Temple & Webster Pty Limited

Financial Report for the financial year ended 30 June 2015

A.C.N. 151 856 049

General Purpose Financial Report

For the financial year ended 30 June 2015

DIRECTORS' REPORT

The directors of Temple & Webster Pty Ltd submit herewith the financial report for the financial year ended 30 June 2015. The directors report as follows:

Directors

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

Mr Brian Shanahan
Mr Mark Coulter
Mr Henry Tam
Ms Carol Schwartz
Mr Conrad Yiu
Mr Daniel Phillips
Mr David Standen

The above named directors held office during the whole of the financial year and since the end of the financial year except where noted.

Corporate Information

Temple & Webster Pty Ltd is a company limited by shares and domiciled in Australia. The registered office and principal place of business of the company is 8DD Hiles Street, Alexandria, NSW 2015.

Principal Activities

The principal activities of Temple & Webster are the sale of furniture, homeware, and other lifestyle products through its online, member based website. There have been no significant changes to the nature of those activities during the financial year.

Review of Operations

The operating profit / (loss) after income tax for the year ended 30 June 2015 was ($6,512,659).

The operating profit / (loss) after income tax for the year ended 30 June 2014 was ($4,482,729).

Dividends

In respect of the financial period ended 30 June 2015, no dividend was declared (2014: no dividend was declared), nor do the directors recommend a declaration of a dividend.

Changes in State of Affairs

During the financial year there were no significant changes that impact on the affairs of the Company.

Subsequent Events

On 31 July 2015, the Company signed an agreement to acquire a 100% shareholding in Wayfair Australia Pty Limited from Wayfair LLC.

The purchase price of the acquisition was $6,000,000 of which $4,000,000 was paid on 31 July 2015. The remaining balance is payable 31 July 2016. The initial accounting for the business combination is incomplete at the time the financial statements are authorised for issue at 5 November 2015 and further disclosures on assets and liabilities acquired will be made in subsequent reporting periods.

On 21 July 2015 the Company also raised $12,000,000 in additional convertibles notes to fund the acquisition and provide funding for the foreseeable future.

Future Developments

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

Indemnification of Officers and Directors

During or since the financial year the company has not indemnified or made a relevant agreement to indemnify an officer or director of the company or of any related body corporate against a liability incurred as such an officer or director. In addition, the company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or director.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial period.

Environmental regulation and performance

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Auditor Independence

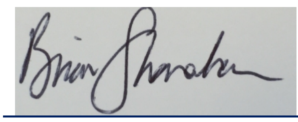
The auditor's independence declaration is included on page 3 of the financial report.

Share options

No option to acquire shares in the Company has been granted to any person. No shares have been issued during the year or since the end thereof by virtue of the exercise of any options. There are no unissued shares under option at the date of this report.

Signed in accordance with a resolution of the directors made 5 November 2015.

On behalf of the Directors



Brian Shanahan
Director

Building a better
working world

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Auditor's Independence Declaration to the Directors of Temple & Webster Pty Ltd

In relation to our audit of the financial report of Temple & Webster Pty Ltd for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Christopher George
Partner
Sydney
5 November 2015

Temple & Webster Pty Ltd

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Temple & Webster Pty Ltd, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;

disclosed in note 2; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Date: 5 November 2015

Brian Shanahan
Director

Temple & Webster Pty Ltd

STATEMENT OF COMPREHENSIVE INCOME

For the year end 30 June 2015

	Note	2015	2014
		$	$
Revenue	4(a)	26,116,342	18,443,076
Cost of sales		(15,891,931)	(11,557,352)
Gross Profit		10,224,411	6,885,724
Other income	4(b)	20,027	472,589
Depreciation, amortisation & impairment	4(e)	(1,554,801)	(344,329)
Distribution Costs		(5,311,585)	(3,398,809)
Employee expense	4(c)	(5,090,250)	(3,590,843)
Internet and website		(733,104)	(457,450)
Marketing and promotional		(2,720,596)	(3,223,142)
Rental expense		(302,441)	(297,976)
Other expenses		(786,434)	(508,910)
Finance expense	4(d)	(257,886)	(19,583)
Profit/(loss) before income tax expense		(6,512,659)	(4,482,729)
Income tax expense		-	-
Profit/(loss) for the year		(6,512,659)	(4,482,729)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(6,512,659)	(4,482,729)
Earnings per share			
- Basic, profit for the year attributable to ordinary equity holders of the Company		(3.31)	(2.36)
- Diluted, profit for the year attributable to ordinary equity holders of the Company		(3.31)	(2.36)

Notes to the financial statements are included on pages 9 to 32

Temple & Webster Pty Ltd

STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	2015	2014
		$	$
CURRENT ASSETS			
Cash and cash equivalents	5	1,925,663	2,071,539
Trade and other receivables	6	8,869	470,277
Inventory	7	1,312,563	1,002,905
Other current assets	8	122,093	110,406
Total Current Assets		3,369,188	3,655,127
NON-CURRENT ASSETS			
Related parties receivable	9	710,243	710,000
Property, plant & equipment	17	86,520	73,299
Intangibles	17	38,834	1,334,437
Total Non-Current Assets		835,597	2,117,736
TOTAL ASSETS		4,204,785	5,772,863
CURRENT LIABILITIES			
Trade and other payables	10	5,205,264	4,069,549
Provisions	11	358,987	316,971
Borrowings - Convertible notes	13	4,587,603	1,019,853
Deferred revenue	12	1,791,958	1,592,858
Total Current Liabilities		11,943,812	6,999,231
TOTAL LIABILITIES		11,943,812	6,999,231
NET LIABILITIES		(7,739,027)	(1,226,368)
EQUITY			
Issued Capital	19.1	8,222,136	8,222,136
Accumulated Losses		(15,961,163)	(9,448,504)
TOTAL EQUITY		(7,739,027)	(1,226,368)

Notes to the financial statements are included on pages 9 to 32

Temple & Webster Pty Ltd

STATEMENT OF CASH FLOWS

For the year end 30 June 2015

	Note	2015	2014
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		29,097,107	21,842,562
Payments to suppliers and employees		(32,975,653)	(23,431,485)
Interest received		20,027	15,072
NET CASH (USED IN) / PROVIDED BY OPERATING ACTIVITIES	22	(3,858,519)	(1,573,851)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(313,465)	(863,826)
Receipt of government grants	6	457,517	533,372
NET CASH (USED IN) / PROVIDED BY INVESTING		144,052	(330,454)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from convertible notes		3,567,750	1,019,853
Proceeds from capital contributions		-	1,505,745
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES		3,567,750	2,525,598
NET (DECREASE) / INCREASE IN CASH HELD		(146,717)	621,293
Cash at the beginning of the financial year		2,006,206	1,384,913
Cash on hand at the end of the financial year	22	1,859,489	2,006,206

Notes to the financial statements are included on pages 9 to 32

Temple & Webster Pty Ltd

STATEMENT OF CHANGES IN EQUITY

For the year end 30 June 2015

	Note	Issued capital $	Accumulated losses $	Total $
Balance at 1 July 2013		6,716,391	(4,965,775)	1,750,616
Loss for the year		-	(4,482,729)	(4,482,729)
Proceeds from capital contribution		1,505,745	-	1,505,745
Other comprehensive income		-	-	-
Balance at 30 June 2014		8,222,136	(9,448,504)	(1,226,368)
Balance at 1 July 2014		8,222,136	(9,448,504)	(1,226,368)
Loss for the year		-	(6,512,659)	(6,512,659)
Other comprehensive income		-	-	-
Balance at 30 June 2015	19	8,222,136	(15,961,163)	(7,739,027)

Notes to the financial statements are included on pages 9 to 32

1. CORPORATE INFORMATION

The financial report of Temple & Webster Pty Ltd (the Company) for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the directors on 5 November 2015.

Temple & Webster is a for profit company limited by shares incorporated and domiciled in Australia.

The financial report is of the Company which has no subsidiaries in any periods reported.

The registered office of the Company is: 8DD Hiles Street, Alexandria, NSW 2015
The principal place of business of the Company is: 8DD Hiles Street, Alexandria, NSW 2015

The nature of the operations and principal activities of the Company are the sale of furniture, homeware, and other lifestyle products through its online, member based website.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value. This is the first year the Company has presented a general purpose financial report.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

The Company's financial statements have been prepared and presented on a basis that the Company continues as a going concern despite the Company's deficiency of net current liabilities of $8.6 million and a net liability position of $7.7 million and a loss after tax for the period of $6.5 million. The ability of the Company to continue as a going concern is dependent on additional funding which was received on 21 July 2015 (Note 23).

No adjustment has been made in relation to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) Compliance with International Financial Reporting Standards (IFRS)

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. This is the first year that the Company has adopted General Purpose Financial Reporting in compliance with Australian Accounting Standard disclosures and the disclosure requirements of International Financial Reporting Standards.

The Company has not presented a reconciliation of opening financial position, financial performance and cash flows as there were no changes from the opening comparative period. This is because the Company has complied with the recognition and measurement requirements of IFRS in prior financial periods.

(c) New accounting standards and interpretations

(i) Changes in accounting policies, new and amended standards and interpretations
The Company adopted all relevant new and amended Australian Accounting Standards and Interpretations that became applicable during the current financial year. The adoption of these Standards and Interpretations did not have a significant impact on the Company's financial results or statement of financial position. All other accounting policies are consistent with those of the previous financial year.

(ii) Accounting standards and interpretations issued but not yet effective
Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting period ended 30 June 2015. The directors have not early adopted any of these new or amended standards or interpretations. The directors have not yet fully assessed the impact of these new or amended standards (to the extent relevant to the Company) and interpretations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Title	Reference	Application date of standard	Application date for Company
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 2014-4	1 January 2016	30 June 2016
Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements	AASB 2014-9	1 January 2016	30 June 2016
Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	AASB 2015-1	1 January 2016	30 June 2016
Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101	AASB 2015-2	1 January 2016	30 June 2016
Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	AASB 2015-3	1 July 2015	30 June 2016
Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent	AASB 2015-4	1 July 2015	30 June 2016
Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception	AASB 2015-5	1 July 2015	30 June 2016
Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities [AASB 10, AASB 124 & AASB 1049]	AASB 2015-6	1 July 2015	30 June 2016
Revenue from Contracts with Customers	AASB 15	1 January 2018	30 June 2018
Financial Instruments	AASB 9	1 January 2018	30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Functional and presentation currency
Both the functional and presentation currency of Temple & Webster Pty Ltd is Australian dollars $.

(e) Cash and cash equivalents
Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(f) Trade and other receivables
Trade receivables are carried at the amount due from the customer less an allowance for impairment. Trade receivables are not discounted due to their short term nature. An impairment provision is recognised when there is objective evidence that the Company will not be able to collect the receivable.

(g) Inventories
Inventories are made up of finished goods which are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

(h) Property, plant and equipment
Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

Plant & Equipment – 3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

Derecognition
An item of property, plant or equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(i) Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets

The Company conducts a review of asset values when there is an indication that the asset may be impaired. External factors, such as changes in expected future technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

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

(k) Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial yearend. Changes in the expected useful or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the Income statement in the expense category consistent with the function of the intangible asset.

Intangibles are amortised as follows:

Software development - 4 years

(i) Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit.

(l) Trade and other payables

Trade and other payables are carried at cost and due to their short term nature are not discounted. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Deferred income

Deferred income consists of funds which have been received but income recognition has been deferred to future years because the risks and rewards of ownership of the goods have not transferred to the customer.

(n) Provisions

Provisions are recognised when the Company has a legal and constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(o) Employee leave benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(p) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. This transfer of risks and rewards of ownership is usually on expected delivery of the goods.

(ii) Interest income

Income is recognised as interest accrues using the effective interest method.

(q) Income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(r) Other taxes

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

(i) When 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

(ii) 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 is classified as part of operating cash flows.

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

(s) Cost of sales

Cost of sales includes the costs associated with product and fulfilment of items for sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Convertible Notes

Convertible notes are separated into liability and equity components based on the terms of the contract. On issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption. Conversion features that are not classified as equity are treated as embedded derivatives and measured at fair value with changes in value taken to profit or loss.

The remainder of the proceeds, if any, is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not re-measured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible preference shares based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

(u) Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Company receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

(v) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in the Company’s normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period or
- Cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

The Group classifies all other assets as non-current.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Current versus non-current classification (continued)

A liability is current when:
- It is expected to be settled in the Company's normal operating cycle It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(w) Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
• In the principal market for the asset or liability, or
• In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
• Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
• Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
• Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Company also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Company's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Refunds provision

In determining the level of provision, the Company has made judgements in respect of the expected return of the product, number of customers who will actually return the product and how often, and the costs of fulfilling the return. Historical experience and current knowledge of the performance of the products have been used in determining this provision.

(b) Development costs

The company capitalises development costs for a project in accordance with its accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 30 June 2015, the carrying amount of capitalised development costs was: $38,834 (2014: $1,334,437).

(c) Taxes

Deferred tax assets are recognised for all unused tax losses to the extant that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

(d) Convertible Notes

At 30 June 2015, the Company has $4,333,250 of convertible notes on issue. The terms of the convertible notes, include:

(i) rights to convert into ordinary shares and
(ii) a compound interest rate payable quarterly.

We have determined that these specific terms are considered to be embedded derivatives in accordance with accounting standards. The accounting standard requires embedded derivatives be separated from the host contract, the convertible notes, and carried at fair value when:

(a) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract; and

(b) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument.

We have concluded that the embedded derivatives within the convertible notes meet these criteria and, as such, must be valued separate and apart from the convertible notes and recorded at fair value each reporting period. As these derivatives are interdependent for purposes of accounting and financial reporting, the Company combines these embedded derivatives and values them together as one unit of accounting. At each reporting period, the Company records these embedded derivatives at fair value which is included as a component of the convertible notes in the statement of financial position.

The Company estimates the fair value of the embedded derivative in the convertible notes using a Black-Scholes model.

4 PROFIT FROM ORDINARY ACTIVITIES

The profit from ordinary activities before income tax includes the following items of revenue and expense:

	2015 $	2014 $
(a) Revenue		
Income from customers	26,116,342	18,443,076
Total revenue	26,116,342	18,443,076
(b) Other income		
Interest income	20,027	15,072
Research & development grant income	-	457,517
Total other income	20,027	472,589

Government grants have been received in relation to eligible research and development activities. There are no unfulfilled conditions or contingencies attached to these grants.

	2015 $	2014 $
(c) Employee benefits expense		
Wages and salaries	4,772,736	3,272,779
Other employee benefit expense	317,514	318,064
Total employee expense	5,090,250	3,590,843
(d) Finance costs		
Convertible notes interest expense	234,437	19,583
Other Finance expenses	23,449	-
Total finance costs	257,886	19,583
(e) Depreciation, amortisation and impairment		
Depreciation	49,945	45,836
Amortisation	575,438	298,493
Impairment of software development	929,418	-
Total depreciation, amortisation and impairment	1,554,801	344,329

(f) Research and development costs

The Company's research and development activity concentrates on the development of web platforms. Research and development costs that are not eligible for capitalisation have been expensed in the period incurred (2015: $741,091 (2014: $292,805)) and they are recognised in employee and IT expenses.

	2015	2014
	$	$

5 CASH AND CASH EQUIVALENTS

	2015	2014
Cash on hand and at bank	1,859,489	2,006,206
Cash and cash equivalents	66,174	65,333
	1,925,663	2,071,539

6 CURRENT TRADE AND OTHER RECEIVABLES

	2015	2014
Trade receivables	8,869	12,760
Research & development tax grant receivable	-	457,517
	8,869	470,277

Government grants have been received in relation to eligible research and development activities. There are no unfulfilled conditions or contingencies attached to these grants.

	2015	2014
At 1 July	457,517	533,372
Received during the year	(457,517)	(533,372)
Arising during the year		457,517
At 30 June	-	457,517

7 INVENTORY

	2015	2014
Goods on hand	262,877	148,575
Goods in transit	1,049,686	854,330
	1,312,563	1,002,905

During 2015, no amount (2014: nil) was recognised as an expense for inventories carried at net realisable value.

8 OTHER CURRENT ASSETS

	2015	2014
Prepayments	55,856	44,169
Other	66,237	66,237
	122,093	110,406

	2015 $	2014 $

9 RELATED PARTY RECEIVABLE

	2015 $	2014 $
Related parties receivable	710,243	710,000

The related party receivable is to T&W East Pty Limited. The related party receivable is non-interest bearing and is neither past due nor impaired.

10 CURRENT TRADE AND OTHER PAYABLES

	2015 $	2014 $
Trade payables	2,371,826	2,051,847
Accrued payables	2,632,545	1,879,023
Employee related payables	200,451	137,587
Other Payables	442	1,092
	5,205,264	4,069,549

Trade payables are non-interest bearing and are normally settled on 30 day terms.

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

11 CURRENT PROVISIONS

	2015 $	2014 $
Annual leave provision	189,864	163,539
Refunds provision	169,123	153,432
	358,987	316,971

	Annual leave provision	Refunds provision
At 1 July 2014	163,539	153,432
Arising during the year	213,308	169,123
Utilised	(140,095)	(153,432)
At 30 June 2015	189,864	169,123

12 DEFERRED REVENUE

	2015 $	2014 $
Deferred revenue	1,700,015	1,527,397
Gift Cards	91,943	65,461
	1,791,958	1,592,858

	Deferred revenue	Gift Cards
At 1 July 2014	1,527,397	65,461
Deferred during the year	1,700,015	91,943
Released to the statement of comprehensive income	(1,527,397)	(65,461)
At 30 June 2015	1,700,015	91,943

The deferred revenue refers to where cash has been received in advance however the revenue recognition is deferred until an order has been delivered.

13 BORROWINGS - CONVERTIBLES NOTES

	2015 $	2014 $
Convertible notes	4,587,603	1,019,853

At 30 June 2015 there were $4,333,250 convertible notes on issue. Each convertible note has a face value of $1. The convertible notes carry a compound interest rate of 12% per annum, payable quarterly. Interest amounts unpaid are accrued on the accumulated balance of the face value outstanding and previously accrued interest. The convertible note is convertible into ordinary shares in a number of circumstances set out in the convertible note subscription deed. In certain circumstances following 31 December 2015 and up to maturity on 31 May 2016, at the option of the note holders, the convertible notes can be converted into that number of ordinary shares which equals to the capitalised value of the notes divided by $10.41.

The convertible notes are or may be converted at a weighted average basis of 0.85 per note if there is an equity fundraising event.

The undrawn convertible notes are:

Committed convertible notes	-	500,000
Discretionary convertible notes	-	1,000,000
	-	1,500,000

	2015	2014
	$	$

14 REMUNERATION OF AUDITORS

The auditor of Temple and Webster Pty Ltd is Ernst & Young.
Amounts received or due and receivable by Ernst & Young for:

	2015 $	2014 $
Audit of the financial statements	30,000	27,500
Tax compliance	7,500	36,000
Other services	45,000	-
	82,500	63,500

15 COMMITMENTS AND CONTINGENCIES

(a) **Operating Leases**

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2015 $	2014 $
Within one year	50,793	50,793
After one year but not more than five years	-	-
More than five years	-	-
	50,793	50,793

(b) **Capital commitments**

At 30 June 2015, the Company had nil capital commitments (30 June 2014: nil).

(c) **Contingent liabilities**

At 30 June 2015, the Company did not have any contingent liabilities (30 June 2014: nil).

16 RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

	2015 $	2014 $
Contract for services provided		
Ardenpoint - consulting services	120,000	120,000

Terms and conditions of transactions with related parties for purchases of services from related parties are made on terms equivalent to those that prevail in arm's length transactions. There are no outstanding balances at the year-end and settlement for the services during the year occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

Compensation of key management personnel

	2015 $	2014 $
Short-term employee benefits	325,434	290,000
Post-employment benefits	30,916	26,825
Total compensation paid to key management personnel	356,350	316,825

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

17 PROPERTY, PLANT AND EQUIPMENT

	Plant & Equipment	Intangibles	Total
	$	$	$
Cost			
Balance as at 1 July 2014	148,729	1,708,088	1,856,817
Additions	83,689	209,253	292,942
Disposals or retirement	(20,523)	-	(20,523)
Balance at 30 June 2015	211,895	1,917,341	2,129,236
Accumulated depreciation			
Balance as at 1 July 2014	(75,430)	(373,651)	(449,081)
Depreciation and amortisation expense	(60,418)	(575,438)	(635,856)
Impairment	-	(929,418)	(929,418)
Disposals or retirement	10,473	-	10,473
Balance at 30 June 2015	(125,375)	(1,878,507)	(2,003,882)
Net Book Value			
Balance as at 1 July 2014	73,299	1,334,437	1,407,736
Balance at 30 June 2015	86,520	38,834	125,354

During the year ended 30 June 2015, the impairment loss of $929,418 represented the write-down of certain platform development costs to the recoverable amount as a result of technological obsolescence. This was recognised in the statement of comprehensive income.

18 INCOME TAX BENEFIT

	2015 $	2014 $
(a) The components of tax benefit are:		
Current tax	-	-
Deferred tax	-	-
Total income tax benefit reported in the statement of comprehensive income	-	-
(b) Numerical reconciliation of income tax benefit and pre-tax net loss:		
Profit/(loss) before income tax benefit	(6,512,659)	(4,482,729)
Tax at the Company's tax rate of 30%	(1,953,798)	(1,344,819)
Tax losses not brought to account	1,953,798	1,344,819
Total income tax benefit reported in the statement of comprehensive income	-	-

Tax losses

The Company has Australian carried forward income tax losses for which no deferred tax asset is recognised. The deferred tax asset, if recognised, would be $4,065,496. There is uncertainty regarding the company's ability to generate future taxable income to take advantage of the carried forward income tax losses and the company has therefore
not raised a deferred tax asset for this amount. These Australian income tax losses are available indefinitely for offset against future taxable income under current taxation laws subject to continuing to meet relevant statutory tests.

	2015	2014
	$	$
19.1 ISSUED CAPITAL		
1,969,121 (2014: 1,969,121) fully paid ordinary shares	8,222,136	8,222,136

	2015	2014
	Number	Number
At 1 July	1,969,121	1,824,476
Capital contribution	-	144,645
At 30 June	1,969,121	1,969,121

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid upon shares.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

19.2 Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Company (after adjusting for interest on the convertible notes) by the sum of the weighted average number of ordinary shares outstanding during the year and the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS computations:

	2015	2014
	$	$
Loss attributable to ordinary equity holders of the Company	(6,254,773)	(4,463,146)
Loss attributable to ordinary equity holders of the Company adjusted for the effect of dilution	(6,254,773)	(4,463,146)

	2015	2014
	Number	Number
Weighted average number of ordinary shares for basic EPS	1,969,121	1,901,627

20.1 FINANCIAL LIABILITIES

The Company's principal financial liabilities comprise of convertible note loans and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations and finance the acquisition of new investments.

Due to the short term nature of trade and other payables, their carrying value is assumed to approximate their fair value.

After initial recognition, the host liability, identified as part of the convertible note liability, is subsequently measured at amortised cost using the effective interest method. The host liability is classified as level 2 financial instruments. The carrying value represents the approximate fair value at reporting date.

	Share Valuation	Interest rate	2015 $	2014 $
Convertible note - tranche 1	$10.41	12%	2,741,665	1,019,853
Convertible note - tranche 2	$10.41	12%	1,845,938	-
Total convertible notes			4,587,603	1,019,853

Financial instruments at fair value through profit or loss reflect the change in fair value of both the weighted average cost of capital and the conversion to equity of the current valuation of Temple and Webster Pty Limited. The conversion to equity valuation assumes that no equity fund raising event, as documented in the Convertible note deed, will occur.

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements of the convertible notes is categorised within Level 3 of the fair value hierarchy. The quantitative sensitivity analysis as at 30 June 2015 and 2014 that would impact the Statement of Profit and Loss are disclosed below:

Sensitivity of the input to fair value	Valuation technique	Significant unobservable inputs	
10% (2014:10%) increase / (decrease) in the share price would result in an increase / (decrease) in the fair value by $4,000,000 (2014:$4,000,000)	Black-Scholes	Share price	$10.41
10% (2014:10%) increase / (decrease) in WACC would result in an increase / (decrease) in the fair value by $3,783 (2014:$296)	Black-Scholes	WACC	14.1%

	2015 $	2014 $
Reconciliation of fair value measurement of embedded derivative liabilities:		
Convertible notes at beginning of period	1,019,853	-
Principal	3,333,583	1,000,000
Finance expense	234,167	19,853
Re-measurement recognised in profit or loss	-	-
Convertible notes at end of period	4,587,603	1,019,853

20.2 RISK MANAGEMENT POLICY

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks in accordance with the financial risk governance framework for the Company. It is the Company's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include derivative financial instruments.

The sensitivity analysis in the previous sections relate to the position as at 30 June 2015 and 2014.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company manages its interest rate risk by only using convertible notes as borrowings, which have a fixed interest rate.

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities as a significant source of inventory is supplied from international markets. The Company limits the exposure to foreign sourced product by mainly purchasing through local wholesalers and distributors.

Credit risk
Credit risk from balances with banks and financial institutions is managed in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Company's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Board of Directors. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments. The Company's maximum exposure to credit risk for the components of the statement of financial position at 30 June 2015 and 2014 is the carrying amounts.

Liquidity risk
The Company monitors its risk to a shortage of funds by using a planning model that provides Balance Sheet and cash flow projections. The projections are prepared monthly for the next 36 months. The Company has sufficient funds for the next 12 months following the raising of additional convertible notes on 21 July 2015 (Note 23).

20.3 CAPITAL MANAGEMENT

For the purpose of the Company's capital management, capital includes issued capital, convertible notes and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by the sum of total capital and net debt. The Company's policy is to keep the gearing ratio between 20% and 40%. The Company includes within net debt, interest-bearing loans and borrowings, trade and other payables, less cash and short-term deposits, excluding discontinued operations.

	2015 **$**	**2014** **$**
Trade and other payables (Note 10)	5,205,264	4,069,549
Less: cash and cash equivalents (Note 5)	(1,925,663)	(2,071,539)
Net debt	3,279,601	1,998,010
Convertible notes (Note 13)	4,587,603	1,019,853
Equity	7,739,027	1,226,368
Total capital	12,326,630	2,246,221
Capital and net debt	15,606,231	4,244,231
Gearing ratio	21%	47%

21 SEGMENT INFORMATION

Identification of chief operating decision maker

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Chief Operating Decision Maker ('CODM') in assessing performance and in determine the allocation of resources. Based on the organisational structure and the operation of the Board, it has been determined that the Board of Director's are the CODM of the Company.

Identification of operating and reporting segments

The operating results of the Company are regularly reviewed by the CODM and decisions around capital allocation and assessment of performance are performed at the company level. This is evidence via the Monthly Management Reviews, the budgeting process and the monthly results reported to the Board of Directors.

On this basis, there is only one operating segment and as the information used by the CODM is reflected in the profit and loss, no further disclosures are required.

The Company operates within Australia and has no reliance on a single external customer for 10 per cent or more of total revenues.

	2015	2014
	$	**$**

22 CASH AND CASH EQUIVALENTS

(a) Reconciliation of Cash

	2015 $	2014 $
Cash on hand	1,859,489	2,006,206
Cash and cash equivalents	66,174	65,333
Cash and cash equivalents	1,925,663	2,071,539

(b) Reconciliation of Operating Profit/(Loss) after income tax to net cash flows from operating activities

	2015 $	2014 $
Operating profit/(loss) after income tax	(6,512,659)	(4,482,729)
Adjustments for:		
- Depreciation and amortisation	625,383	344,329
- Impairment	929,418	-
Movements in working capital:		
Decrease/(increase) in trade and other receivables	3,891	(469,344)
Decrease/(increase) in inventory	(309,658)	(545,693)
Decrease/(increase) in other current assets	(11,687)	(4,630)
Increase/(decrease) in trade and other payables	1,191,368	2,634,817
Increase/(decrease) in deferred revenue	199,100	903,054
Increase/(decrease) in provisions	26,325	46,345
Net Cash from operating activities	(3,858,519)	(1,573,851)

23 SUBSEQUENT EVENTS

On 31 July 2015, the Company signed an agreement to acquire a 100% shareholding in Wayfair Australia Pty Limited from Wayfair LLC.

The purchase price of the acquisition was $6,000,000 of which $4,000,000 was paid on 31 July 2015. The remaining balance is payable 31 July 2016. The initial accounting for the business combination is incomplete at the time the financial statements are authorised for issue at 5 November 2015 and further disclosures on assets and liabilities acquired will be made in subsequent reporting periods.

On 21 July 2015 the Company also raised $12,000,000 in additional convertibles notes to fund the acquisition and provide funding for the foreseeable future.

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Independent auditor's report to the members of Temple & Webster Pty Limited

Report on the financial report

We have audited the accompanying financial report of Temple & Webster Pty Limited, which comprises the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

Opinion

In our opinion:

a. the financial report of Temple & Webster Pty Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Ernst & Young

Christopher George
Partner
Sydney
5 November 2015