</b>	(2,898)	<b>1,893,196</b>	1,831,100
Unallocated revenue									<b>5,464</b>	3,591
<b>Total consolidated revenue</b>									<b>1,898,660</b>	1,834,691
<b>RESULT</b>										
Segment result	<b>76,839</b>	67,885	<b>32,236</b>	27,657	<b>2,659</b>	2,630	<b>(2,942)</b>	(2,898)	<b>108,792</b>	95,274
Unallocated expenses									<b>2,924</b>	(566)
<b>Net profit from ordinary activities before income tax expense</b>									<b>111,716</b>	94,708
<b>ASSETS</b>										
Segment assets	<b>550,743</b>	567,391	<b>20,395</b>	36,028	–	26,152	<b>5,632</b>	–	<b>576,770</b>	629,571
Unallocated assets									<b>202,565</b>	141,186
Total assets									<b>779,335</b>	770,757
<b>LIABILITIES</b>										
Segment liabilities	<b>113,148</b>	107,538	<b>8,266</b>	7,128	<b>(4)</b>	887	–	–	<b>121,410</b>	115,553
Unallocated liabilities									<b>182,066</b>	207,264
<b>Total liabilities</b>									<b>303,476</b>	322,817
<b>OTHER SEGMENT INFORMATION:</b>										
Acquisition of non-current assets	<b>39,474</b>	50,719	<b>326</b>	172	–	–	–	–	<b>39,800</b>	50,891
Depreciation and amortisation (refer Note 3)	<b>34,320</b>	42,478	<b>142</b>	128	<b>282</b>	276	–	–	<b>34,744</b>	42,882
Non-cash expenses other than depreciation and amortisation	<b>4,580</b>	11,352	<b>402</b>	(408)	–	–	–	–	<b>4,982</b>	10,944

	CONSOLIDATED		DAVID JONES LIMITED	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000

## 5. REMUNERATION OF AUDITORS

Amounts paid or due and payable for audit services provided by Ernst & Young:

– audit and review of financial reports	<b>517,327</b>	449,638	<b>517,327</b>	449,638
– other audit services	<b>55,500</b>	35,600	<b>55,500</b>	35,600
– audit of accounting policies under the Australian Equivalents of the International Financial Reporting Standards	<b>166,425</b>	55,000	<b>166,425</b>	55,000
Total auditors remuneration	<b>739,252</b>	540,238	<b>739,252</b>	540,238

## 6. INCOME TAX

The income tax expense for the financial period differs from the amount calculated on the profit. The differences are reconciled as follows:

Profit from ordinary activities before income tax expense	<b>111,716</b>	94,708	<b>66,732</b>	57,557
Prima facie income tax expense calculated at 30% (2004: 30%) on profit from ordinary activities before income tax	<b>33,514</b>	28,412	<b>20,020</b>	17,267
Tax effect of permanent differences:				
– depreciation of buildings	<b>(627)</b>	(620)	<b>(410)</b>	(377)
– amortisation of goodwill	<b>562</b>	562	<b>–</b>	–
– entertainment	<b>426</b>	320	<b>426</b>	320
– sale and leaseback	<b>2,222</b>	1,198	<b>2,222</b>	1,198
– sale of property	<b>(763)</b>	–	<b>(575)</b>	–
– transfer from subsidiaries under tax funding agreement	<b>–</b>	–	<b>(2,080)</b>	(4,043)
– sundry items	<b>(208)</b>	(228)	<b>(208)</b>	(228)
Income tax adjusted for permanent differences	<b>35,126</b>	29,644	<b>19,395</b>	14,137
Income tax over provided in prior period	<b>(1,272)</b>	(265)	<b>(1,272)</b>	(609)
Income tax expense attributable to profit from ordinary activities	<b>33,854</b>	29,379	<b>18,123</b>	13,528
Income tax expense/(benefit) attributable to profit from ordinary activities comprises:				
Current taxation provision	<b>35,013</b>	38,118	<b>19,282</b>	22,611
Deferred tax liability	<b>(250)</b>	(63)	<b>(250)</b>	(63)
Future income tax benefit	<b>363</b>	(8,411)	<b>363</b>	(8,411)
Income tax over provided in prior period	<b>(1,272)</b>	(265)	<b>(1,272)</b>	(609)
	<b>33,854</b>	29,379	<b>18,123</b>	13,528

### Tax Consolidation

The Company and its 100% owned subsidiaries elected to form a tax consolidated group for income tax purposes with effect from 28 July 2002. The Company is the head entity for the purposes of the tax consolidation legislation and therefore is legally liable for the income tax liabilities of the tax consolidated group.

Members of the group have entered into a tax funding agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro rata basis. In addition, a tax sharing agreement has been established providing for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is the Company.

In accordance with Urgent Issues Group Abstract 52 – Income Tax Accounting under the Tax Consolidation System, the deferred tax balances of the subsidiaries in the tax consolidated group are recognised by the Company.

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## 7. DIVIDENDS

Dividends franked at the tax rate of 30% recognised in the current year by the Company:

	Note	Amount Per Share	Total Amount \$'000	Date of Payment
<b>2005</b>				
Final 2004 ordinary		6.000¢	25,053	9 November 2004
Interim 2005 ordinary		6.000¢	25,495	5 May 2005
Interim 2005 reset preference		\$4.0833	2,381	1 February 2005
Final 2005 reset preference		\$4.0166	2,173	1 August 2005
Pro-rata dividends on reset preference share conversions	(i)		238	
<b>Total amount</b>			<b>55,340</b>	

(i) Pro-rata dividends on the conversion of reset preference shares to ordinary shares were paid on the date of conversion during the financial year at the rate of 8.1% per annum (refer Note 26(f)).

Dividends franked at the tax rate of 30% recognised in the prior period are:

		Amount Per Share	Total Amount \$'000	Date of Payment
<b>2004</b>				
Final 2003 ordinary		3.000¢	12,348	5 November 2003
Interim 2004 ordinary		5.000¢	20,580	4 May 2004
Interim 2004 reset preference		\$4.0833	2,654	1 February 2004
Final 2004 reset preference		\$4.0389	2,626	1 August 2004
<b>Total amount</b>			<b>38,208</b>	

### Subsequent Event

Since the end of the financial year, the Directors have declared the following dividend franked at the tax rate of 30%:

		Amount Per Share	Total Amount \$'000	Date of Payment
Final 2005 ordinary		7.000¢	30,284	8 November 2005

A final dividend of \$29.750 million is based on 425,000,343 ordinary shares issued at 30 July 2005 (Note 26(b)). A further 275,000 options are outstanding under the Executive Option Plan (Note 33(c)(v)) which may be converted to ordinary shares prior to the payment of the dividend. There are also 3,427,512 ordinary shares, which will be allocated under the LTI Plan on 28 September 2005, and 4,164,120 ordinary shares which will be issued on the conversion of reset preference shares, on which the final dividend will be paid. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 July 2005 and will be recognised in subsequent financial reports.

### Franked Dividends

The franked portions of the dividend recommended after 30 July 2005 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 29 July 2006.

	CONSOLIDATED		DAVID JONES LIMITED	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000

### 7. DIVIDENDS – continued

Franking credits available for subsequent financial years based on a tax rate of 30% (2004: 30%)	<b>40,107</b>	28,305	<b>40,107</b>	28,305
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The above amounts represent the balance of the franking account as at the end of the financial period, adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- (c) franking credits that may be prevented from being distributed in subsequent financial years.

For income tax purposes, the Company elected to form a tax consolidated group with effect from 28 July 2002. On entry into tax consolidation, the franking credits held in the franking accounts of the subsidiary members were transferred to the Company and therefore one franking account is maintained by the Company for the tax consolidated group.

	CONSOLIDATED	
	2005	2004
	Cents	Cents
<b>8. EARNINGS PER SHARE (EPS)</b>		
Basic EPS	<b>17.4</b>	14.6
Diluted EPS	<b>17.0</b>	14.2

	CONSOLIDATED	
	2005	2004
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic and diluted EPS		
– Basic EPS	<b>420,774,743</b>	411,692,046
– Diluted EPS	<b>459,014,073</b>	461,521,056

### Potential Ordinary Shares

The 540,992 reset preference shares are potential ordinary shares in accordance with AASB 1027(6) Earnings per Share. The conversion factor of 70.1754 (2004: 70.1754) is calculated in accordance with the conversion formula noted on page 37 of the Reset Preference Share prospectus issued 14 May 2002. Options to purchase ordinary shares issued under the Executive Option Plan (refer Note 33(c)(v)) are also potential ordinary shares at balance date. The current number of potential ordinary shares is 38,239,330 (2004: 49,829,010). Based on conditions existing at 30 July 2005, these potential ordinary shares are dilutive.

### Options

Options to purchase ordinary shares not exercised at 30 July 2005 have been included in the determination of diluted EPS. Based on conditions existing at reporting date, the options are potential ordinary shares (refer Note 33(c)(v)).

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	Note	CONSOLIDATED		DAVID JONES LIMITED	
		2005	2004	2005	2004
		\$000	\$000	\$000	\$000
<b>9. CURRENT ASSETS – CASH ASSETS</b>					
Cash at bank and on hand		<b>10,245</b>	8,844	<b>10,245</b>	8,844
Bank short term deposits		<b>137,000</b>	89,000	–	–
		<b>147,245</b>	97,844	<b>10,245</b>	8,844
The short term deposits are for various terms maturing within 60 days at floating interest rates between 5.45% to 5.65% per annum (2004: 5.20% to 5.47%).					
<b>10. CURRENT ASSETS – RECEIVABLES</b>					
Securitisation receivables	29(b)	<b>31,829</b>	32,705	–	–
Other portfolio receivables		<b>7,802</b>	4,123	–	–
		<b>39,631</b>	36,828	–	–
Less: Provision for doubtful debts		<b>(7,897)</b>	(7,495)	–	–
		<b>31,734</b>	29,333	–	–
Refunds receivable from trade creditors		<b>13,686</b>	6,158	<b>13,686</b>	6,158
Less: Provision for doubtful debts		<b>(3,001)</b>	(2,156)	<b>(3,001)</b>	(2,156)
		<b>10,685</b>	4,002	<b>10,685</b>	4,002
Loan to employees under Employee Share Plan (secured)	33(c)	<b>671</b>	870	<b>671</b>	870
Receivables due to be securitised		–	6,338	–	–
Other debtors		<b>9,646</b>	8,165	<b>9,042</b>	8,017
		<b>52,736</b>	48,708	<b>20,398</b>	12,889
<b>11. CURRENT ASSETS – INVENTORIES</b>					
Retail inventories	1(j)	<b>289,198</b>	306,190	<b>289,198</b>	306,190
		<b>289,198</b>	306,190	<b>289,198</b>	306,190
<b>12. CURRENT ASSETS – OTHER</b>					
Prepayments		<b>5,053</b>	7,186	<b>4,886</b>	6,762
		<b>5,053</b>	7,186	<b>4,886</b>	6,762
<b>13. LAND AND BUILDINGS HELD FOR SALE</b>					
Cost					
Opening balance		<b>28,003</b>	–	–	–
Reclassification from non current assets		–	28,003	–	–
Disposals during year		<b>(28,003)</b>	–	–	–
Closing balance		–	28,003	–	–
<b>Accumulated Depreciation</b>					
Opening balance		<b>1,851</b>	–	–	–
Reclassification from non current assets		–	1,851	–	–
Depreciation for the year		<b>282</b>	–	–	–
<b>Disposals during year</b>		<b>(2,133)</b>	–	–	–
<b>Closing balance</b>		–	1,851	–	–
<b>Total land and buildings at net book value</b>		–	26,152	–	–

The Consolidated Entity completed the sale of land and buildings situated at Queen Street, Brisbane, Queensland in July 2005.

	Note	CONSOLIDATED		DAVID JONES LIMITED	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>14. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS</b>					
Shares in controlled entities – at cost		–	–	119,115	119,115
Provision for writedown to recoverable amount		–	–	(13,872)	(13,872)
Shares in controlled entities – at recoverable amount		–	–	105,243	105,243
Shares in other corporations – at cost		12	–	12	–
		12	–	105,255	105,243
<b>15. NON-CURRENT ASSETS – PLANT, EQUIPMENT AND FITTINGS</b>					
<b>Land and Buildings:</b>					
<b>Cost</b>					
Opening balance		–	28,003	–	–
Reclassified as a current asset	13	–	(28,003)	–	–
Closing balance		–	–	–	–
<b>Accumulated Depreciation</b>					
Opening balance		–	1,575	–	–
Depreciation for the year		–	276	–	–
Reclassified as a current asset	13	–	(1,851)	–	–
Closing balance		–	–	–	–
<b>Total land and buildings at net book value</b>		–	–	–	–
<b>Plant, Fittings and Fixtures:</b>					
<b>Cost</b>					
Opening balance		540,567	519,198	540,285	518,807
Additions		44,486	72,896	44,486	72,931
Recoverable amount write-down		–	(486)	–	(486)
Disposals		(32,979)	(51,041)	(32,974)	(50,967)
Closing balance		552,074	540,567	551,797	540,285
<b>Accumulated Depreciation</b>					
Opening balance		358,189	368,464	358,042	368,297
Depreciation for the year		32,589	40,635	32,547	40,660
Recoverable amount write-down		–	(128)	–	(109)
Disposals		(30,338)	(50,782)	(30,335)	(50,806)
Closing balance		360,440	358,189	360,254	358,042
Work in progress		41,450	47,199	41,450	47,199
<b>Total plant, fittings and fixtures</b>		233,084	229,577	232,993	229,442
<b>Plant, Fittings and Fixtures Under Lease:</b>					
<b>Cost</b>					
Opening balance		–	678	–	–
Additions		–	–	–	–
Disposals		–	(678)	–	–
Closing balance		–	–	–	–
<b>Accumulated Amortisation</b>					
Opening balance		–	497	–	–
Amortisation for the year		–	98	–	–
Disposals		–	(595)	–	–
Closing balance		–	–	–	–
<b>Total leased plant, fittings and fixtures</b>		–	–	–	–
<b>Total plant, equipment and fittings at net book value</b>		233,084	229,577	232,993	229,442

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	CONSOLIDATED		DAVID JONES LIMITED	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>16. NON-CURRENT ASSETS – INTANGIBLES</b>				
Goodwill – at cost	<b>18,729</b>	18,729	–	–
Accumulated amortisation	<b>(10,297)</b>	(8,424)	–	–
	<b>8,432</b>	10,305	–	–

## 17. NON-CURRENT ASSETS – DEFERRED TAX ASSETS

### (a) Future Income Tax Benefit

Future income tax benefit comprises the estimated future benefit at 30% (2004: 30%) of the following items:

	2005	2004	2005	2004
Timing differences	<b>39,117</b>	39,720	<b>39,117</b>	39,720
	<b>39,117</b>	39,720	<b>39,117</b>	39,720

### (b) Future Income Tax Benefit not taken to Account

The potential future income tax benefit arising from tax losses which has not been recognised because recovery is not beyond reasonable doubt or virtually certain respectively is shown below valued at a tax rate of 30% (2004: 30%):

	2005	2004	2005	2004
Capital losses	<b>6,094</b>	6,094	–	–
	<b>6,094</b>	6,094	–	–

The potential future income tax benefit will only be obtainable if:

- (i) the relevant entities derive future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another entity within the Consolidated Entity in accordance with Division 170 of the *Income Tax Assessment Act 1997*;
- (ii) the relevant entities continue to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the relevant entities in realising the benefit.

	CONSOLIDATED		DAVID JONES LIMITED	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>18. NON-CURRENT ASSETS – OTHER</b>				
Prepayments	<b>4,458</b>	5,075	<b>4,457</b>	4,907
	<b>4,458</b>	5,075	<b>4,457</b>	4,907

## 19. CURRENT LIABILITIES – PAYABLES

	2005	2004	2005	2004
Trade creditors	<b>108,956</b>	141,344	<b>108,942</b>	141,364
Other creditors and accruals	<b>134,055</b>	114,347	<b>85,879</b>	52,948
	<b>243,011</b>	255,691	<b>194,821</b>	194,312

## 20. CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

	2005	2004	2005	2004
Short-term borrowing	–	1,697	–	1,697
	–	1,697	–	1,697

		CONSOLIDATED		DAVID JONES LIMITED	
	Note	2005	2004	2005	2004
		\$000	\$000	\$000	\$000

## 21. CURRENT LIABILITIES – CURRENT TAX LIABILITIES

Provision for income tax

Movements during the year were as follows:

Balance at beginning of year		<b>25,198</b>	3,097	<b>25,198</b>	–
Transfer from subsidiaries on consolidation		–	–	–	3,097
Income tax paid		<b>(37,154)</b>	(19,901)	<b>(37,154)</b>	(19,901)
Refunds received or receivable (net)		<b>86</b>	4,877	<b>86</b>	4,877
Current period's income tax provision		<b>33,854</b>	29,379	<b>33,854</b>	29,379
Over provision from prior year		<b>(240)</b>	(729)	<b>(240)</b>	(729)
Transferred to deferred tax assets		<b>(113)</b>	8,475	<b>(113)</b>	8,475
		<b>21,631</b>	25,198	<b>21,631</b>	25,198

## 22. CURRENT LIABILITIES – PROVISIONS

Dividends		<b>2,173</b>	2,626	<b>2,173</b>	2,626
Employee entitlements	33(b)	<b>8,503</b>	9,014	<b>8,503</b>	8,976
Restructuring costs		<b>90</b>	680	<b>90</b>	680
Warranties	l(q)	<b>432</b>	804	<b>432</b>	804
		<b>11,198</b>	13,124	<b>11,198</b>	13,086

## 23. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

Deferred income tax comprising the estimated future tax payable at 30% (2004: 30%) on timing differences

		–	250	–	250
		–	250	–	250

## 24. NON-CURRENT LIABILITIES – PROVISIONS

Employee entitlements	33(b)	<b>19,668</b>	18,787	<b>19,668</b>	18,787
Directors' retirement allowance	l(l)	<b>960</b>	796	<b>960</b>	796
Warranties	l(q)	<b>568</b>	1,124	<b>568</b>	1,124
		<b>21,196</b>	20,707	<b>21,196</b>	20,707

## Reconciliations

Reconciliations of the carrying amount of each class of provision, except for employee benefits are set out below:

### Dividends – Reset Preference Shares

Carrying amount at beginning of the year:		<b>2,626</b>	2,611	<b>2,626</b>	2,611
Provisions made during the year:					
– Interim dividend 2004		–	2,654	–	2,654
– Final dividend 2004		–	2,626	–	2,626
– Interim dividend 2005		<b>2,381</b>	–	<b>2,381</b>	–
– Final dividend 2005		<b>2,173</b>	–	<b>2,173</b>	–
Payments made during the year		<b>(5,007)</b>	(5,265)	<b>(5,007)</b>	(5,265)
Carrying amount at the end of the year		<b>2,173</b>	2,626	<b>2,173</b>	2,626

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## 24. NON-CURRENT LIABILITIES – PROVISIONS – continued

	Note	CONSOLIDATED		DAVID JONES LIMITED	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Restructuring costs</b>					
Carrying amount at beginning of the year		680	16,120	680	16,120
Provisions made during the year		–	–	–	–
Payments made during the year		(590)	(15,440)	(590)	(15,440)
Carrying amount at the end of the year		90	680	90	680
<b>Warranties – current</b>					
Carrying amount at beginning of the year		804	855	804	855
Provisions made during the year		–	–	–	–
Payments made during the year		(372)	(51)	(372)	(51)
Carrying amount at the end of the year		432	804	432	804
<b>Warranties – non-current</b>					
Carrying amount at beginning of the year		1,124	645	1,124	645
Provisions made during the year		(556)	479	(556)	479
Payments made during the year		–	–	–	–
Carrying amount at the end of the year		568	1,124	568	1,124

## 25. NON-CURRENT LIABILITIES – OTHER DEFERRED LIABILITIES

Discount on deferred payment, interest free sales	l(m)	3,201	2,328	3,201	2,328
Other deferred liabilities		3,239	3,822	3,239	3,822
		6,440	6,150	6,440	6,150

## 26. CONTRIBUTED EQUITY

### (a) Share Capital

Ordinary shares, fully paid	350,935	334,638	350,935	334,638
Reset preference shares, fully paid	49,827	60,727	49,827	60,727
	400,762	395,365	400,762	395,365

### (b) Movements in Ordinary Share Capital

	Number of Shares	\$000
Opening balance 27 July 2003	411,603,689	333,832
Exercise of options under Executive Option Plan	595,000	806
Closing balance 31 July 2004	412,198,689	334,638
Allocation under LTI Plan	1,212,000	–
Exercise of options under Executive Option Plan	3,940,000	5,397
Conversion of reset preference shares	7,649,654	10,900
Closing balance 30 July 2005	425,000,343	350,935

### (c) Terms and Conditions of Ordinary Share Capital

Holders of ordinary shares are entitled to receive dividends as declared from time to time. At shareholder meetings, every holder of ordinary shares present at a meeting, in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

In the event of the winding up of the Company, ordinary shareholders rank after all other shareholders and creditors, and are fully entitled to any proceeds of liquidation.

## 26. CONTRIBUTED EQUITY – continued

### (d) Movements in Reset Preference Share Capital

	Number of Shares	\$000
Opening balance 31 July 2004	650,000	60,727
Conversion to ordinary shares	(109,008)	(10,900)
Closing balance 30 July 2005	540,992	49,827

### (e) Subsequent Event

The Company has received Holder Conversion Notices after 30 July 2005 for the conversion of 83,939 reset preference shares (RPS) into 5,890,427 ordinary shares. In accordance with the terms and conditions of the RPS, these RPS will be converted into ordinary shares in the year ending 29 July 2006 resulting in a decrease of \$8.394 million in RPS capital and a corresponding increase in ordinary share capital.

### (f) Terms and Conditions of Reset Preference Shares

#### Dividends

RPS entitle the holder to receive a fully franked non-cumulative dividend of 8.1% per annum, fixed until the first reset date of 1 August 2007, if a dividend is declared or otherwise resolved to be paid by the Directors.

Dividends on RPS will be paid at the discretion of the Directors in priority to any dividends declared on ordinary shares.

If any RPS dividend is not paid in full in any period, then no dividend or return of capital can be paid or conducted in relation to ordinary shares unless and until either:

- the Company has paid two consecutive RPS dividends in full or has paid a shortfall dividend to make up for the unpaid amount; or
- the holders of RPS pass a special resolution approving the paying of the dividend or return of capital.

The RPS do not confer on holders any right to participate in the David Jones Shareholder Rewards Scheme.

#### Conversion

Either the Company or the RPS holders may elect to convert the RPS to ordinary shares on the reset date. If the holder elects to convert their RPS, then the Company may elect to arrange a resale for some or all of those RPS instead and pay the RPS holder a cash amount equal to the value of the ordinary shares that would be deliverable and any dividend that would be due if conversion of those RPS were to occur on that date.

By Deed Poll dated 28 July 2005 the Company has irrevocably promised that it will no longer elect to repurchase RPS for cash (despite such repurchase otherwise being permitted under clause 6.5 (a) and (b) of the terms of the RPS contained in the prospectus dated 14 May 2002).

In certain circumstances (including a takeover or scheme of arrangement, proposed changes to tax regulation or the aggregate RPS on issue falling below \$30 million in issue price), conversion may occur earlier. Until the first reset date, the holder will have the right at any time to request conversion of each RPS into 70.1754 ordinary shares.

#### Voting

RPS holders will not be entitled to speak or to vote at general meetings of the Company, except in certain circumstances, in which case holders will have one vote per RPS held.

RPS holders have the same rights as ordinary shareholders to receive accounts, reports and notices of meetings of the Company and to attend any general meetings of the Company.

#### Ranking

RPS are subordinated to all creditors of the Company.

On a winding up of the Company, the RPS rank ahead of ordinary shares for a return of capital (equal to the issue price) and for the payment of any accrued dividend on the RPS.

#### Borrowing Covenants

Under the Syndicated Facility Agreement (as amended) between a controlled entity, David Jones Finance Pty Limited, and participating banks, the proceeds from the issue of RPS are specifically excluded from the definition of Financial Indebtedness that is used to calculate financial ratios and limits in relation to the financing facilities set out in Note 36(a).

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	Note	CONSOLIDATED		DAVID JONES LIMITED	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>27. RETAINED PROFITS</b>					
Retained profits at beginning of the year		<b>52,575</b>	25,454	<b>57,232</b>	51,411
Net profit attributable to members of the parent entity		<b>77,862</b>	65,329	<b>48,609</b>	44,029
Dividends recognised during the year	7	<b>(55,340)</b>	(38,208)	<b>(55,340)</b>	(38,208)
<b>Retained profits at end of the year</b>		<b>75,097</b>	52,575	<b>50,501</b>	57,232
<b>28. TOTAL EQUITY RECONCILIATION</b>					
Total equity at beginning of the year		<b>447,940</b>	420,013	<b>452,597</b>	445,970
Total change in parent entity interest in equity recognised in statement of financial performance		<b>77,862</b>	65,329	<b>48,609</b>	44,029
Transactions with owners as owners:					
Contribution of equity:					
Issue of ordinary shares under Executive Option Plan		<b>5,397</b>	806	<b>5,397</b>	806
Dividends	7	<b>(55,340)</b>	(38,208)	<b>(55,340)</b>	(38,208)
<b>Total equity at end of the year</b>		<b>475,859</b>	447,940	<b>451,263</b>	452,597

## 29. OFF BALANCE SHEET ARRANGEMENTS

The Statements of Financial Position should be read in conjunction with the following off balance sheet arrangements.

### (a) Sale and Leaseback Arrangement

The Consolidated Entity entered into a sale and leaseback arrangement with Deutsche Retail Infrastructure Trust (DRIT) in November 2000 whereby the Elizabeth and Market Streets, Sydney and Bourke Street, Melbourne properties were, in substance, sold by granting a seventy-nine year head lease with DRIT. The non-refundable proceeds received by the Consolidated Entity of \$201.85 million were recorded in the 28 July 2001 financial report as proceeds from the sale of property.

Legally, the Consolidated Entity has a recognised right to set-off the receivables (\$201.85 million at inception) under the head lease and payables under the loan agreement (\$201.85 million at inception) in order to settle on a net basis.

The Consolidated Entity has entered into operating leases in respect of the properties. The operating leases are for an initial term of thirty years with:

- base rentals calculated on floor space with a 2.5% per annum quarterly increase;
- contingent rentals based on turnover; reviewed every five years, with a set upper and lower limit.

The leases contain two further renewal options of thirty years and twenty years.

Under the arrangement, DRIT will provide funds to the Consolidated Entity for the refurbishment of the properties and a disruption allowance for reduction of rentals due to the impact of disruption during the refurbishments.

In these original arrangements, Deutsche Asset Management (Australia) Limited (DAMAL) as responsible entity for the DRIT was to receive the greater of \$100 million or 50% of the market value of the properties in year 2079.

The Consolidated Entity has also entered into agreements with Deutsche Bank AG (DB) whereby:

- the Consolidated Entity waives its right to terminate each of the Head Leases;
- DB agrees to pay the 50% of the sale proceeds due to DAMAL on sale of the properties in year 2079, or the minimum guarantee amount of \$100 million, whichever DAMAL is entitled to, on the Consolidated Entity's behalf;
- the Consolidated Entity waives any entitlement to 50% of the proceeds of sale of the properties; and
- the Consolidated Entity waives its right to buy each property by way of a pre-emptive right and by a last right of refusal.

## 29. OFF BALANCE SHEET ARRANGEMENTS – continued

DB is expected to acquire legal title to the properties at year 2079 and the Consolidated Entity has no contractual right to repurchase the properties during or at the end of the 79 year period.

In the original transaction, the Consolidated Entity entered into a put option agreement where elements of DRIT's financing (totalling \$146 million) could be put to the Consolidated Entity. This put option is only exercisable in remote circumstances (for example, payment default, demand under or cancellation of David Jones' Syndicated Banking Facility Agreement and trigger events largely associated with the insolvency of the Consolidated Entity). This results in the Consolidated Entity having an element of refinancing risk in the event of a significant fall in the value of the properties, which coincides largely with an insolvency or credit event of the Consolidated Entity. However, equity holders in DRIT take the primary risk of a fall in the improved value of the properties.

The Consolidated Entity has entered into thirty year interest rate swap contracts associated with the transaction. The estimated market values of the payables and receivables under the swaps at 30 July 2005 are \$53.407 million and \$45.937 million respectively (2004: \$28.471 million and \$20.528 million). These amounts have not been recognised in the Statements of Financial Position. The difference between the net cash inflows and outflows is recognised as an expense in the Statements of Financial Performance over the term of the swaps.

### (b) Securitisation of David Jones Card Receivables

Receivables from David Jones cardholders are sold to an unrelated third party, in which the Consolidated Entity has no ownership interest. The Consolidated Entity does not have the capacity to control the unrelated third party and accordingly does not consolidate this entity.

Receivables due from David Jones' card holders that have been sold to the third party as at 30 July 2005 amount to \$386.431 million (2004: \$391.103 million). Of this amount \$31.829 million (2004: \$32.705 million) has been retained by the third party as over collateralisation. As this amount will be paid to a controlled entity, subject to the performance of the card receivables, it has been included in current receivables in the Statements of Financial Position.

The Consolidated Entity retains the risk for bad debts in respect of the total portfolio of securitisation receivables.

Collectability of the credit card receivables is reviewed on an ongoing basis and to the extent that recovery is doubtful, a provision for doubtful debts is recorded by the Consolidated Entity against the securitisation receivable.

The Consolidated Entity is entitled to the residual revenue arising from the underlying receivables after meeting the purchaser's cost of funds, bad debts and expenses.

## 30. CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below.

The Directors are not aware of any circumstance or information which would lead them to believe that these liabilities have crystallised and consequently no provisions are included in the financial statements in respect of these matters.

	CONSOLIDATED		DAVID JONES LIMITED	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
<b>(a) Guarantees</b>				
Guarantees to third parties given in the ordinary course of business	<b>758</b>	843	<b>758</b>	843

### (b) Employee Share Plan

The Company via a Trustee has funded the acquisition of shares in the Company by its employees. An unrealised gain of \$476,233 (based on a price of \$2.08 per share at 30 July 2005) exists representing the difference between the loan by the Company to the Trustee and the recoverable amount of the shares at 30 July 2005. This gain would only be realised if the shares were forfeited by employees (upon resignation) and if sold for a price at or above the book value of \$1.22 per share as at 30 July 2005.

In the event that employees forfeit shares on resignation, all gains net of the book value of \$1.22 per share at 30 July 2005 vest with the employee. Conversely if the shares are forfeited and sold below the book value, the loss on sale is borne by the Company.

### (c) Litigation

The Consolidated Entity is a defendant from time to time in legal proceedings. Where appropriate, the Consolidated Entity takes legal advice. The Consolidated Entity does not consider that the outcome of any current proceedings is likely to have a material effect on its operations or financial position.

### 30. CONTINGENT LIABILITIES – continued

#### (d) Finance Facilities

A controlled entity, David Jones Finance Pty Limited, is the borrower of certain finance facilities. The borrowings of David Jones Finance Pty Limited are guaranteed by the Company and each of its controlled entities.

#### (e) Deed of Cross Guarantee

Pursuant to ASIC Class order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the Corporations Act requirements for preparation, audit, and lodgement of financial reports, and directors' reports.

It is a condition of the Class Order that the Company and each of the participating subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed, dated 22 March 2005, is that the Company guarantees to each creditor, payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act. If a winding up occurs under other provisions of the Corporations Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- David Jones Financial Services Limited
- David Jones Finance Pty Limited
- 299–307 Bourke Street Pty Limited
- David Jones Properties Pty Limited

#### (f) Sale and Leaseback Arrangement

Contingent liabilities in relation to a sale and leaseback arrangement are shown in Note 29.

	CONSOLIDATED		DAVID JONES LIMITED	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000

### 31. COMMITMENTS FOR EXPENDITURE

#### Capital Commitments

Commitments for the acquisition of plant, fittings, and fixtures contracted for at the reporting date but not recognised as liabilities in the financial statements, payable:

	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
Within one year	<b>14,162</b>	41,672	<b>14,162</b>	41,672
Later than one year but not later than five years	<b>575</b>	27,000	<b>575</b>	27,000
Later than five years	–	–	–	–
	<b>14,737</b>	68,672	<b>14,737</b>	68,672

#### Operating Lease Commitments

Future operating lease rentals not provided for in the financial statements and payable:

	2005	2004	2005	2004
Within one year	<b>89,102</b>	85,665	<b>89,102</b>	85,648
Later than one year but not later than five years	<b>373,989</b>	361,142	<b>373,989</b>	361,142
Later than five years	<b>1,719,803</b>	1,770,330	<b>1,719,803</b>	1,770,330
	<b>2,182,894</b>	2,217,137	<b>2,182,894</b>	2,217,120

The Consolidated Entity lease retail premises and warehousing facilities. Generally the operating lease agreements are for an initial average term of 23 years and include renewal options. Under most leases, the Consolidated Entity is responsible for property taxes, insurance, maintenance and expenses related to the leased properties.

The operating lease commitments set out above comprise base rental payments plus agreed percentage increases, and contingent rental payments. Contingent rentals are calculated as a percentage of the turnover of the store occupying the premises with the percentage and turnover threshold at which the additional rentals commence varying with each lease agreement.

Further details in relation to operating leases of retail properties at Bourke Street, Melbourne and Elizabeth and Market Streets, Sydney are disclosed in Note 29(a).

## 32. REMUNERATION AND EXECUTIVE DISCLOSURES

The Company has applied the exemption under Corporations Amendments Regulation 2005 which exempts listed companies from providing certain remuneration disclosures in relation to their specified directors and specified executives in their annual financial reports as required by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities. These remuneration disclosures are provided on pages 46 to 49 of the Remuneration Report.

### (a) Share Based Compensation

All options refer to options over ordinary shares of David Jones Limited, which are exercisable on a one-for-one basis.

#### (i) Options over Ordinary Shares Granted as Remuneration

During the period, there were no options over ordinary shares granted as remuneration to Directors or Specified Executives.

#### (ii) Ordinary Shares Allocated and Rights Granted over Ordinary Shares as Remuneration Under the LTI Plan.

The following ordinary shares have been allocated and rights over ordinary shares granted under the LTI Plan:

	Number of LTI Plan Rights			
	Opening Balance at 31 July 2004	Granted during the period <sup>1</sup>	Vested during the period <sup>2</sup>	Outstanding at 7 October 2005
<b>Directors</b>				
Mark McInnes	988,965	1,547,230	(1,191,667)	1,344,528
Stephen Goddard	716,495	552,746	(659,722)	609,519
<b>Specified Executives</b>				
Colette Garnsey	628,078	177,551	(389,722)	415,907
Patrick Robinson	628,078	177,551	(389,722)	415,907
Paul Zahra	592,878	177,551	(354,522)	415,907
Damian Eales	164,645	174,181	(87,847)	250,979
Peter Helson	163,138	34,821	(118,333)	79,626

<sup>1</sup> The number of rights granted is based on the achievement of performance measures at a stretch level. In accordance with the LTI Plan rules, the number of ordinary shares which may be allocated is dependent on Company and individual performance and can range from zero to the maximum number shown above.

<sup>2</sup> Includes LTI Plan allocation on 28 September 2004 and 28 September 2005.

#### (iii) Exercise of Options Granted as Remuneration

No Non-Executive Director holds options over ordinary shares.

### (b) Equity Holdings of Directors and Specified Executives

#### (i) LTI Plan Rights

The movement during the period in the number of LTI Plan rights over ordinary shares in the Company held, directly, indirectly or beneficially, by each Director and Specified Executive, including their personally-related entities, is as follows:

	Number of LTI Plan Rights				
	Balance at 31 July 2004	Granted as Remuneration <sup>1</sup>	Vested during the year	Balance at 30 July 2005	Total not Vested at 30 July 2005
<b>Directors</b>					
Robert Savage	—	—	—	—	—
John Coates	—	—	—	—	—
Mark McInnes	988,965	1,547,230	(150,000)	2,386,195	2,386,195
Stephen Goddard	716,495	552,746	(187,500)	1,081,741	1,081,741
Reginald Clairs	—	—	—	—	—
Paula Dwyer	—	—	—	—	—
John Harvey	—	—	—	—	—
Katie Lahey	—	—	—	—	—
<b>Specified Executives</b>					
Colette Garnsey	628,078	177,551	(67,500)	738,129	738,129
Patrick Robinson	628,078	177,551	(67,500)	738,129	738,129
Paul Zahra	592,878	177,551	(32,300)	738,129	738,129
Damian Eales	164,645	174,181	—	338,826	338,826
Peter Helson	163,138	34,821	(60,000)	137,959	137,959
<b>Total</b>	<b>3,882,277</b>	<b>2,841,631</b>	<b>(564,800)</b>	<b>6,159,108</b>	<b>6,159,108</b>

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**32. REMUNERATION AND EXECUTIVE DISCLOSURES – continued**

**(b) Equity Holdings of Directors and Specified Executives – continued**

(i) LTI Plan Rights – continued

The movement for the 2004 financial year is shown below:

	Number of LTI Plan Rights			
	Balance at 26 July 2003	Granted as Remuneration <sup>1</sup>	Balance at 31 July 2004	Total not Vested at 31 July 2004
<b>Directors</b>				
Robert Savage	–	–	–	–
John Coates	–	–	–	–
Mark McInnes	150,000	838,965	988,965	988,965
Stephen Goddard	187,500	528,995	716,495	716,495
Reginald Clairs	–	–	–	–
Paula Dwyer	–	–	–	–
John Harvey	–	–	–	–
Katie Lahey	–	–	–	–
<b>Specified Executives</b>				
Colette Garnsey	67,500	560,578	628,078	628,078
Patrick Robinson	67,500	560,578	628,078	628,078
Paul Zahra	32,300	560,578	592,878	592,878
Teresa Gallo	97,500	170,715	268,215	268,215
Peter Helson	60,000	103,138	163,138	163,138
<b>Total</b>	<b>662,300</b>	<b>3,323,547</b>	<b>3,985,847</b>	<b>3,985,847</b>

All LTI Plan rights expire on the earlier of their expiry date or termination of the individual's employment. Additional information is disclosed in the Directors' Report: Remuneration Report 4.4(b)

Non-Executive Directors are not eligible to participate in the LTI Plan.

<sup>1</sup> The number of rights granted is based on the achievement of performance measures at a stretch level. In accordance with the LTI Plan rules the actual number of shares which may be allocated is dependent on Company and individual performance and can range from zero to the maximum number shown above.

(ii) Shareholdings

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each Director and Specified Executive, including their personally-related entities, is as follows:

	Number of Ordinary Shares					
	Balance at 31 July 2004	Granted as Remuneration <sup>1</sup>	Allocated under LTI Plan	Options Exercised under EOP	Other Changes <sup>2</sup>	Balance at 30 July 2005
<b>Directors</b>						
Robert Savage	61,804	1,865	–	–	–	63,669
John Coates	38,589	–	–	–	–	38,589
Mark McInnes	–	–	150,000	800,000	(800,000)	150,000
Stephen Goddard	225	–	187,500	800,000	(800,000)	187,725
Reginald Clairs	148,621	7,456	–	–	–	156,077
Paula Dwyer	30,000	–	–	–	–	30,000
John Harvey	30,000	–	–	–	–	30,000
Katie Lahey	17,554	–	–	–	–	17,554
<b>Specified Executives</b>						
Colette Garnsey	–	–	67,500	300,000	(300,000)	67,500
Patrick Robinson	1,235	–	67,500	300,000	(300,000)	68,735
Paul Zahra	225	–	32,300	150,000	(150,000)	32,525
Damian Eales	–	–	–	–	–	–
Peter Helson	2,591	–	60,000	300,000	–	362,591
<b>Total</b>	<b>330,844</b>	<b>9,321</b>	<b>564,800</b>	<b>2,650,000</b>	<b>(2,350,000)</b>	<b>1,204,965</b>

### 32. REMUNERATION AND EXECUTIVE DISCLOSURES – continued

#### (b) Equity Holdings of Directors and Specified Executives – continued

##### (ii) Shareholdings – continued

The movement for the 2004 financial year is shown below:

	Balance at 26 July 2003	Granted as Remuneration <sup>1</sup>	Other Changes <sup>2</sup>	Balance at 31 July 2004
<b>Directors</b>				
Robert Savage	39,326	2,478	20,000	61,804
John Coates	38,589	–	–	38,589
Mark McInnes	–	–	–	–
Stephen Goddard	225	–	–	225
Reginald Clairs	138,711	9,910	–	148,621
Paula Dwyer	–	–	30,000	30,000
John Harvey	30,000	–	–	30,000
Katie Lahey	17,554	–	–	17,554
<b>Specified Executives</b>				
Colette Garnsey	–	–	–	–
Patrick Robinson	1,235	–	–	1,235
Paul Zahra	225	–	–	225
Teresa Gallo	–	–	–	–
Peter Helson	2,591	–	–	2,591
<b>Total</b>	<b>268,456</b>	<b>12,388</b>	<b>50,000</b>	<b>330,844</b>

<sup>1</sup> Includes shares acquired through the David Jones Limited Deferred Employee Share Plan

<sup>2</sup> Purchased/(sold) on-market

All equity transactions with Directors and Specified Executives, other than those arising from the exercise of options granted as remuneration, have been entered into under terms and conditions no more favourable than those that would have been adopted if the Company was dealing on an arm's length basis.

##### (iii) Options

There are no options held, directly or indirectly, by directors and specified executives at 30 July 2005. All options outstanding at 31 July 2004 have been exercised during the period as disclosed in Note 32(b)(ii) above.

#### (c) Loans to Directors and Specified Executives

There are no loans outstanding to Directors and Specified Executives.

#### (d) Other Transactions and Balances with Directors and Specified Executives

From time to time Directors may purchase goods from the Company. These purchases are on the same terms and conditions as those entered into by senior management.

	CONSOLIDATED		DAVID JONES LIMITED	
	2005	2004	2005	2004

### 33. EMPLOYEE ENTITLEMENTS

#### (a) Employee Numbers

Number of staff employed at balance date	<b>8,426</b>	9,061	<b>8,426</b>	9,059
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#### (b) Provision for Entitlements

Current (\$000)	<b>8,503</b>	9,014	<b>8,503</b>	8,976
Non-current (\$000)	<b>19,668</b>	18,787	<b>19,668</b>	18,787

The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following assumptions:

Assumed increase in wage and salary rates	<b>4.0%</b>	4.0%	<b>4.0%</b>	4.0%
Discount rate	<b>5.2%</b>	5.7%	<b>5.2%</b>	5.7%
Settlement term (years)	<b>10</b>	15	<b>10</b>	15

### **33. EMPLOYEE ENTITLEMENTS – continued**

#### **(c) Employee Share Plans**

The Company has four employee share ownership plans, an Executive Option Plan and the LTI Plan.

##### **(i) The Employee Share Plan (ESP)**

The ESP provides employees with an interest free loan to enable the purchase of ordinary shares in the Company. Shares under the ESP have been acquired by a trustee on behalf of employees. Dividends and other distributions on the shares are applied to repay the loan. Vesting to the employee in the ordinary course of business is three years after issue. Each shareholder loan is limited in recourse to the proceeds on sale of the shares acquired.

The ESP is divided into a General and Executive division.

##### *General Division*

This division was open to all full-time and permanent part-time employees with more than twelve months' continuous service and casual employees whose service was deemed by the Company to be more than five years' continuous service. The Company had discretion to offer shares to particular employees with lesser periods of service. In 1995 each eligible employee received between 500 and 5,000 shares, depending upon their position within the Company.

A total of 2,571,500 shares (\$5,143,000) were issued under the initial offer to employees under this division of the ESP on 27 November 1995. Since that date, 2,020,000 (2004: 1,912,500) shares have been either forfeited by employees and sold by the Trustee or the shares have been transferred to the employees on repayment of the loan, leaving a balance of 551,500 shares (2004: 659,000) allocated to employees at balance date. No shares have been issued under the general division since the initial offer.

During the financial year the trustee sold 80,500 shares (2004: 79,000 shares) for \$101,802 (2004: \$97,150) resulting in a loss to the Company of \$nil (2004: \$210). The losses incurred in the prior period represent the difference between the share purchase price of \$2.00 per share less any dividends and returns of capital received on those shares, and the sale price of the shares received by the Trustee. All losses together with the costs of administering the ESP are charged to profit as incurred. During the year, 27,000 shares (2004: 14,000) were transferred to employees on repayment of loans of \$34,523 (2004: \$15,964).

The market value at balance date of each ordinary share in the Company issued to employees was \$2.08 (2004: \$1.89).

The average loan value per share at balance date to employees was \$1.22 (2004: \$1.30).

##### *Executive Division*

No shares under the Executive Division remain on issue to executives as they have all been forfeited by executives and sold by the Trustee.

##### **(ii) The Employee Share Purchase Plan (ESPP)**

The ESPP was established to enable employees to acquire ordinary shares in the Company on an annual basis at a discount to the prevailing market price, subject to certain conditions. The Company did not provide loans to assist employees to purchase shares under this plan. No shares (2004: nil) have been issued under this plan at balance date.

The ESP and ESPP employee share ownership plans are being phased out and have been replaced by the Exempt Employee Share Plan and Deferred Employee Share Plan, each of which was submitted to and approved by shareholders at the Annual General Meeting held on 23 November 1998.

##### **(iii) Exempt Employee Share Plan (EESP)**

The EESP provides eligible employees the opportunity to acquire an ownership interest in the Company. The EESP is designed to attract a tax concession provided under Australian income tax legislation to encourage share incentive plans.

Eligible employees may be offered up to \$1,000 worth of the Company's ordinary shares each year, provided specific financial and qualitative corporate objectives are met to the satisfaction of the Board. No shares were issued to eligible employees during the period and no shares were purchased by the Trustee on behalf of participants under the Plan.

Shares acquired under the offer must remain in the EESP until the earlier of three years after allocation, or termination of employment of the participant.

The Plan Trustee will use funds it receives from the Company to either subscribe to a new issue of shares in the Company on behalf of the participating employees or purchase shares on the Australian Stock Exchange on behalf of the participating employees. These shares will be registered in the name of the Plan Trustee on behalf of the EESP participants.

No voting rights will be exercised in relation to the shares held in the EESP unless instructions are received from a participating employee to vote in respect of his or her shares.

Non-Executive Directors of the Company are not eligible to participate in the EESP.

### **33. EMPLOYEE ENTITLEMENTS – continued**

#### **(c) Employee Share Plans – continued**

##### **(iv) Deferred Employee Share Plan (DESP)**

The DESP enables Directors, senior executives, management and other employees invited by the Board to participate in the DESP to acquire ordinary shares in the Company.

The DESP is a voluntary plan to provide greater choice for eligible employees in the way they receive their remuneration.

The DESP is designed to access the available taxation deferral concession legislated by the Federal Government to encourage employees to become shareholders in employer companies.

The Plan Trustee will acquire shares in the Company in the ordinary course of trading on the Australian Stock Exchange on behalf of DESP participants, using funds allocated by the Company from its remuneration budget.

There is no additional cost to the Company as a result of the operation of the DESP (other than administrative and establishment costs) as the cost of the shares is funded from base pay and incentives payable within the Company's approved annual remuneration budget.

No voting rights will be exercised in relation to the shares held in the plans unless instructions are received from a participating employee to vote in respect of his or her shares.

Under the rules of the DESP the Board may impose performance, vesting and any other conditions before shares can be withdrawn from the DESP by a participant.

When a participating employee's employment ends, he or she will receive the Company's shares held on his or her behalf except for:

- where relevant requirements have been imposed, these requirements have not been met; or
- where an employee has been dismissed as a result of that employee's fraud or wrongful conduct, in which case the Board has the discretion to require forfeiture of any shares under the DESP.

The Trustee purchased 55,998 (2004: 84,169) shares on behalf of participants under the DESP during the year.

##### **(v) Options**

###### *Executive Option Plan (EOP)*

The EOP provides to eligible employees an opportunity to acquire an ownership interest in the Company.

Under the EOP, eligible employees were offered options to acquire shares in the Company at a specified price. Such options will be exercisable on a specified date, at the greater of the market value of shares at date of grant or 20 cents.

Unexercised options lapse no later than five years after the date of grant.

In the absence of special circumstances, each issue of options under the EOP must be held for at least twenty-four months and after this period has elapsed they may only be exercised if the Company's performance is equal to or greater than the performance hurdles described below:

- over a three-month period the median DJL Accumulation Index is equal to, or greater than, the median Mid-Cap 50 Industrials Accumulation Index; and

- at the date of exercise, the closing price of fully paid ordinary shares in the capital of the Company on the Australian Stock Exchange is 15% or greater above the market value of the Company's shares at the date of grant. The DJL Accumulation Index measures the performance of the Company's shares on the basis of realised returns to shareholders of the Company in the form of share price growth, dividends paid and reinvested.

The Mid-Cap 50 Industrials Accumulation Index measures the performance of shares of companies included in this index on the basis of returns to shareholders of those companies in the form of share price growth, dividends paid and reinvested.

All options expire on the earlier of their expiry date or (as applicable):

- the date which is six months after the occurrence of a special circumstance, which includes retirement, redundancy, death or permanent disability of the eligible employee, or other such circumstances that the Board may determine to be a special circumstance; or
- the date of termination of employment of the eligible employee (other than due to the occurrence of a special circumstance).

An independent valuation of each tranche of options at their respective grant dates has been performed by PricewaterhouseCoopers (PwC).

In undertaking the valuation of the options, PwC have used the binomial option pricing model which takes into account factors such as the Company's closing share price at the date of grant, volatility of the underlying share price, risk free rate of return, dividend yield and time to maturity.

The value determined by PwC represents the indicative fair market value of each option at grant date on a non-marketable controlling basis.

No further options are intended to be granted under the EOP as this plan has been replaced by the LTI Plan.

# NOTES TO THE FINANCIAL STATEMENTS

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## 33. EMPLOYEE ENTITLEMENTS – continued

### (c) Employee Share Plans – continued

Set out below are summaries of options granted under the EOP.

Grant Date	Expiry Date	Exercise Price	Balance at Start of the Year	Issued During the Year	Exercised During the Year	Lapsed During the Year	Balance at End of the Year <sup>1</sup>
<b>Consolidated and David Jones Limited – 2005</b>							
16 December 1999	16 December 2004	\$1.4047	2,145,000	–	2,145,000	–	–
16 January 2001	16 January 2006 <sup>2</sup>	\$1.3280	2,070,000	–	1,795,000	–	275,000
			<b>4,215,000</b>	<b>–</b>	<b>3,940,000</b>	<b>–</b>	<b>275,000</b>

<sup>1</sup> No options were issued nor did any options lapse during the financial year.

<sup>2</sup> Subsequent to 30 July 2005 40,000 options have been exercised.

### Consolidated and David Jones Limited – 2004

17 December 1998	17 December 2003	\$1.5700	2,190,000	–	–	2,190,000	–
16 December 1999	16 December 2004	\$1.4047	2,465,000	–	200,000	120,000	2,145,000
16 January 2001	16 January 2006	\$1.3280	2,700,000	–	395,000	235,000	2,070,000
			7,355,000	–	595,000	2,545,000	4,215,000

## 33. EMPLOYEE ENTITLEMENTS – continued

### (c) Employee Share Plans – continued

Options exercised during the financial year and number of shares issued to employees on the exercise of options

Exercise Date	Fair Value of Shares at Issue Date	CONSOLIDATED		DAVID JONES LIMITED	
		2005 Number	2004 Number	2005 Number	2004 Number
13 April 2004	\$1.577	–	40,000	–	40,000
20 April 2004	\$1.600	–	80,000	–	80,000
07 May 2004	\$1.624	–	40,000	–	40,000
19 May 2004	\$1.591	–	75,000	–	75,000
01 June 2004	\$1.591	–	40,000	–	40,000
22 June 2004	\$1.624	–	80,000	–	80,000
02 July 2004	\$1.648	–	80,000	–	80,000
08 July 2004	\$1.698	–	80,000	–	80,000
23 July 2004	\$1.863	–	40,000	–	40,000
30 July 2004	\$1.899	–	40,000	–	40,000
28 September 2004	\$1.963	<b>2,210,000</b>	–	<b>2,210,000</b>	–
29 September 2004	\$1.922	<b>490,000</b>	–	<b>490,000</b>	–
05 October 2004	\$1.937	<b>75,000</b>	–	<b>75,000</b>	–
07 October 2004	\$1.981	<b>340,000</b>	–	<b>340,000</b>	–
12 October 2004	\$1.922	<b>310,000</b>	–	<b>310,000</b>	–
27 October 2004	\$1.988	<b>80,000</b>	–	<b>80,000</b>	–
02 November 2004	\$1.944	<b>40,000</b>	–	<b>40,000</b>	–
08 November 2004	\$1.997	<b>80,000</b>	–	<b>80,000</b>	–
10 November 2004	\$2.052	<b>40,000</b>	–	<b>40,000</b>	–
11 November 2004	\$2.138	<b>80,000</b>	–	<b>80,000</b>	–
12 November 2004	\$2.142	<b>75,000</b>	–	<b>75,000</b>	–
17 November 2004	\$2.181	<b>40,000</b>	–	<b>40,000</b>	–
23 November 2004	\$2.132	<b>40,000</b>	–	<b>40,000</b>	–
22 July 2005	\$2.120	<b>40,000</b>	–	<b>40,000</b>	–
		<b>3,940,000</b>	595,000	<b>3,940,000</b>	595,000
Options vested at the reporting date		<b>275,000</b>	4,215,000	<b>275,000</b>	4,215,000

### 33. EMPLOYEE ENTITLEMENTS – continued

#### (c) Employee Share Plans – continued

##### (v) Options – continued

	CONSOLIDATED		DAVID JONES LIMITED	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
Aggregate proceeds received from employees on the exercise of options and recognised as issued capital	<b>5,397</b>	806	<b>5,397</b>	806
Fair value of shares issued to employees on the exercise of options as at their issue date	<b>7,762</b>	987	<b>7,762</b>	987

The fair value of shares issued on the exercise of options is the weighted average price at which the Company's shares were traded on the Australian Stock Exchange on the day prior to the exercise of the options.

##### (vi) LTI Plan

The LTI Plan provides remuneration that is aligned to the interests of shareholders and is designed to attract and retain key senior employees.

All offers are made subject to the terms of the LTI Plan Rules, which confer various powers on the Board, including without limitation the right to waive or reduce relevant requirements governing a participant's entitlements to shares, and to add to or vary any of the Plan Rules, or waive or vary their application to a participant, subject to the requirements of the Australian Stock Exchange.

An offer under the LTI Plan grants an individual the right to a certain number of ordinary shares in the Company which may vest and be convertible into shares, conditional on the achievement of performance measures covering a three year consecutive period and continued employment beyond this time.

The actual number of shares, if any, finally provided to participants will depend on the extent to which a range of performance measures are met. It is possible for each nominated participant to be allocated either no shares (if none of the performance measures are met), or anywhere between 50% (threshold level) to 150% (stretch level) of their initial offered amount, depending on the level of achievement against the performance measures.

An independent valuation of rights to shares granted to executives under the LTI Plan has been performed by PricewaterhouseCoopers (PwC).

In undertaking the valuation of the rights, PwC has used the modified binomial option model which takes into account factors such as the Company's closing share price at the date of grant, volatility of the underlying share price, risk free rate of return, dividend yield, zero exercise price and time to maturity. Vesting conditions have not been taken into account when estimating the fair value of the LTI Plan rights. These conditions are accounted for by adjusting the number of equity instruments that are expected to vest.

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## 33. EMPLOYEE ENTITLEMENTS – continued

### (c) Employee Share Plans – continued

#### (vi) LTI Plan – continued

Movements in the LTI Plan are summarised below:

Offer Description/ Performance Period	Date of Grant	Expiry Date	Number of LTI Plan Rights				Balance at End of the Year	Fair Value Per LTI Plan Right at Grant Date
			Balance at Start of the Year	Granted During Period	Lapsed During Period	Allocated During Period		
<b>Consolidated and David Jones Limited – 2005</b>								
02–04 OFFER								
1 August 2003 – 31 July 2004	30 August 2002	31 July 2004	1,212,000	–	–	1,212,000	–	\$0.96
03–05 OFFER								
3 February 2003 – 31 July 2005	8 July 2004	31 July 2005	2,231,708	–	–	–	2,231,708	\$1.64
03–05 SUPPLEMENTARY OFFER								
3 February 2003 – 31 July 2005	26 November 2004	31 July 2005	–	648,149	–	–	648,149	\$2.53
04–06 OFFER								
1 August 2003 – 31 July 2006	8 July 2004	31 July 2006	1,823,149	68,921	–	–	1,892,070	\$1.44
04–06 SUPPLEMENTARY OFFER								
1 August 2003 – 31 July 2006	26 November 2004	31 July 2006	–	462,543	–	–	462,543	\$2.00
05–07 OFFER								
1 August 2004 – 31 July 2007	26 November 2004	31 July 2007	–	695,153	–	–	695,153	\$1.86
<b>Consolidated and David Jones Limited – 2004</b>								
02–04 OFFER								
1 August 2003 – 31 July 2004	30 August 2002	31 July 2004	1,300,000	–	88,000	–	1,212,000	\$0.96
03–05 OFFER								
3 February 2003 – 31 July 2005	8 July 2004	31 July 2005	–	2,251,499	19,791	–	2,231,708	\$1.64
04–06 OFFER								
1 August 2003 – 31 July 2006	8 July 2004	31 July 2006	–	1,855,512	32,363	–	1,823,149	\$1.44

### 33. EMPLOYEE ENTITLEMENTS – continued

#### (c) Employee Share Plans – continued

(vi) LTI Plan – continued

	CONSOLIDATED		DAVID JONES LIMITED	
	2005 Number	2004 Number	2005 Number	2004 Number
Shares issued under the plan to participating employees on 28 September 2004	<b>1,212,000</b>	–	<b>1,212,000</b>	–

On 28 September 2004, the weighted average market price of shares issued to participants was \$1.96.

#### (d) Superannuation

The Company contributes to several defined contributions superannuation plans.

All superannuation contributions are made in accordance with the relevant trust deeds and the Superannuation Guarantee Charge.

	Note	Class of Share	INTEREST HELD	
			2005 %	2004 %

### 34. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

#### Parent Entity:

David Jones Limited

#### Controlled Entities:

Aherns Holdings Pty Ltd (investor)		Ordinary	<b>100</b>	100
Ahern's (Suburban) Pty Ltd (retailer)	(i)	Ordinary	<b>100</b>	100
Akitin Pty Limited (investor)		Ordinary	<b>100</b>	100
Helland Close Pty Limited (liquor licence holder)		Ordinary	<b>100</b>	100
299–307 Bourke Street Pty Limited (property owner)	(ii)	Ordinary	<b>100</b>	100
David Jones Credit Pty Limited (investor)		Ordinary	<b>100</b>	100
John Martin Retailers Pty Limited (non-operating)		Ordinary	<b>100</b>	100
David Jones Financial Services Limited (financial services)		Ordinary	<b>100</b>	100
David Jones Insurance Agency Pty Limited (financial services)		Ordinary	<b>100</b>	100
David Jones Finance Pty Limited (finance company)		Ordinary	<b>100</b>	100
David Jones (Adelaide) Pty Limited (investor)	(iii)	Ordinary	<b>100</b>	100
Buckley & Nunn Pty Limited (investor)				
David Jones Properties (South Australia) Pty Limited (investor)		Ordinary	<b>100</b>	100
David Jones Properties (Victoria) Pty Limited (property owner)		Ordinary	<b>100</b>	100
David Jones Properties (Queensland) Pty Limited (property owner)		Ordinary	<b>100</b>	100
Speertill Pty Limited (liquor licence holder)		Ordinary	<b>100</b>	100
David Jones Properties Pty Limited (property owner)		Ordinary	<b>100</b>	100
David Jones Employee Share Plan Pty Limited (corporate trustee)		Ordinary	<b>100</b>	100
David Jones Share Plans Pty Limited (corporate trustee)		Ordinary	<b>100</b>	100
David Jones Superannuation Fund Pty Limited (corporate trustee)	(iv)	Ordinary	<b>100</b>	100

(i) Issued capital is owned by Aherns Holdings Pty Ltd.

(ii) Issued capital is owned by David Jones Finance Pty Limited.

(iii) Issued capital of the entity is owned 50% by David Jones Limited and 50% by David Jones Properties (South Australia) Pty Limited.

(iv) Placed in Members' Voluntary Liquidation on 20 March 2003 following completion of transfer of members' balances to a Master Trust arrangement in 2002.

All controlled entities are incorporated in Australia and carry on business in their country of incorporation.

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## 35. RELATED PARTY TRANSACTIONS

### (a) Transactions between Directors and David Jones Limited

- (i) From time to time Directors may purchase goods from the Company. These purchases are on the same terms and conditions as those entered into by senior management.
- (ii) Details of indemnification and insurance of Directors and officers are disclosed in the Directors' Report.

### (b) Interest in Controlled Entities

Information relating to controlled entities is set out in Notes 3, 6, 10, 14, 21, 30, 34 and 35.

### (c) Superannuation Plans

Information relating to superannuation plans is set out in Note 33(d).

### (d) Other Related Party Transactions

- (i) Interest on borrowings between entities is charged at commercial rates (refer Note 3).
- (ii) Rent on properties owned by the Consolidated Entity is paid by the relevant operating retail company at commercial rates. Rentals for the 52 weeks ended 30 July 2005 amounted to \$2,719,871 (2004: \$2,647,220).

	Notes	CONSOLIDATED		DAVID JONES LIMITED	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000

## 36. NOTES TO STATEMENTS OF CASH FLOWS

### (a) Financing Facilities

Access to the following lines of credit was available at balance date:

<b>Total facilities</b>	(i)				
Overdraft and trade finance facility	(ii)	<b>27,500</b>	27,500	<b>27,500</b>	27,500
Term loans	(iii)	–	150,000	–	–
Working capital facility	(iv)	<b>50,000</b>	–	–	–
Bank guarantees	(v)	<b>758</b>	843	<b>758</b>	843
		<b>78,258</b>	178,343	<b>28,258</b>	28,343
<b>Used at balance date</b>					
Overdraft and trade finance facility		<b>540</b>	2,548	<b>540</b>	2,548
Term loans		–	–	–	–
Working capital facility		–	–	–	–
Bank guarantees		<b>758</b>	843	<b>758</b>	843
		<b>1,298</b>	3,391	<b>1,298</b>	3,391
<b>Unused at balance date</b>					
Overdraft and trade finance facility		<b>26,960</b>	24,952	<b>26,960</b>	24,952
Term loans		–	150,000	–	–
Working capital facility		<b>50,000</b>	–	–	–
Bank guarantees		–	–	–	–
		<b>76,960</b>	174,952	<b>26,960</b>	24,952

(i) All facilities are denominated in Australian dollars, unsecured and subject to borrowing covenants which have been met.

(ii) The overdraft and trade finance facility are subject to annual review in February each year.

(iii) The term loan facility was cancelled on 1 July 2005.

(iv) The working capital facility is available for the period 15 October to 15 December each year until December 2006 to meet peak seasonal working capital requirements.

(v) The bank guarantee facility is available until November 2006.

(vi) In addition to the above facilities, the Consolidated Entity has entered into a receivables securitisation arrangement (refer Note 29(b)).

### 36. NOTES TO STATEMENTS OF CASH FLOWS – continued

	CONSOLIDATED		DAVID JONES LIMITED	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>(b) Reconciliation of Net Cash Provided by Operating Activities to Operating Profit after Income Tax</b>				
Operating profit/(loss) after income tax	<b>77,862</b>	65,329	<b>48,609</b>	44,029
Net loss on disposal of assets	<b>669</b>	145	<b>669</b>	145
Loss on loans to employees under Employee Share Plan	–	(7)	–	(7)
Add/(less) non-cash items:				
– depreciation	<b>32,871</b>	40,911	<b>32,547</b>	40,660
– amortisation	<b>1,873</b>	1,971	–	–
– asset write-down to recoverable amount	–	–	–	–
Net cash provided by operating activities before changes in assets and liabilities	<b>113,275</b>	108,349	<b>81,825</b>	84,827
Changes in assets and liabilities:				
Increase/(Decrease) in directors entitlements	<b>164</b>	(350)	<b>164</b>	(350)
Increase/(Decrease) in employee entitlements	<b>370</b>	40	<b>409</b>	34
Increase/(Decrease) in income tax payable	<b>(3,567)</b>	22,101	<b>(3,567)</b>	25,198
Increase/(Decrease) in provision for deferred tax	<b>(250)</b>	(63)	<b>(250)</b>	250
(Increase)/Decrease in future income tax benefit	<b>603</b>	(5,680)	<b>603</b>	(10,009)
(Increase)/Decrease in inventories	<b>16,992</b>	(16,650)	<b>16,992</b>	(16,576)
(Increase) in debtors and prepayments	<b>(1,473)</b>	(968)	<b>(5,379)</b>	1,193
Increase in deferred liabilities	<b>290</b>	1,819	<b>290</b>	1,819
Increase/Decrease in trade creditors	<b>(32,428)</b>	41,893	<b>(32,422)</b>	41,868
Increase in sundry creditors and accruals	<b>19,328</b>	16,494	<b>4,665</b>	15,867
<b>Net Cash Inflow from Operating Activities</b>	<b>113,304</b>	166,985	<b>63,330</b>	144,121

### 37. FINANCIAL INSTRUMENTS DISCLOSURE

#### (a) Interest Rate Risk

The Consolidated Entity generally enters into interest rate swaps and forward rate agreements to manage cash flow risks associated with the interest rates on borrowings that are floating.

Under the sale and leaseback arrangement, the Company also entered into thirty year opposite fixed interest rate swap contracts to enable the lessor to receive floating interest rates in respect of operating lease rentals (refer Note 29(a)).

#### Interest Rate Swaps and Forward Rate Agreements

Interest rate swaps allow the Consolidated Entity to swap floating rate borrowings into fixed rates, or swap fixed rate borrowings to floating rate. Maturities of swap contracts are principally between two and five years. Each contract involves monthly and/or quarterly payments or receipts of the net amount of interest, being the difference between fixed and floating interest rates.

At balance date the fixed rates varied from 4.73% to 4.74% (2004: 4.73% to 4.90%) and the floating rates were at bank bill rates plus the Consolidated Entity's credit margin. The weighted average effective floating interest rate (including credit margin) at balance date was nil % (2004: nil %), while the average effective rate of the fixed and floating components of the Consolidated Entity's borrowings also was nil % (2004: nil%).

The Consolidated Entity, from time to time, also enters into forward rate agreements to offset changes in the rates paid on short-term floating rate debt. There were no forward rate agreements outstanding at year end (2004: Nil).

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**37. FINANCIAL INSTRUMENTS DISCLOSURE – continued**

**(a) Interest Rate Risk – continued**

Interest Rate Exposures

The Consolidated Entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

	Floating Interest Rate \$000	Fixed Interest Maturing In			Non Interest Bearing \$000	Average Interest Rate %	
		1 Year or Less \$000	Over 1 Year to 5 Years \$000	More Than 5 Years \$000			Total \$000
<b>2005</b>							
<b>FINANCIAL ASSETS</b>							
Cash assets	137,000	-	-	-	10,245	147,245	5.56
Receivables	-	-	-	-	52,736	52,736	-
Other – prepayments	-	-	-	-	9,510	9,510	-
Interest rate swaps:							
– Sale and leaseback	279,000	-	-	279,000	-	558,000	8.40
– Other	32,500	-	-	-	-	32,500	7.58
	<b>448,500</b>	<b>-</b>	<b>-</b>	<b>279,000</b>	<b>72,491</b>	<b>799,991</b>	
<b>FINANCIAL LIABILITIES</b>							
Creditor payables	243,011	-	-	-	-	243,011	-
Dividend payable	-	-	-	-	2,173	2,173	8.10
Interest rate swaps:							
– Interest bearing liabilities	-	220,000	-	-	-	220,000	4.74
– Sale and leaseback	279,000	-	-	279,000	-	558,000	8.61
	<b>522,011</b>	<b>220,000</b>	<b>-</b>	<b>279,000</b>	<b>2,173</b>	<b>1,023,184</b>	
<b>2004</b>							
<b>FINANCIAL ASSETS</b>							
Cash assets	89,000	-	-	-	8,844	97,844	-
Receivables	-	-	-	-	48,708	48,708	-
Other – prepayments	-	-	-	-	12,261	12,261	-
Interest rate swaps:							
– Sale and leaseback	279,000	-	-	279,000	-	558,000	8.40
– Other	65,000	-	-	-	-	65,000	7.61
	433,000	-	-	279,000	69,813	781,813	
<b>FINANCIAL LIABILITIES</b>							
Creditor payables	255,691	-	-	-	-	255,691	-
Interest bearing liabilities	1,697	-	-	-	-	1,697	-
Dividend payable	-	-	-	-	2,625	2,625	8.10
Interest rate swaps:							
– Interest bearing liabilities	-	100,000	220,000	-	-	320,000	4.79
– Sale and leaseback	279,000	-	-	279,000	-	558,000	7.65
	536,388	100,000	220,000	279,000	2,625	1,138,013	

### 37. FINANCIAL INSTRUMENTS DISCLOSURE – continued

#### (b) Foreign Exchange Risks

The Consolidated Entity enters into forward foreign exchange contracts to hedge certain purchase commitments denominated in foreign currencies. The terms of these derivatives and commitments are less than one year.

The following table sets out the gross value to be paid under foreign currency contracts and the weighted average contracted exchange rates of contracts outstanding at balance date. All contracts expire within one year:

	EXCHANGE RATE		A\$'000	
	2005	2004	2005	2004
Buy United States Dollars	<b>0.7679</b>	0.6984	<b>5,633</b>	6,206
Buy English STG	<b>0.4141</b>	0.3901	<b>1,466</b>	1,684
Buy Hong Kong Dollars	<b>5.9580</b>	5.5891	<b>226</b>	309
Buy Euro	<b>0.5959</b>	0.5891	<b>16,009</b>	10,346
			<b>23,334</b>	18,545

As these contracts are hedging firm purchase commitments, any unrealised gains and losses on the contracts, together with the cost of the contracts, will be recognised in the financial statements at the time the underlying transaction occurs. The marked to market loss on the contracts at the reporting date was \$494,811 (2004: \$347,038 gain).

#### (c) Net Fair Values of Financial Assets and Liabilities

##### Financial Instruments in Statement of Financial Position

The carrying amounts of bank term deposits, prepayments, receivables, payables, borrowings and dividends payable approximate net fair value. These monetary financial assets and financial liabilities are included in assets and liabilities in the statement of financial position.

The loan to employees under the Employee Share Plan of \$671,065 (2004: \$869,766) is secured against the value of the Company's shares. At balance date the market value of the underlying shares was \$1,147,120, equivalent to \$2.08 per share (2004: \$1,249,290, equivalent to \$1.89 per share).

##### Financial Instruments not in Statement of Financial Position

The valuation of financial instruments not in the statement of financial position detailed below reflects the estimated amounts, which the Consolidated Entity expects to pay or receive to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates as at balance date.

The net fair values of financial instruments not in the statement of financial position held as at the reporting date were:

	2005	2004
	\$'000	\$'000
<b>NET RECEIVABLES/(PAYABLES)</b>		
Interest rate swaps		
– interest bearing liabilities	<b>1,773</b>	4,245
– sale and leaseback	<b>(7,470)</b>	(7,943)
– reset preference shares	<b>400</b>	384
Forward foreign exchange contracts	<b>(495)</b>	347
	<b>(5,792)</b>	(2,967)
Securitisation (see Note 29(b))		
The Consolidated Entity has entered into an agreement to sell credit card receivables		
Credit card receivables securitised as at balance date	<b>386,431</b>	395,226
Less: Securitisation receivable	<b>(31,829)</b>	(32,705)
Total amount funded	<b>354,602</b>	362,521
Excess yield earned	<b>41,217</b>	37,932
Weighted average rates	<b>5.30%</b>	5.17%

### 37. FINANCIAL INSTRUMENTS DISCLOSURE – continued

#### (d) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Credit card receivables are sold to an unrelated facility provider. The credit risk is limited to the over-collateralisation amount retained by the provider (refer Note 29(b) and Note 37(c)).

Credit risk on derivative contracts not in the statement of financial position is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Swap and foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks.

### 38. DEEDS OF CROSS GUARANTEE

David Jones Limited, David Jones Financial Services Limited, David Jones Finance Pty Limited, 299–307 Bourke Street Pty Ltd and David Jones Properties Pty Limited are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321, 01/1087, 02/0248 and 02/1017) issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by David Jones Limited, they also represent the 'Extended Closed Group'.

Set out below is a condensed consolidated statement of financial performance and a summary of movements in consolidated retained profits for the year ended 30 July 2005 of the Closed Group consisting of David Jones Limited, David Jones Financial Services Limited, David Jones Finance Pty Limited, 299–307 Bourke Street Pty Ltd and David Jones Properties Pty Limited:

	<b>2005</b>	2004
	<b>\$000</b>	\$000
<b>Condensed Statement of Financial Performance</b>		
Profit from ordinary activities before related income tax expense	<b>110,131</b>	93,301
Income tax expense	<b>(32,328)</b>	(27,335)
<b>Profit from ordinary activities after related income tax expense</b>	<b>77,803</b>	65,966
<b>Summary of movements in consolidated retained profits</b>		
Retained profits at the beginning of the year	<b>52,738</b>	24,980
Dividends paid	<b>(55,340)</b>	(38,208)
Net profit attributable to parties of the Closed Group	<b>77,803</b>	65,966
<b>Retained profits at the end of the year</b>	<b>75,201</b>	52,738

### 38. DEEDS OF CROSS GUARANTEE – continued

	2005 \$000	2004 \$000
<b>CURRENT ASSETS</b>		
Cash assets	147,245	97,844
Receivables	40,705	48,568
Inventories	289,198	306,190
Prepayments	5,489	7,332
<b>Total Current assets</b>	<b>482,637</b>	459,934
<b>NON-CURRENT ASSETS</b>		
Other financial assets	105,255	105,243
Plant, equipment and fittings	233,084	229,577
Deferred tax assets	39,117	39,720
Other assets	4,625	5,075
<b>Total non-current assets</b>	<b>382,081</b>	379,615
<b>Total assets</b>	<b>864,718</b>	839,549
<b>CURRENT LIABILITIES</b>		
Payables	293,290	289,358
Interest bearing liabilities	–	1,698
Current tax liabilities	21,631	25,198
Provisions	11,198	13,086
<b>Total current liabilities</b>	<b>326,119</b>	329,340
<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liabilities	–	250
Provisions	21,196	20,706
Other deferred liabilities	6,440	6,150
<b>Total Non-current liabilities</b>	<b>27,636</b>	27,106
<b>Total liabilities</b>	<b>353,755</b>	356,446
<b>Net assets</b>	<b>510,963</b>	483,103
<b>EQUITY</b>		
Contributed equity	435,762	430,365
Retained profits	75,201	52,738
<b>Total equity</b>	<b>510,963</b>	483,103

### 39. EVENTS SUBSEQUENT TO REPORTING DATE

#### Dividends

Dividends declared after 30 July 2005 are disclosed in Note 7.

#### International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005 the Consolidated Entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 40.

#### Executive Service Agreement

The Company entered into a new Executive Service Agreement with Mark McInnes, Chief Executive Officer and Executive Director on 2 August 2005. The remuneration disclosures in respect of this agreement that are required by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities are provided in Section 5.2 of the Remuneration Report.

#### Reset Preference Shares

Holder Conversion Notices received after 30 July 2005 for the conversion of reset preference shares into ordinary shares are disclosed in Note 26.

#### **40. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)**

For reporting periods beginning on or after 1 January 2005, the Consolidated Entity must comply with AIFRS as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements (Australian Generally Accepted Accounting Principles (AGAAP)) applicable for reporting periods ended 30 July 2005.

The Company has established a formal implementation project, monitored by the Audit Committee, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 31 July 2005.

##### **(a) Planning phase**

The planning phase has been completed and provided a high level overview of the impacts of conversion to AIFRS reporting on existing accounting and policies and procedures, systems and processes, business structures and staff.

##### **(b) Design phase**

The design phase has been completed and provided details of the changes required to existing accounting policies, procedures, systems and processes in order to transition to AIFRS.

##### **(c) Implementation phase**

The implementation phase has been completed and has identified the necessary changes to accounting and business procedures, processes and systems and operational training for staff. It has enabled the Company to generate the required disclosures of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (AASB 1) as it progresses through its transition of AIFRS.

##### **(d) Impact of transition to AIFRS**

The impact of transition to AIFRS, including the transitional adjustments disclosed in the reconciliations from current AGAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS that management expects to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the half year ending 28 January 2006). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and Consolidated Entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary; therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgment involved in the preparation of the reconciliations from current AGAAP to AIFRS; consequently, the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this note.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's and Consolidated Entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 July 2005 financial report;
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction; or
- changes to the Company's and Consolidated Entity's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations.

The rules for first time adoption of AIFRS are set out in AASB 1. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 August 2004. The standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. Details of the AASB 1 elections adopted are noted below.

The following pro forma statements of financial position, pro forma statements of financial performance and reconciliations outline the likely impacts on the current year financial position and results of the Company and Consolidated Entity had the financial statements been prepared using AIFRS, based on management's best estimates and the directors' accounting policy decisions current at the date of this financial report.

#### 40. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) – continued

##### (d) Impact of transition to AIFRS – continued

Statement of Financial Position  
As at 30 July 2005

	Note	CONSOLIDATED			DAVID JONES LIMITED		
		AGAAP Actual* \$000	AIFRS Adjust- ments \$000	AIFRS Pro Forma \$000	AGAAP Actual* \$000	AIFRS Adjust- ments \$000	AIFRS Pro Forma \$000
<b>CURRENT ASSETS</b>							
Cash assets		147,245	–	147,245	10,245	–	10,245
Receivables	(e)	52,736	353,931	406,667	20,398	(671)	19,727
Inventories	(f)	289,198	(14,819)	274,379	289,198	(14,819)	274,379
Prepayments		5,053	–	5,053	4,886	–	4,886
<b>Total current assets</b>		494,232	339,112	833,344	324,727	(15,490)	309,237
<b>NON-CURRENTS ASSETS</b>							
Other financial assets		12	–	12	105,255	–	105,255
Plant, equipment and fittings	(g)	233,084	(486)	232,598	232,993	(486)	232,507
Intangibles	(h)	8,432	1,873	10,305	–	–	–
Deferred tax assets	(i)	39,117	(39,117)	–	39,117	(39,117)	–
Other assets		4,458	–	4,458	4,457	–	4,457
<b>Total non-current assets</b>		285,103	(37,730)	247,373	381,822	(39,603)	342,219
<b>Total assets</b>		779,335	301,382	1,080,717	706,549	(55,093)	651,456
<b>CURRENT LIABILITIES</b>							
Payables	(e)	243,011	(11,428)	231,583	196,163	–	196,163
Interest bearing liabilities	(e)	–	366,030	366,030	–	–	–
Current tax liabilities		21,631	–	21,631	21,631	–	21,631
Provisions	(j)	11,198	3,098	14,296	11,198	3,098	14,296
<b>Total current liabilities</b>		275,840	357,700	633,540	228,992	3,098	232,090
<b>NON-CURRENT LIABILITIES</b>							
Deferred tax liabilities	(i)	–	489	489	–	489	489
Provisions	(k)	21,196	(894)	20,302	21,196	(894)	20,302
Other deferred liabilities	(l)	6,440	40,276	46,716	6,440	40,276	46,716
<b>Total non-current liabilities</b>		27,636	39,871	67,507	27,636	39,871	67,507
<b>Total liabilities</b>		303,476	397,571	701,047	256,628	42,969	299,597
<b>Net assets</b>	(o)	475,859	(96,189)	379,670	449,921	(98,062)	351,859
<b>EQUITY</b>							
Contributed entity	(e)	400,762	(671)	400,091	400,762	(671)	400,091
Retained profits & reserves	(n), (m)	75,097	(95,518)	(20,421)	49,159	(97,391)	(48,232)
<b>Total equity</b>	(o)	475,859	(96,189)	379,670	449,921	(98,062)	351,859

\* Reported financial position as at 30 July 2005.

# NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended  
30 July 2005 and 53 weeks  
ended 31 July 2004

**David Jones Limited  
and its controlled entities**

## 40. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) – continued

### (d) Impact of transition to AIFRS – continued

Statement of Financial Position

For the 52 weeks ended 30 July 2005

	CONSOLIDATED			DAVID JONES LIMITED		
	AGAAP Actual* \$000	AIFRS Adjust- ments \$000	AIFRS Pro Forma \$000	AGAAP Actual* \$000	AIFRS Adjust- ments \$000	AIFRS Pro Forma \$000
Revenue from sale of goods	1,799,123	459	1,799,582	1,799,123	459	1,799,582
Cost of Sales	(1,136,298)	7,959	(1,128,339)	(1,136,298)	7,959	(1,128,339)
Gross profit	662,825	8,418	671,243	662,825	8,418	671,243
Other revenue from ordinary activities	99,537	19,469	119,006	28,187	–	28,187
Employee benefits expenses	(302,162)	(5,374)	(307,536)	(302,122)	(5,374)	(307,496)
Lease and occupancy expenses	(165,487)	(7,996)	(173,483)	(168,429)	(7,996)	(176,425)
Depreciation, amortisation and recoverable amount write downs	(34,744)	1,853	(32,891)	(32,547)	(20)	(32,567)
Advertising, merchandising and visual expenses	(61,030)	(9,731)	(70,761)	(61,030)	(9,731)	(70,761)
Administration expenses	(29,626)	–	(29,626)	(30,445)	–	(30,445)
Borrowing costs	(2,165)	(19,469)	(21,634)	(823)	–	(823)
Carrying amount of assets sold	(28,684)	–	(28,684)	(2,601)	–	(2,601)
Other expenses from ordinary activities	(26,748)	–	(26,748)	(26,283)	–	(26,283)
<b>Profit from ordinary activities before Income Tax expense</b>	111,716	(12,830)	98,886	66,732	(14,703)	52,029
Income tax expense relating to ordinary activities	(33,854)	3,632	(30,222)	(18,123)	3,632	(14,491)
<b>Net Profit from ordinary activities after related income tax expense attributable to members of the parent entity</b>	77,862	(9,198)	68,664	48,609	(11,071)	37,538
<b>Total changes in equity from non-owner related transactions attributable to members of the parent entity</b>	77,862	(9,198)	68,664	48,609	(11,071)	37,538

\* Reported financial results for the year ended 30 July 2005.

### (e) Receivables

Credit card receivables

A difference in the interpretation of the consolidation and derecognition rules under the AIFRS and existing accounting standards will result in certain receivables in respect of David Jones' store card that are sold to a special purpose entity being consolidated.

On transition to AIFRS, the Consolidated Entity will recognise a receivables asset and corresponding liability of \$352.060 million (Company: \$Nil) as it is deemed to control those assets.

At 30 July 2005, the Consolidated Entity will recognise a receivables balance of \$354.602 million (Company: \$Nil), a liability of \$366.030 million (Company: \$Nil) and the net securitisation amount in payables will reduce by \$11.428 million (Company: \$Nil).

#### **40. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) – continued**

##### **(e) Receivables – continued**

###### **Employee share plan**

The Company operates an Employee Share Plan (ESP) whereby it provides interest free loans to selected employees to purchase shares in the Company. All shares acquired under the ESP are held by a wholly owned subsidiary of the Company as trustee of the share plan trust. Dividends paid by the Company are used to repay the loan (after payment of a portion of the dividends to the employee to cover any tax liabilities). The loans are limited recourse and if the employee elects not to repay the loan, the underlying shares are sold to recover the outstanding loan balances.

On transition to AIFRS, the assets and equity of the Consolidated Entity will reduce by \$0.870 million (Company: \$0.870 million). This represents the elimination of the employee receivables and the recording of shares, which will be disclosed as shares held in trust within the equity section of the balance sheet.

Under AIFRS, the adjustment for the Consolidated Entity relating to the ESP at 30 July 2005 will reduce to \$0.671 million (Company: \$0.671 million) due to the repayment of loan balances during the financial year.

##### **(f) Inventory**

The Company receives settlement discounts for the early payment of supplier invoices, supplier funded mark downs to assist with the clearance of inventory and supplier contributions towards advertising campaign costs.

AIFRS requires settlement discounts and rebates (including supplier funded markdowns) received from vendors to be recognised as a reduction of cost of sales (or inventory) unless the rebate represents a reimbursement of a specific, incremental, identifiable cost incurred by the entity in selling the vendors products. Such a rebate is recognised as a reduction of that cost. If the amount of the rebate credited or paid by the supplier exceeds the cost being reimbursed, AIFRS requires that the excess shall be deducted in determining the cost of inventories.

On transition to AIFRS, the Consolidated Entity will recognise a reduction in inventory of \$13.284 million (Company: \$13.284 million), a deferred tax asset of \$3.985 million (Company: \$3.985 million) and a reduction to opening retained earnings of \$9.299 million (Company: \$9.299 million).

For the financial year ended 30 July 2005, inventory will decrease by \$1.535 million (Company: \$1.535 million), resulting in an increase in the deferred tax asset of \$0.461 million (Company: \$0.461 million) and a reduction to retained earnings of \$1.074 million (Company: \$1.074 million).

##### **(g) Plant, Equipment and Fittings**

###### **Research and development**

AIFRS requires that all expenditure on research activities in relation to a project is expensed as incurred. Previously this expenditure was capitalised if it was expected, beyond reasonable doubt, to be recoverable.

The written down value of assets that have previously been capitalised up to 31 July 2004 by the Consolidated Entity of \$0.280 million (Company: \$0.280 million) will be written off, retained earnings will be reduced by \$0.196 million (Company: \$0.196 million) and a deferred tax asset of \$0.084 million (Company: \$0.084 million) recognised.

For the financial year ended 30 July 2005 the Consolidated Entity will write off assets with a written down value of \$0.260 million (Company: \$0.260 million), recognise a deferred tax asset of \$0.078 million (Company: \$0.078 million) and reduce retained earnings by \$0.182 million (Company: \$0.182 million).

###### **Lease make good costs**

The Company has certain operating leases that require the asset to be returned to the lessor in its original condition. The operating lease payments do not include an element for repairs or overhauls.

Under AGAAP, lease make good costs are not recognised until it is probable that the expenditure will be incurred, whereas under AIFRS a provision for make good costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

On transition to AIFRS, the Consolidated Entity will recognise a liability of \$2.151 million (Company: \$2.151 million), a reduction in retained earnings of \$2.077 million (Company: \$2.077 million), and a lease make good asset of \$0.074 million (Company: \$0.074 million).

For the financial year ended 30 July 2005, the lease make good liability will increase by \$0.152 million (Company: \$0.152 million), the lease make good asset will decrease by \$0.020 million (Company: \$0.020 million) and retained earnings will decrease by \$0.172 million (Company: \$0.172 million).

#### **40. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) – continued**

##### **(h) Goodwill**

Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. In respect of acquisitions prior to the transition date, it is expected that goodwill will be included at its written down value recorded under AGAAP as at 31 July 2004. Under AIFRS, goodwill will be stated at cost less any accumulated impairment losses.

##### **Amortisation**

Under AIFRS, goodwill and intangible assets with an indefinite useful life will not be subject to amortisation but instead will be tested for impairment annually and whenever there is an indication of impairment, changes in useful life on transition to AIFRS will be accounted for prospectively.

The Consolidated Entity's net profit after tax for the 52 weeks ended 30 July 2005 is expected to increase by \$1.873 million (Company: \$nil) as a result of the cessation of goodwill amortisation.

##### **(i) Taxation**

Under AIFRS tax balances are determined using a 'balance sheet' approach which differs significantly from the current methodology in AGAAP. Under the balance sheet approach, current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the 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 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 for financial reporting purposes, and the corresponding tax base of those items.

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.

Current and deferred tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

The expected impact on the Consolidated Entity at 1 August 2004 is an increase in net deferred tax liabilities of \$43.247 million (Company: \$43.247 million) (including \$57.052 million relating to the sale and leaseback arrangement referred to in Note 29), and a decrease in retained earnings of \$43.238 million (Company: \$43.238 million).

The expected impact on the Consolidated Entity of the change in basis of the tax expense for the 52 weeks ended 30 July 2005 is a tax credit of \$3.632 million (Company: \$3.632 million) (including a decrease of \$0.776 million relating to the sale and leaseback arrangement deferred tax liability). Deferred tax liabilities of the Consolidated Entity are expected to be \$0.489 million (Company: \$0.489 million), as at 30 July 2005.

##### **(j) Provisions**

Under AIFRS the Company is required to recognise a provision for the estimated level of sales returns. At 1 August 2004 the Consolidated Entity is expected to recognise a provision of \$3.320 million (Company: \$3.320 million), a deferred tax asset of \$0.996 million (Company: \$0.996 million) and a decrease in retained earnings of \$2.324 million (Company: \$2.324 million).

For the financial year ended 30 July 2005, the Consolidated Entity will recognise a reduction in the provision of \$0.222 million (Company: \$0.222 million), a decrease in the deferred tax asset of \$0.066 million (Company: \$0.066 million) and an increase to retained earnings of \$0.155 million (Company: \$0.155 million).

##### **(k) Employee Benefits**

Under AIFRS the Consolidated Entity is required to recognise non-current leave benefits at their present value. On transition to AIFRS, the Consolidated Entity will recognise a decrease to the annual leave provision of \$0.998 million (Company: \$0.998 million), a deferred tax liability of \$0.299 million (Company: \$0.299 million) and an increase to retained earnings of \$0.699 million (Company: \$0.699 million).

For the financial year ended 30 July 2005, the annual leave provision will increase by \$0.104 million (Company: \$0.104 million), the deferred tax liability will decrease by \$0.031 million (Company: \$0.031 million) and retained earnings will decrease by \$0.073 million (Company: \$0.073 million).

#### 40. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) – continued

##### (l) Leases

AIFRS requires lease payments under an operating lease to be recognised as an expense on a straight line basis. An AIFRS adjustment is required for fixed rental payment changes in existing operating lease arrangements that were recognised as incurred under AGAAP.

On transition to AIFRS, the Consolidated Entity will recognise a deferred rent provision of \$30.130 million (Company: \$30.130 million), a deferred tax asset of \$9.039 million (Company: \$9.039 million) and a reduction in retained earnings of \$21.091 million (Company: \$21.091 million).

For the financial year ended 30 July 2005 the deferred rent provision will increase by \$7.843 million (Company: \$7.843 million), the deferred tax asset will increase by \$2.353 million (Company: \$2.353 million) and retained earnings will decrease by \$5.490 million (Company: \$5.490 million).

##### (m) Share Based Payments

Equity settled share based payments form part of the remuneration of employees (including executives) of the Company. Under AGAAP the Company does not recognise an expense for any share based remuneration, including equity settled share based payments such as options and rights to shares granted under the LTI Plan.

Under AIFRS, the Company will recognise the fair value at the grant date of equity settled share based payments as an employee benefit expense with a corresponding increase in equity. Fair value will be measured at grant date using a binominal model, which takes into account market based performance conditions. The fair value per instrument will be multiplied by the number of instruments expected to vest based on achievement of non-market based performance conditions (for example service conditions) to determine the total cost. This total cost will be recognised as an employee benefit expense proportionally over the vesting period during which time the employees may become unconditionally entitled to the shares. On vesting and over the vesting period the amount recognised as an employee benefit expense will be adjusted to reflect the actual number of shares that vest except where forfeiture is due to the failure to achieve market based performance conditions.

As permitted by the elections available under AASB 1, David Jones Limited will not retrospectively recognise the fair value of share based payments that have vested prior to 1 January 2005, and no adjustment will be made for share based payments granted before 7 November 2002.

On transition to AIFRS, the Consolidated Entity's retained earnings are expected to decrease and reserves are expected to increase by \$4.354 million (Company: \$4.354 million).

For the financial year ended 30 July 2005, employee benefits expense and reserves are expected to increase by \$5.011 million (Company: \$5.011 million).

##### (n) Equity Reconciliation

A reconciliation of equity as presented under AGAAP to that required under AIFRS is shown below:

	Note	CONSOLIDATED		DAVID JONES LIMITED	
		30 July 05 <sup>2</sup>	1 August 04 <sup>1</sup>	30 July 05 <sup>2</sup>	1 August 04 <sup>1</sup>
Total equity under AGAAP		<b>475,859</b>	447,940	<b>449,921</b>	452,597
Adjustments to retained earnings:					
Share based payments expense	(m)	<b>(9,365)</b>	(4,354)	<b>(9,365)</b>	(4,354)
Annual leave provision discounted to present value	(k)	<b>894</b>	998	<b>894</b>	998
Lease make good costs	(g)	<b>(2,249)</b>	(2,077)	<b>(2,249)</b>	(2,077)
Lease rentals straight line adjustment	(l)	<b>(37,973)</b>	(30,130)	<b>(37,973)</b>	(30,130)
Provision for sales returns	(j)	<b>(3,098)</b>	(3,320)	<b>(3,098)</b>	(3,320)
Inventory adjustments for rebates, subsidies, discounts and returns	(f)	<b>(14,819)</b>	(13,284)	<b>(14,819)</b>	(13,284)
Research costs expensed	(g)	<b>(540)</b>	(280)	<b>(540)</b>	(280)
Goodwill amortisation written back	(h)	<b>1,873</b>	–	<b>–</b>	–
Tax effect of above adjustments and recognition of deferred tax liability relating to sale and leaseback arrangement	(i)	<b>(39,606)</b>	(43,238)	<b>(39,606)</b>	(43,238)
Adjustment to other reserves:					
Recognition of share based payments expenses	(m)	<b>9,365</b>	4,354	<b>9,365</b>	4,354
Adjustment to share capital:					
Consolidation of Employee Share Plan	(e)	<b>(671)</b>	(870)	<b>(671)</b>	(870)
Total equity under AIFRS		<b>379,670</b>	355,739	<b>351,859</b>	360,396

<sup>1</sup> This column represents the adjustments as at the date of transition to AIFRS.

<sup>2</sup> This column represents the cumulative adjustments at the date of transition to AIFRS and those for the year ended 30 July 2005

#### **40. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) – continued**

##### **(o) Financial Instruments**

The Company has elected to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 Financial Instruments – Disclosure and Presentation (AASB 132) and AASB 139 Financial Instruments – Recognition and Measurement (AASB 139), thereby allowing the Company and Consolidated Entity to apply previous AGAAP to financial instruments comparative information for the year ending 29 July 2006.

##### **Reset Preference Shares**

AIFRS has different recognition rules to AGAAP in relation to the classification of certain financial instruments. As the conversion option contained in the Consolidated Entity's Reset Preference Shares (RPS) does not expose the holders to any equity risks, the RPS will be classified as a debt instrument under AASB 139. This represents a change from the current classification of the RPS as equity under AGAAP. The RPS distributions will as a result of this debt classification be treated as interest expense not dividends, leading to an increase in borrowing costs and a corresponding reduction in reported net profit.

At 31 July 2005 the impact of this change on the Consolidated Entity will be a reduction in equity of \$49.827 million (Company: \$49.827 million) and an increase in liabilities of \$54.099 million (Company: \$54.099 million). Costs associated with this RPS issue of \$4.272 million will be amortised under AIFRS. Consequently the Consolidated Entity will recognise at 31 July 2005 a reduction in retained earnings of \$2.560 million (Company: \$2.560 million) and a prepayment for borrowing expenses of \$1.712 million (Company: \$1.712 million).

##### **Derivative Instruments**

Under AASB 139 the Consolidated Entity's accounting policy will change and all derivatives, whether used as hedging instruments or otherwise, will be recognised on-balance sheet at fair value at each reporting date. Changes in the value of the derivatives, including embedded derivatives that are not closely related to the host contract, will be recorded in the income statement unless hedge accounting requirements are satisfied. Hedge accounting requires strict documentation and "effectiveness testing" to be satisfied. Where hedge effectiveness tests are met, changes in fair value will be recognised directly in equity. Ineffectiveness outside the prescribed range precludes the use of hedge accounting, in which case the fair value changes will be recognised in the income statement. The financial effect of this change in accounting policy at transition and on an ongoing basis is subject to period end market valuations and has not yet been reliably estimated.

At 31 July 2005 these adjustments in the Consolidated Entity are expected to reduce retained earnings by \$7.470 million (Company: \$7.470 million), increase the hedge reserve by \$1.678 million (Company: \$1.678 million), increase payables of \$7.311 million (Company: \$7.311 million) and increase receivables by \$1.519 million (Company: \$1.519 million).

##### **(p) Restated AIFRS Statement of Cash Flows for the 52 Weeks ended 30 July 2005**

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.