

1. Company details

Name of entity:	Temple & Webster Group Ltd
ABN:	69 608 595 660
Reporting period:	For the year ended 30 June 2016
Previous period:	For the year ended 30 June 2015

2. Results for announcement to the market

The information contained in this report relates to Temple & Webster Group Ltd as a continuation of an existing business of Temple & Webster Pty Limited ('the legal subsidiary'), which was acquired on 4 December 2015 by Temple & Webster Group Ltd and has been accounted for as a corporate/group reorganisation. The financial statements for Temple & Webster Group Ltd for the year ended 30 June 2016 includes financial information for:

- Temple & Webster Pty Limited from 1 July 2015;
- Wayfair Australia Pty Ltd (renamed as Zizo Home Pty Ltd) from 31 July 2015, when it was acquired by Temple & Webster Pty Limited ; and
- Milan Direct Group Investments Pty Ltd and Milan Direct UK Pty Ltd from 4 December 2015, when it was acquired by Temple & Webster Group Ltd.

The comparative financial statements for the year ended 30 June 2015 of Temple & Webster Group Ltd includes the historical financial information of Temple & Webster Pty Limited only.

			\$'000
Revenues from ordinary activities	up	94.6% to	50,829
Loss from ordinary activities after tax attributable to the owners of Temple & Webster Group Ltd	up	582.1% to	(44,417)
Loss for the year attributable to the owners of Temple & Webster Group Ltd	up	582.1% to	(44,417)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the Group after providing for income tax amounted to \$44,417,000 (30 June 2015: \$6,512,000).

As these results are not reflective of a full year trading for each of the brands, investors and users of the financial statements are directed to the full year investor presentation for the Group contained in the ASX announcements issued by the Group on the same date as this report.

Further information on the 'Review of operations' is detailed in the Directors' report which is part of the Annual Report.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>8.59</u>	<u>(19.11)</u>

The net tangible assets per ordinary share amount is calculated based on 105,780,680 ordinary shares on issue as at 30 June 2016 and 40,689,262 ordinary shares that would have been in existence had the corporate/group reorganisation occurred as at 30 June 2015.

4. Control gained over entities

Refer to note 27 'Business combinations' to the financial statements for details of entities over which control has been gained during the financial period.

5. Loss of control over entities

Not applicable.

6. Dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

Not applicable.

8. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

9. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unqualified opinion has been issued.

10. Attachments

Details of attachments (if any):

The Annual Report of Temple & Webster Group Ltd for the year ended 30 June 2016 is attached.

TEMPLE &
WEBSTER
GROUP

Annual Report 2016



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DELIVERING BEAUTIFUL SOLUTIONS

FOR OUR
CUSTOMERS'
HOMES AND
WORK SPACES

Summary

**PRO FORMA
REVENUE
\$61.7M**

Within revised guidance
of \$60m-\$62m

**STRONGER
Q4**

Results trending
in the right direction



PRO FORMA EBITDA (\$14.8M)

Within revised guidance
loss of \$14m-\$15m

MANAGEMENT TEAM REFRESHED

Strategic plan implemented

\$12.6B MARKET

Only 4.1% migrated online

FY17 PRIORITIES

- Execute vision of delivering beautiful solutions
- Double digit revenue growth
- Push towards profitability
- Set up for future growth horizons

The pro-forma balances presented are unaudited non-IFRS measures that, in the opinion of the Directors, are useful in understanding and appraising the Company's performance against the forecasts made in the company's prospectus. Pro forma revenue and EBITDA results include adjustments to the audited statutory profit and loss to include the assumption that Milan Direct and ZIZO were part of the group for the full financial years presented and accordingly their earnings are included in all periods shown. See page 13 in the Directors' Report for a detailed reconciliation between statutory revenue and pro-forma revenue and from statutory net profit before tax to pro-forma EBITDA.

Chairperson's Report



Dear Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to present the 2016 Annual Report.

A Transformative Year

The 2016 financial year has been a period of rapid transformation for our Company. Most notably, we achieved a significant milestone in our history, with the Company listing on the Australian Securities Exchange and commencing trading as a publicly listed entity.

Additionally, our Company acquired Milan Direct and Wayfair (later rebranded ZIZO), integrated the ZIZO business, relaunched Temple & Webster as Australia's largest open e-commerce site, and opened its first showroom – each significant initiatives in their own right that have positioned the Company for growth in the retail homewares and furniture sector.

While these changes have repositioned Temple & Webster favourably for success, the business incurred a pro forma EBITDA loss of \$14.8 million, which reflected the challenges presented over the past six months. Despite this, the Company generated pro forma revenues of \$61.7 million for the period, which was at the top end of our revised guidance, and ended the year with zero debt and \$18.4 million cash at bank. (Please see page 13

for a detailed reconciliation between statutory revenue and profit to pro forma revenue and EBITDA).

In direct response to challenges faced by the Company, the Board made a number of changes to the business during the second half of the year, including a refreshed management team, newly articulated vision and revised business plan.

I'm pleased to say that these changes, and subsequent initiatives implemented during Q3 and Q4, contributed to a strong fourth quarter and I'm optimistic that over the next financial period this trend will continue.

Board and Management Changes

Following a review of the Company's strategic objectives, the Board made a number of changes to the Company's approach, including a new management team to execute on our strategy.

In April, the Board appointed one of Temple & Webster's original founders, Mark Coulter, to the role of interim Chief Executive Officer. Mr Coulter has an intimate understanding of the company's history and core business, and the drivers required to have it succeed. He has significant digital

experience, co-founding the National Online Retailers' Association, and has previously worked as Director of Digital Strategy for News Corp Australia following over 10 years of commercial experience in strategy consulting and corporate management roles. Mr Coulter also co-founded logistics and technology company, ParcelPoint, which gives him an in-depth understanding of the delivery experience.

Since re-joining Temple & Webster, Mr Coulter has been instrumental in reshaping the Company and implementing a number of initiatives to drive sustainable profits. The Board and I are confident that he has the experience and skills required to execute our strategic vision – to deliver beautiful solutions for our customers' homes and workspaces.

In addition, Mark Tayler joined our Company in April as interim Chief Financial Officer (CFO). Previously Mr Tayler was CFO for the DealsDirect Group, and successfully led business transformation programmes delivering profitable, cash flow positive outcomes and enabling the backdoor listing of the DealsDirect Group (ASX:MNZ). Mr Tayler brings a multitude of industry

experience, including e-commerce & retail. He is also a highly commercial CPA whose strengths will transform our business and help accelerate our path to profitability.

Mr Coulter and Mr Tayler have a clear objective to deliver improved returns to shareholders through enhanced performance – both operationally and financially – and I am confident that with our newly articulated vision and business plan, and a much lower cost base in place, this team will be successful in delivering on their objectives.

I would also like to take this opportunity to welcome two new Board members to our Company; Susan Thomas, who joined in February as Non-Executive Director, and Stephen Heath, who joined in March, also as Non-Executive Director. Both Susan and Stephen bring a wealth of expertise which will be invaluable to Temple & Webster.

On behalf of the Board, I would like to thank our former Chief Executive Officer, Brian Shanahan, and Chief Financial Officer, Deborah Kelly, for their passion and contribution to Temple & Webster and for their role in building the Company into the largest

online-only retailer in its category. I would also like to acknowledge Matt Campbell who stepped down as Non-Executive Director in February.

Looking Ahead

As we move into financial year 2017, I'm confident that the Company is now well positioned for growth, enhanced profitability and to capture significant market opportunities.

Importantly, the Board has now turned its attention to the strategic priorities designed to deliver the Company to profitability within existing cash reserves, namely by:

- executing our vision of delivering beautiful solutions for our customers and becoming the first place Australians turn to when shopping for their homes and work spaces;
- achieving double digit revenue growth;
- continuing the cost efficiency program; and
- setting the business up for future growth horizons.

Underpinning these priorities, we have an experienced and committed management team and employees who continue to work tirelessly for our Company, for which the Board and I are most grateful.

Finally, thank you to our shareholders for your support and contribution to our business during this transformative year. This has certainly been a period of growth and change for Temple & Webster and I appreciate your support during this time. We trust that you find this annual report informative and I look forward to meeting you at the Company's upcoming Annual General Meeting.

Carol Schwartz.

Carol Schwartz

Non-Executive Chairperson

Message from the CEO



The 2016 financial year has been a transformative year for Temple & Webster and I am delighted to be back to help tackle the next phase in our evolution.

I was part of a passionate group who launched Temple & Webster five years ago with the aim of changing the way Australians shop for their homes. Our vision was simple: combine content with retail to deliver our customers beautiful solutions for their home and work space needs. The result was an innovative and inspirational shopping experience which positioned Temple & Webster as the number one online shopping destination for the home within a few years.

Since inception, we have maintained the vision to become the household name that Australian's first turn to when shopping for their homes. I am pleased to say that we have moved a significant step closer to this goal, relaunching Temple & Webster as Australia's largest e-commerce site for the home in April, using the technology platform and operations team of ZIZO (Wayfair Australia).

Temple & Webster continues to provide the beautiful and inspirational content that we are famous for and it is now backed up by the largest online catalogue, with over 147,000 products for sale and with most orders shipped within 48 hours.

While Temple & Webster has a low inventory model, part of our strategy is to

selectively source products to fill range and price point gaps, increase our margins and further differentiate our offering. To do this, we continue to leverage the direct sourcing capabilities and supply chain of Milan Direct.

Likewise, while we firmly believe in the convenience, benefits and growth of the online channel, we are also conscious that customers respond well to multi-channel options. Our vision is to be the first place Australians turn to and this will involve having an omni-channel approach.

As a result, in March we launched our first showroom in Melbourne under the Milan Direct brand. Early visit and sales numbers are tracking favourably, and we will be reviewing the learnings from this trial to rollout our showroom strategy over the coming years.

Our New Approach

Since accepting the interim role of Chief Executive in April, I have worked closely with the Board and our management team to identify the challenges we faced during financial year 2016 and subsequently revise our Business Plan.

Our revised strategy is focused on cost efficiencies, streamlining our divisions and leveraging our scale, and incorporates the following key elements:

- We have redirected our marketing mix to focus on the channels we are



most familiar with, while increasing our focus on return-on-investment (ROI). In the last quarter, this approach reduced first-time customer costs by 30 per cent and we will continue to drive further efficiencies in this space;

- We relaunched the Temple & Webster website as an open e-commerce site using the ZIZO technology platform. Since relaunching, we have seen record levels of organic search traffic and an increase in customer growth and revenue per customer;
- We retired the ZIZO brand, merging teams and removing duplication; and
- We are reducing cash expenditure through an increased focus on marketing ROI. We have also reduced headcount, and logistics and operational expenditure.

Overall, by consolidating our business we can now focus on building Temple & Webster into a household name famous for its range and innovative services, and Milan Direct into an omni-channel retailer passionate about furniture. Together, I believe our two brands have enormous potential to capitalise on their respective market segments.

Market

As the number one online-only retailer of homewares and furniture in Australia, the Temple & Webster Group remains focused on this market which is valued at around \$12.6 billion.



Australia's online sales in homewares and furniture remains small as a percentage of total retail sales at 4.1 per cent, compared to the United States at 10.5 per cent and the United Kingdom at 13.6 per cent. Like many other industries, we believe Australia tracks these geographies and, as such, we are expecting healthy market growth.

We also believe the Australian homewares and furniture market is strong due to many of the goods sold being 'unbranded,' resulting in lower price-comparison shopping. Likewise, high ship costs reduce international competition, and emotional purchase decisions enable us to differentiate through our content offering.

With our strong brand awareness, world-class technology platform and largest homewares and furniture catalogue in Australia, the Temple & Webster Group is now well placed to not only grow with the market, but also capture further market share in this space.

Management Changes

I'm pleased to welcome our new Chief Marketing Officer, Sven Lindell, to the Temple & Webster team. As previous Head of Digital for Bras N Things, Woolworths and Rebel Sport, Sven brings significant retail and digital experience to our Company.

I'd also like to thank previous Chief Executive Officer, Brian Shanahan, for his role in preparing Temple & Webster for the next phase of growth. As a co-founder and close friend, Brian has worked incredibly hard to build the business into what it is today and I wish him all the best in his future endeavours.

A Strong Future

Looking ahead, I believe we're in a good position financially to continue delivering on our strategic objectives - we are well resourced, have no debt and we operate a low inventory business model.

Our path to profitability is focused on the following four pillars:

1. Delivering beautiful solutions for our customers' homes and workspaces by expanding our range and improving our catalogue; continuing to produce beautiful consumer content; incorporating innovations in technology, including new mobile experiences; and integrating services that help our customers shop, such as virtual styling help in customer care.
2. Achieving double digit revenue growth by focusing on best practice e-commerce basics to become a world class retailer; and leveraging our scale to set us further apart from our competitors.

3. Accelerating our path to profitability by reducing costs, maximising marketing ROI, and improving our margins.
4. Setting up the business for future growth horizons through new customer channels, segments, adjacent categories and geographies.

In summary, I'm confident that with our renewed strategy and path to profitability, along with the passion of our talented team, our respected brands and our world-class assets and technologies, we are on track to achieve our mission to be the first place Australians turn to when shopping for their home and work spaces.

I would like to acknowledge our employees for their ongoing dedication, creativity and diligence over the past year. It has been a period of significant transformation for the Company and I'm personally thankful for how our teams have embraced the change and continued to deliver results for the business.

Finally, thank you to our shareholders. Your interest and support of the Company is greatly appreciated.



Mark Coulter
Interim Chief Executive Officer

Company Overview and Principal Activities

The Temple & Webster Group is Australia's largest online-only retailer of furniture and homewares, generating revenue through the sale of third-party produced furniture and homewares to residential and commercial customers.

The Group currently operates through two brands:

- **Temple & Webster** – Australia's leading online-only retailer for the home by FY15 website visits, with the largest catalogue in the category; and
- **Milan Direct** – one of Australia's largest online retailers of furniture. The Milan Direct business has been sourcing private label products under the Milan Direct brand for approximately 10 years.

The Group runs low inventory models, with Temple & Webster only ordering products from suppliers after the customer has completed their transaction. Milan Direct carries inventory but uses data to make informed inventory sourcing and management decisions to minimise stock. They also operate a third-party drop-shipping network similar to Temple & Webster.

Temple & Webster Group Limited was incorporated on 6 October 2015 for the purposes of acquiring the Temple & Webster Pty Limited and its subsidiaries. The company undertook an Initial Public Offering on the Australian Securities Exchange which completed on 10 December 2015.

TEMPLE &
WEBSTER

md[®]
milandirect

#1 online-only retailer in category

Largest range in Australia – 147,000 products

Database: 1m+ newsletter subscribers

Famous for content and curation

No inventory business model

Specialist online furniture retailer

10 year history

Office and residential sales

Direct sourcing capabilities

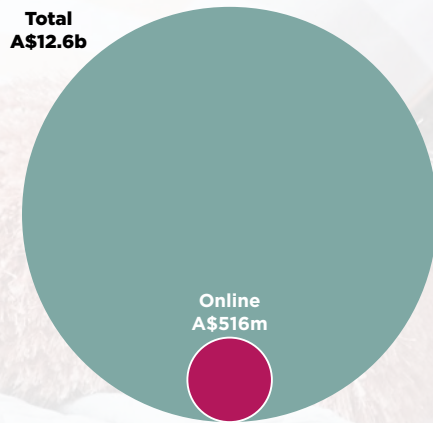
Melbourne showroom

The Market

The Group operates in the homewares and furniture retail market in Australia, which is valued at around \$12.6 billion.

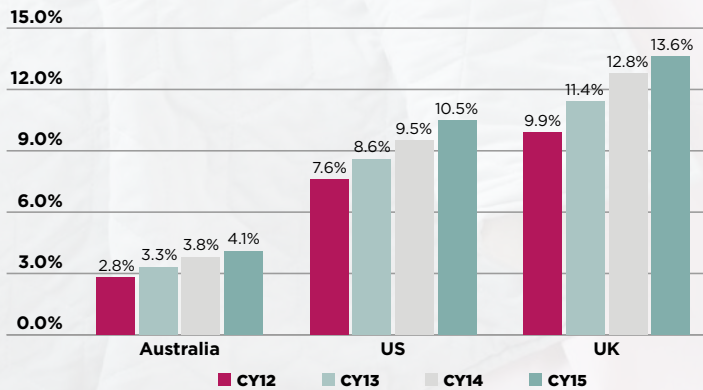
Online sales in homewares and furniture remains small as a percentage of total retail sales at 4.1 per cent, compared to the United States at 10.5 per cent and the United Kingdom at 13.6 per cent.

Furniture and homewares online presentation rates by country from CY12 to CY15



Source: Euromonitor International Limited; Home Furnishings and Homewares System 2016 edition. Sales in 2015 in retail value (inc. sales tax), current items, and is to scale.

Furniture and homewares online presentation rates by country from CY12 to CY15



Source: Euromonitor International Limited; Home Garden System 2016 edition. Internet sales as a percentage of the total retail sales value (inc. sales tax) for home furnishings and homewares in Australia, UK and US. Current terms.

Review of Operations

The Temple & Webster Group acquired two entities during the financial period, Milan Direct and Wayfair Australia (later rebranded ZIZO).

The acquisitions form an integral part of the Group's strategy moving forward as they provide the opportunity to leverage significant operational synergies, including the acceleration of top line growth through access to a wider and deeper product range, improving margins through product sourcing and private label capabilities, and leveraging scale benefits arising from the combination of Milan Direct with other Temple & Webster businesses.

The Group also undertook a substantial cost efficiency program during the period which included reducing headcount and payroll costs, reducing warehousing costs and a number of other variable and fixed cost initiatives. Together, these initiatives have reduced the monthly cash burn by over \$400,000.

In addition to these bottom line initiatives, the Group accelerated the transformation of the main Temple & Webster website by merging ZIZO's entire catalogue of 130,000 products (as at April) onto the www.templeandwebster.com.au domain.

This strategy was designed for better search engine optimisation, and more efficient deployment of marketing resources in order to build Temple & Webster into a household name with the broadest and deepest catalogue in its category. The relaunch of Temple & Webster and retiring of the ZIZO brand was completed in April, 2016.

The launch of the Group's first showroom for Milan Direct in Melbourne took place in March. Early research indicates that approximately 40 per cent of the showroom's in-store customers are being driven from the website. The showroom is already profitable on a contribution basis within its first full month of trading.

Board of Directors



Carol Schwartz

Bachelor of Arts, Bachelor of Laws and a Master of Business Administration from Monash University.

With a background in law and property, Carol has worked in executive and non-executive roles across a diverse range of industries in both listed and private companies. Carol is the founding Chair of Australia's leading social enterprise, Our Community, and is currently a non-executive Director on the board of the Bank of Melbourne. Carol is also a founding Director of Qualitas Property Partners and the Trawalla Group.



Susan Thomas

Bachelor of Commerce and Bachelor of Laws from the University of New South Wales.

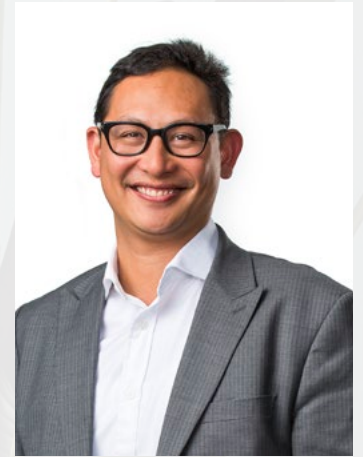
Susan is an experienced company director and audit and risk committee chair. Susan has expertise in technology and law in the financial services industry. Susan founded and was the Managing Director at FlexiPlan Australia, an investment administration platform sold to MLC and now operating under the MLC/ NAB banner as MasterKey Custom.



Stephen Heath

Graduate of the Australian Institute of Company Directors.

Stephen is a specialist in consumer goods brand management with over 25 years of manufacturing/ wholesale distribution and retail experience. 16 years has been spent as CEO of some of Australia's best known consumer brands that includes Rebel Sport, Godfrey's and Fantastic Holdings with operations experience in Australia, New Zealand, and Asia. His experience includes working in both ASX listed and private equity owned companies.



Conrad Yiu

Bachelor of Commerce from the University of New South Wales and a Master of Business Administration from the University of Cambridge.

Conrad is a co-founder of Temple & Webster and joined the Board on its formation in July 2011. Conrad has over 20 years of commercial and advisory experience with a focus on investing in, acquiring and building high growth businesses in the consumer and technology sectors. Conrad was previously Director of Corporate Development with the digital division of NewsCorp Australia.

Financial Report

The Directors of the Temple & Webster Group present the report, together with the consolidated financial report for the year ended 30 June 2016.



Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Temple & Webster Group Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

Directors

The following persons were directors of Temple & Webster Group Ltd from the Company's incorporation date (6 October 2015) to the date of this report, unless otherwise stated:

Carol Schwartz
Susan Thomas (appointed on 23 February 2016)
Stephen Heath (appointed on 15 March 2016)
Conrad Yiu
Matthew Campbell (resigned on 26 February 2016)
Brian Shanahan (resigned on 22 April 2016)

Principal activities

During the financial year the principal continuing activities of the Group consisted of the sale of furniture, homewares and other lifestyle products predominately through online channels.

The Group is Australia's largest online retailer of furniture and homewares generating revenue through the sale of third-party produced furniture and homewares to residential and commercial customers.

The Group currently operates through two brands:

- (i) **Temple & Webster**, Australia's leading online retailer for the home website visits, with a database of over 1.7 million members and a catalogue of over 147,000 products; and
- (ii) **Milan Direct**, one of Australia's largest online retailers of furniture with operations in Australia and the United Kingdom. The Milan Direct business has been sourcing private label products under the Milan Direct brand for approximately 10 years.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the Group after providing for income tax amounted to \$44,417,000 (30 June 2015: \$6,512,000).

Revenue for the financial year was \$50,829,000 (2015: \$26,119,000) includes results of:

- Temple & Webster Pty Limited from 1 July 2015;
- Wayfair Australia Pty Ltd (subsequently renamed ZIZO Home Pty Ltd and then incorporated into the Temple & Webster Brand from April 2016) from 31 July 2015; and
- Milan Direct Group Investments Pty Ltd and Milan Direct UK Pty Ltd from 4 December 2015.

Pro forma revenue for the financial year was \$61,694,000 with an EBITDA loss of \$14,828,000. Please see below detailed reconciliation of pro forma revenue and EBITDA to statutory revenue and statutory loss before tax.

Revenue Reconciliation	\$000
Statutory revenue	50,829
Milan Direct revenue pre acquisition	10,006
ZIZO revenue pre acquisition	859
Pro Forma revenue	61,694

EBITDA Reconciliation

Statutory net loss before tax	(44,902)
Net loss of acquired businesses pre acquisition	(1,103)
Impairment of intangible assets (non cash)	19,392
Costs associated with IPO and business combinations	6,890
Finance cost (FV of option relating to convertible notes)	4,555
Interest, depreciation and amortisation	341
Pro Forma EBTIDA	(14,828)

The pro forma balances presented are unaudited non-IFRS measures that, in the opinion of the Directors, are useful in understanding and appraising the Company's performance against the forecasts made in the company's prospectus. Pro forma revenue and EBITDA results include adjustments to the audited statutory profit and loss to include the assumption that Milan Direct and ZIZO were part of the group for the full financial years presented and accordingly their earnings are included in all periods shown.

Temple & Webster Group Ltd was incorporated on 6 October 2015 for the purposes of acquiring Temple & Webster Pty Limited and its subsidiaries, and undertaking an Initial Public Offering ('IPO') on the Australian Securities Exchange ('ASX'), which completed on 10 December 2015.

The Group has a scalable business and operates a capital light model. It has the ability to penetrate new online customer segments and new product categories without substantial additional capital expenditure. The Group runs low inventory models, with Temple & Webster only ordering products from suppliers after the customer has completed their transaction. Milan Direct carries inventory but uses data to make informed inventory sourcing and management decisions, and also operates a third-party drop-shipping network, similar to Temple & Webster.

Business objectives being met

Refer to the Chairperson's Report and Message from the CEO for further details.

Significant changes in the state of affairs

On 21 July 2015, the Group raised \$12,000,000 in convertible notes to fund the acquisition of Wayfair Australia Pty Limited ('Wayfair') and provide future working capital.

On 31 July 2015, the Group acquired a 100% shareholding in Wayfair Australia Pty Ltd from Wayfair LLC (subsequently renamed ZIZO Home Pty Ltd in September 2015), for a purchase price of \$6,073,000. \$4,000,000 and \$73,000 were paid on 31 July 2015 and 5 November 2015 respectively, the remaining balance was paid on 3 August 2016.

On 10 December 2015, Temple & Webster Group Ltd was admitted to the Official List of ASX Limited with the ASX code TPW. Ahead of being admitted to the ASX, the Company raised \$61,459,000 as part of the Group's Initial Public Offering. Of this amount, \$21,459,000 was paid to existing pre-IPO shareholders. The residual proceeds were then applied to the acquisition of Milan Direct Group Investments Pty Ltd and Milan Direct UK Pty Ltd (collectively referred to as 'Milan Direct') from Milan Direct Holdings Ltd, and to provide for future working capital for the Group.

The purchase price for the acquisition of the Milan Direct companies was settled by the payment of \$9,538,000 in cash and the issue of 7,306,394 (\$8,037,000) shares in the Company on 4 December 2015.

Corporate/group reorganisation - acquisition of Temple & Webster Pty Limited

On 4 December 2015, the Company acquired Temple & Webster Pty Limited and its subsidiaries pursuant to a scheme whereby the Company acquired 100% of the capital of Temple & Webster Pty Limited in exchange for approximately 29,005,736 shares in the Company plus cash consideration of \$21,459,000. For accounting purposes, the acquisition was treated as a group reorganisation.

First half-year financial statements of the Company

In accordance with ASIC Instrument 16-0291, the Company has taken relief from compliance with sections 302 and 306 of the Companies Act from the requirement to prepare half-year financial statements commencing on the date the Company was incorporated and ending on 6 April 2016.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Likely developments in the operations of the consolidated entity and expected results of those operations are contained in the 'Review of operations' section. Refer also to the Chairperson's Report and Message from the CEO for further details.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name: Carol Schwartz (appointed on 6 October 2015 as Chairperson)
Title: Independent Non-Executive Director and Chairperson
Qualifications: Bachelor of Arts, Bachelor of Laws and a Master of Business Administration from Monash University.
Experience and expertise: With a background in law and property, Carol has worked in executive and non-executive roles across a diverse range of industries in both listed and private companies. Carol is the founding Chair of Australia's leading social enterprise, Our Community, and is currently a non-executive director on the board of the Bank of Melbourne. Carol is also a founding director of Qualitas Property Partners and the Trawalla Group.
Other current directorships: Non-Executive Director of Stockland, Bank of Melbourne
Former directorships (last 3 years): None
Special responsibilities: Chairperson of the Nomination and Remuneration Committee until 15 March 2016
Interests in shares: 1,643,235 ordinary shares

Name: Susan Thomas (appointed on 23 February 2016)
Title: Independent Non-Executive Director
Qualifications: Bachelor of Commerce and Bachelor of Law from the University of New South Wales.
Experience and expertise: Susan is an experienced company director and audit and risk committee chair. Susan has expertise in technology and law in the financial services industry. Susan founded and was the Managing Director at FlexiPlan Australia, an investment administration platform sold to MLC.
Other current directorships: Susan is a Director of Grant Thornton Australia Limited; Fitzroy River Holdings Limited; PEXA Limited; Advance Asset Management Limited; Asgard Capital Management Limited; BT Portfolio Services Limited and Westpac Financial Services Limited
Former directorships (last 3 years): None
Special responsibilities: Chairperson of the Audit and Risk Management Committee
Interests in shares: Nil

Name: Stephen Heath (appointed on 15 March 2016)
 Title: Independent Non-Executive Director
 Qualifications: Graduate of the Australian Institute of Company Directors.
 Experience and expertise: Stephen is a specialist in consumer goods brand management with over 25 years of manufacturing/wholesale distribution and retail experience. Stephen has spent 16 years as CEO of some of Australia's best known consumer brands that includes Rebel Sport, Godfrey's and Fantastic Holdings with operations experience in Australia, New Zealand, and Asia. His experience includes working in both ASX Listed and Private Equity owned companies.
 Other current directorships: Non-Executive Director of Funtastic Limited
 Former directorships (last 3 years): Managing Director of Fantastic Holdings Limited
 Special responsibilities: Chair of the Nomination and Remuneration Committee
 Interests in shares: Nil

Name: Conrad Yiu
 Title: Non-Executive Director
 Qualifications: Bachelor of Commerce from the University of New South Wales and a Master of Business Administration from the University of Cambridge.
 Experience and expertise: Conrad is a co-founder of Temple & Webster and joined the Board on its formation in July 2011. Conrad was Chairperson of the Company until immediately prior to the IPO. Conrad has over 20 years commercial and advisory experience with a focus on investing in, acquiring and building high growth businesses in the consumer and technology sectors. Conrad was previously Director of Corporate Development with the digital division of NewsCorp Australia (formerly News Digital Media), co-founder and Director of a London-based mobile technology company, a manager at Arthur Andersen and is currently a principal of ArdenPoint, an investment firm which he co-founded with Mark Coulter in 2011.
 Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: Chairperson of the Audit and Risk Management Committee until 23 February 2016
 Interests in shares: 2,724,160 ordinary shares

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Michael Egan is Company Secretary of Temple & Webster Group Ltd. He has a range of experience in the Chartered Accounting profession, in business and in consulting. Michael has held Directorships and has been Company Secretary in ASX listed companies and in Australian subsidiaries of multi-national companies including Anglo-Australian Group, Rio Tinto and Hoechst (Germany).

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2016, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Management Committee	
	Attended	Held	Attended	Held	Attended	Held
Carol Schwartz	7	9	1	1	2	2
Conrad Yiu	9	9	-	-	2	2
Susan Thomas	5	5	1	1	1	1
Stephen Heath	3	3	1	1	1	1
Matthew Campbell	6	6	-	-	1	1
Brian Shanahan	8	8	-	-	-	-

Held: represents the number of meetings held during the time the director held office.

Remuneration report (audited)

The remuneration report provides an explanation of the remuneration strategy of the Company for non-executive directors and executives. The strategy complies with the requirements of the Corporations Act 2001 and takes into account the ASX Corporate Governance Principles.

The remuneration report covers the period 1 July 2015 to 30 June 2016 and does not include comparatives for the 2015 financial year. This was not required to be disclosed as the Company did not meet the criteria as per S300A(1A) of the Corporations Act (2001).

For the purposes of this report, "executive" means the Chief Executive Officer ('CEO') and the direct reports of the CEO. Key Management Personnel ('KMP') are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Key Management Personnel

Non-Executive Directors

Carol Schwartz	Chairperson (Independent)
Sue Thomas	Non-Executive Director and Audit and Risk Management Committee Chairperson (Independent)
Stephen Heath	Non-Executive Director and Nomination and Remuneration Committee Chairperson (Independent)
Conrad Yiu	Non-Executive Director
Matthew Campbell	Former Non-Executive Director (resigned 26 February 2016)

Executives

Mark Coulter	Interim Group Chief Executive Officer (appointed 22 April 2016), previously appointed as Interim Chief Operating Officer on 15 March 2016
Mark Tayler	Interim Group Chief Financial Officer (appointed 18 April 2016)
Brian Shanahan	Former Chief Executive Officer and former Managing Director (resigned 22 April 2016)
Deborah Kelly	Former Chief Financial Officer (resigned 31 March 2016)

Ahead of Company being admitted to the ASX, the Group went through changes in Group structure as explained under the 'Significant changes in the state of affairs' section above. Given the listing of Temple & Webster Group Ltd and change in structure of the Group, remuneration policies are in the process of being developed and refined.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Share-based compensation
- Additional disclosures relating to KMP
- Security dealing policy

Principles used to determine the nature and amount of remuneration

Nomination and Remuneration Committee

The Nomination and Remuneration Committee provides advice, recommendations and assistance to the Board on all matters relating to executive and non-executive director remuneration.

The objective of the Committee is to ensure that the Group attracts and secures the appropriate level of talent, skills and expertise to its Board and executive leadership team to lead and govern the Group's strategic, operational and financial objectives.

Executive remuneration

The Board's remuneration strategy and framework is designed to link executive remuneration to the achievement of the Group's major strategic objectives and ultimately to the creation of shareholder value.

The remuneration policy is focused on the delivery of a strategy for the successful recruitment, retention and development of its executives and KMP. Accordingly, the Board ensures that remuneration packages are competitive with comparable roles in similar companies. This is essential in attracting the calibre of executive required to achieve the objectives of the Group.

Remuneration framework

The Company adopts an executive remuneration framework that promotes:

- a performance and success culture, and
- incentive and reward for achieving the Group's major strategic objectives which are aligned to the creation of shareholder value.

Guiding principles

The underlying guiding principles of the Board's remuneration strategy in establishing executive packages are:

1. Market competitive and fair
Total fixed remuneration (base salary and superannuation) is both competitive in the market and fair to the executive when considering the responsibilities of the role.
2. Performance orientated
An "At Risk" component of remuneration is rewarded for performance through the achievement of the Group's major strategic objectives. Each executive has individual performance hurdles and measures that are aligned to the Group's objectives.
3. Aligned with shareholders and encourage ownership
The majority of the "At Risk" component of remuneration is rewarded through shares in the Company. This encourages executives to adopt principles that will support long-term sustainable performance and growth of the Company.
4. Founded on integrity and transparency
Future business and market developments may support innovation in the Board's remuneration strategy in response to change. All enhancements to executive package design will be established with integrity and transparency.

Package components

The Remuneration Framework consists of the following components:

- Fixed annual remuneration - Includes base salary including any non-cash benefits paid in lieu of salary and superannuation.
- At risk annual short term incentive ('STI') - Calculated and paid annually on achievement of the Board approved business plan.
- At risk long term incentive ('LTI') - Calculated and paid in equity in accordance with the Employee Equity Plans on achievement of the Board approved business plan.

Whilst the Group is in transition to profitability, the Board and management recognise the need to structure the packages of its KMP accordingly. As a result, for the period ending July 2019, it is the Board's intention to minimise the short-term cash based incentive structure that might otherwise be recognised as STI and in return maximise the LTI component for management.

The Board is currently finalising the terms of the LTI.

Benchmarking remuneration

Ensures employees are rewarded fairly and appropriately for their contribution to the Group's success by benchmarking against comparable positions in comparable organisations.

Independent remuneration advice and guidance is sought to ensure remuneration at all levels is set competitively relative to industry peers and similarly sized publicly listed companies.

Gender remuneration analysis is undertaken and corporate objectives are established to achieve parity between male and female remuneration for like roles.

Short term incentive

The STI is tied to achievement of business objectives over the short term (12 months).

The STI is in the form of equity.

STIs are measured on achievement of both financial and non-financial KPIs to create innovation and growth.

STI performance targets are based on: Individual KPIs, which are set at the beginning of the performance period, and are aligned to business level strategic priorities.

Long term incentive

The new LTI aims to motivate, retain and reward senior management, and has been designed to align the interests of executives and senior management with the interests of shareholders.

The LTI is in the form of equity in the Company.

LTI is for the period commencing 1 July 2016 ending 30 June 2019.

Employee equity plans

The Board has at its disposal the following plans available for the benefit of employees and directors:

- Employee Performance Rights Plan ('ERP')
- Employee Share Options Plan ('ESOP')

Use of remuneration consultants

With the new management team and organisational restructure in place, remuneration consultants have been engaged to assist the Board in ensuring that employment contracts are contemporary in nature to attract and retain executive talent whilst being totally aligned to creating shareholder value.

Remuneration consultant's fees consisted of the following for the year ended 30 June 2016:

Remuneration consultant name	Fees
Ian Crichton & Associates	\$6,089
Sparke Helmore	\$37,341
K & L Gates LLP	\$7,390

An agreed set of protocols were put in place to ensure that the remuneration recommendations would be free from undue influence from KMP. These protocols include requiring that the consultant not communicate with affected KMP without a member of the Nomination and Remuneration Committee being present, and that the consultant not provide any information relating to the outcome of the engagement with the affected KMP. The Board is also required to make inquiries of the consultant's processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and as such there was no undue influence.

Details of remuneration

Executive employment agreements

Remuneration arrangements for executives are formalised in employment agreements. The following outlines the details of contracts with executives:

The Interim Group Chief Executive Officer (Group CEO)

Mark Coulter is a founder of the business and employed on an interim time basis following the resignation of the former Group CEO, Brian Shanahan, whose contract was terminated by mutual consent.

Terms of a new contract are currently being discussed with the Board.

The terms of Mark Coulter's current contract include:

- a fixed annual remuneration of \$213,525 per annum (salary and superannuation)
- the Company may terminate the contract giving a minimum of three months' notice
- the Company may terminate the contract at any time without notice in the case of serious misconduct
- the CEO may resign giving a minimum of three months' notice

The terms of Brian Shanahan's contract included:

- a fixed annual remuneration of \$314,308 per annum (salary & superannuation)
- a short term Incentive that is equity based and aligned to the achievement of the Board approved Business Plan
- a one off bonus of \$150,000 upon completion of the Initial Public Offering
- a rolling period for each year ending on 30 June
- the Company may terminate the contract giving a minimum of six months' notice
- the Company may terminate the contract at any time without notice in the case of serious misconduct
- the CEO may resign giving a minimum of six months' notice

The Interim Chief Financial Officer (Group CFO)

Mark Tayler is employed on an interim basis with a contract expiring 18 October 2016, following the resignation of the former CFO, Deborah Kelly.

Terms of a new contract are currently being discussed with the Board.

The terms of Mark Tayler's current contract include:

- a fixed daily rate of \$1,060 plus Superannuation and GST (minimum 3 days per week)
- the Company may terminate the contract giving a minimum of 14 days' notice
- the Company may terminate the contract at any time without notice in the case of serious misconduct
- the CFO may resign giving a minimum of 14 days' notice

The terms of Deborah Kelly's contract included:

- a fixed annual remuneration of \$294,308 per annum (salary & superannuation)
- a short term incentive that is cash based and aligned to the achievement of the Board approved Business Plan
- a long term incentive that is equity based and aligned to the achievement of the Board approved Business Plan
- a sign on bonus equal to \$100,000 in shares upon completion of IPO
- the Company may terminate the contract giving a minimum of three months' notice
- the Company may terminate the contract at any time without notice in the case of serious misconduct
- the CFO may resign giving a minimum of three months' notice

Non-executive director remuneration

Non-executive director fees are established relative to the size of the Company and the responsibilities, skills and experience of the directors.

In accordance with the Constitution of Temple & Webster Group Ltd, the total amount provided to all non-executive directors must not exceed in aggregate in any financial year \$400,000 as the amount fixed by General Meeting. Additional fees may be payable for consulting services provided by non-executive directors. The Nomination and Remuneration Committee reviews the performance, skills and experience of the Board, and the directors' fees on an annual basis. This process considers remuneration survey data for comparable size companies and relativity of skills and experience held by the Board.

Directors do not qualify for performance based incentives or retirement benefits other than statutory requirements.

The current non-executive directors' fee structure is set out below.

	Chair fee	Member fee
Board	\$80,000	\$50,000
Audit and Risk Management Committee	\$30,000	\$10,000
Nomination and Remuneration Committee	\$30,000	\$10,000

Amounts of remuneration

Details of the remuneration of KMP of the Group are set out in the following tables.

2016	Fixed annual remuneration			Short term	Post-employment	Long-term	Share-based	Total
	Salary and Termination fees	payments	Non-monetary	incentive Bonus	benefits Superannuation	benefits Long service leave	payments Bonus	
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Carol Schwartz	53,594	-	-	-	5,091	-	-	58,685
Susan Thomas *	32,877	-	-	-	3,123	-	-	36,000
Stephen Heath *	28,823	-	-	-	2,738	-	-	31,561
Conrad Yiu	34,228	-	-	-	3,252	-	-	37,480
Matthew Campbell **	3,678	-	-	-	349	-	-	4,027
<i>Executive Directors:</i>								
Brian Shanahan **	221,147	-	-	256,168	19,308	-	-	496,623
<i>Other Key Management Personnel:</i>								
Mark Coulter	85,893	-	-	-	8,160	-	-	94,053
Mark Taylor	51,724	-	-	-	4,914	-	-	56,638
Deborah Kelly **	162,062	-	-	-	10,566	-	-	172,628
	674,026	-	-	256,168	57,501	-	-	987,695

* Appointed as KMP during the financial year

** Resigned as KMP during the financial year

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration 2016	Remuneration linked to performance 2016
<i>Non-Executive Directors:</i>		
Carol Schwartz	100%	-
Susan Thomas	100%	-
Stephen Heath	100%	-
Conrad Yiu	100%	-
Matthew Campbell	100%	-
<i>Executive Directors:</i>		
Brian Shanahan	48%	52%
<i>Other Key Management Personnel:</i>		
Mark Coulter	100%	-
Mark Taylor	100%	-
Deborah Kelly	100%	-

The proportion of the cash bonus paid/payable or forfeited as a percentage (%) of fixed remuneration is as follows:

Name	Cash bonus paid/payable 2016	Cash bonus forfeited 2016
<i>Executive Directors:</i>		
Brian Shanahan	106%	0%

Bonuses are paid based on short term incentives as outlined in the 'Principles used to determine the nature and amount of remuneration' section above.

Share-based compensation

Issue of shares

There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2016.

Performance rights

Details of performance rights over ordinary shares granted, vested and lapsed for directors and other KMP as part of compensation during the year ended 30 June 2016 are set out below:

Name	Grant date	Expiry date	Number of rights granted	Value of rights granted \$	Value of rights vested \$	Number of rights lapsed	Value of rights lapsed \$
Brian Shanahan	10/12/2015	09/12/2020	1,000,000	\$422,000	-	1,000,000	\$422,000
Brian Shanahan	10/12/2015	09/12/2020	93,864	\$84,478	-	93,864	\$84,478

Additional disclosures relating to KMP

Shareholding

The number of shares in the Company held during the financial year by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals	Other *	Balance at the end of the year
<i>Ordinary shares</i>						
Carol Schwartz	-	-	1,643,235	-	-	1,643,235
Conrad Yiu**	-	-	2,724,160	-	-	2,724,160
Matthew Campbell	-	-	223,478	-	(223,478)	-
Brian Shanahan	-	-	3,874,454	-	(3,874,454)	-
Mark Coulter**	-	-	2,476,160	-	-	2,476,160
Deborah Kelly ***	-	-	106,955	-	(106,955)	-
	-	-	11,048,442	-	(4,204,887)	6,843,555

* Other - represents the holding at the time of ceasing to be a KMP

** Includes a total of 5,130,286 shares held by AP Ecommerce Pty Ltd and Ardenpoint Fund 1 Pty Ltd of which Conrad Yiu and Mark Coulter have a beneficial interest.

*** Cancellation of Deborah Kelly's shares is an agenda item for the AGM. Post shareholder approval these shares will be cancelled by mutual agreement.

Performance rights holding

The number of performance rights over ordinary shares in the Company held during the financial year by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Brian Shanahan	-	1,093,864	-	(1,093,864)	-
	-	1,093,864	-	(1,093,864)	-

This concludes the remuneration report, which has been audited.

Shares under performance rights

Unissued ordinary shares of Temple & Webster Group Ltd under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
10/12/2015	09/12/2020	\$0.00	818,182
10/12/2015	09/12/2020	\$0.00	77,955

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of performance rights

There were no ordinary shares of Temple & Webster Group Ltd issued on the exercise of performance rights during the year ended 30 June 2016 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount), other than a loss arising from Ernst & Young's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during the financial year and up to the date of this report.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 22 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Ernst & Young

There are no officers of the Company who are former partners of Ernst & Young.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor

Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Carol Schwartz
Chairperson

29 August 2016

Auditor's Independence Declaration



Ernst & Young Services Pty Limited
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Auditor's Independence Declaration to the Directors of Temple & Webster Group Limited

As lead auditor for the audit of Temple & Webster Group Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Temple & Webster Group Limited and the entities it controlled during the financial year.

A handwritten signature in black ink that reads 'EY + Yag'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'C George'.

Christopher George
Partner
29 August 2016

Statement of Profit or Loss and other Comprehensive Income

For the year ended 30 June 2016

	Note	Consolidated 2016 \$'000	2015 \$'000
Revenue			
Sales revenue		50,829	26,119
Cost of goods sold		(30,770)	(15,593)
Gross margin		20,059	10,526
Interest		205	20
Expenses			
Distribution		(8,961)	(5,467)
Marketing		(10,659)	(3,093)
Employee benefits	4	(11,070)	(5,084)
Depreciation and amortisation	4	(476)	(625)
Impairment of intangibles	4	(19,392)	(929)
Net foreign exchange loss		(44)	(19)
Costs associated with IPO and business combinations	4	(6,514)	(232)
Other	4	(3,475)	(1,351)
Finance costs	4	(4,575)	(258)
Loss before income tax benefit		(44,902)	(6,512)
Income tax benefit	5	485	-
Loss after income tax benefit for the year attributable to the owners of Temple & Webster Group Ltd		(44,417)	(6,512)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(11)	-
Other comprehensive income for the year, net of tax		(11)	-
Total comprehensive income for the year attributable to the owners of Temple & Webster Group Ltd		(44,428)	(6,512)
		Cents	Cents
Basic earnings per share	31	(57.28)	(16.00)
Diluted earnings per share	31	(57.28)	(16.00)

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

Statement of Financial Position

As at 30 June 2016

	Note	Consolidated	
		2016 \$'000	2015 \$'000
Assets			
Current assets			
Cash and cash equivalents	6	18,437	1,926
Trade and other receivables		120	9
Inventories	7	3,530	1,313
Other	8	964	122
Total current assets		<u>23,051</u>	<u>3,370</u>
Non-current assets			
Related party receivables		-	710
Property, plant and equipment		234	87
Intangibles	9	7,289	38
Other		69	-
Total non-current assets		<u>7,592</u>	<u>835</u>
Total assets		<u>30,643</u>	<u>4,205</u>
Liabilities			
Current liabilities			
Trade and other payables	10	9,116	5,205
Borrowings	11	-	4,588
Employee benefits	12	442	190
Provisions	13	671	169
Deferred consideration	14	2,000	-
Deferred revenue		1,905	1,792
Total current liabilities		<u>14,134</u>	<u>11,944</u>
Non-current liabilities			
Deferred tax	15	18	-
Employee benefits		113	-
Total non-current liabilities		<u>131</u>	<u>-</u>
Total liabilities		<u>14,265</u>	<u>11,944</u>
Net assets/(liabilities)		<u>16,378</u>	<u>(7,739)</u>
Equity			
Contributed capital	16	76,666	8,222
Reserves	17	90	-
Accumulated losses		<u>(60,378)</u>	<u>(15,961)</u>
Total equity/(deficiency)		<u>16,378</u>	<u>(7,739)</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of Changes in Equity

For the year ended 30 June 2016

Consolidated	Contributed capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total deficiency in equity \$'000
Balance at 1 July 2014	8,222	-	(9,449)	(1,227)
Loss after income tax expense for the year	-	-	(6,512)	(6,512)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(6,512)	(6,512)
Balance at 30 June 2015	<u>8,222</u>	<u>-</u>	<u>(15,961)</u>	<u>(7,739)</u>
Consolidated	Contributed capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2015	8,222	-	(15,961)	(7,739)
Loss after income tax benefit for the year	-	-	(44,417)	(44,417)
Other comprehensive income for the year, net of tax	-	(11)	-	(11)
Total comprehensive income for the year	-	(11)	(44,417)	(44,428)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 16)	68,444	-	-	68,444
Share-based payments (note 32)	-	101	-	101
Balance at 30 June 2016	<u>76,666</u>	<u>90</u>	<u>(60,378)</u>	<u>16,378</u>

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

Statement of Cash Flows

For the year ended 30 June 2016

	Note	Consolidated 2016 \$'000	2015 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		55,268	29,097
Payments to suppliers and employees (inclusive of GST)		<u>(71,161)</u>	<u>(32,975)</u>
		(15,893)	(3,878)
Interest received		205	20
Interest and other finance costs paid		<u>(21)</u>	<u>-</u>
Net cash used in operating activities	30	<u>(15,709)</u>	<u>(3,858)</u>
Cash flows from investing activities			
Payment for purchase of subsidiary, net of cash acquired	27	(13,714)	-
Payments for property, plant and equipment		(168)	(104)
Payments for intangibles	9	(253)	(209)
Proceeds from government grants		<u>-</u>	<u>457</u>
Net cash from/(used in) investing activities		<u>(14,135)</u>	<u>144</u>
Cash flows from financing activities			
Proceeds from issue of shares	16	61,915	-
Proceeds from convertible notes		12,000	3,568
Payments to shareholders		(21,621)	-
Share issue transaction costs		<u>(5,939)</u>	<u>-</u>
Net cash from financing activities		<u>46,355</u>	<u>3,568</u>
Net increase/(decrease) in cash and cash equivalents		16,511	(146)
Cash and cash equivalents at the beginning of the financial year		<u>1,926</u>	<u>2,072</u>
Cash and cash equivalents at the end of the financial year	6	<u><u>18,437</u></u>	<u><u>1,926</u></u>

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

Notes to the Financial Statements

Note 1. General information

The financial statements cover Temple & Webster Group Ltd (referred to as 'Company' or 'parent entity') as a Group consisting of Temple & Webster Group Ltd and the entities it controlled at the end of, or during, the year (collectively referred to in these financial statements as the 'Group'). The financial statements are presented in Australian dollars, which is Temple & Webster Group Ltd's functional and presentation currency.

Temple & Webster Group Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

8DD Hiles Street
Alexandria, NSW 2015

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 August 2016. The directors have the power to amend and reissue the financial statements.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Accounting for the internal restructure at Initial Public Offering ('IPO')

During the financial year, an internal restructure took place in preparation of the listing of the Group on the Australian Securities Exchange. This resulted in a newly incorporated company, Temple & Webster Group Ltd, becoming the legal parent of the Group, conditional on the IPO completing.

The Group elected to account for the restructure as a capital reorganisation rather than a business combination. In the directors' judgement, the continuation of the existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been in a structure suitable to IPO and most appropriately reflects the substance of the internal restructure. As such, the financial statements of the new Group have been presented as a continuation of the pre-existing accounting values of assets and liabilities in Temple & Webster Pty Limited financial statements.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Trinomial, Monte Carlo or Black-Scholes models, as appropriate, taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Refunds and replacements provision

In determining the level of provision, the Group has made judgements in respect of the expected return of products, number of customers who will actually return the products 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. Refer to Note 13 for further details.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Notes to the Financial Statements

continued

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the stated accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Business combinations

As detailed in note 27, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Going concern

These financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The board approved budget and cash flow projections have been used to assess the group will be able to pay its debt as and when they fall due and that the going concern assumption can be used.

Note 3. Operating segments

Identification of reportable operating segments

The Group operates in one segment being the sale of furniture, homeware, and other lifestyle products through its online platform. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The operating segment information is the same information as provided throughout the financial statements and therefore not duplicated.

The information reported to the CODM is on at least a monthly basis.

Note 4. Expenses

	Consolidated	
	2016	2015
	\$'000	\$'000
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	99	49
Motor vehicles	24	-
Total depreciation	<u>123</u>	<u>49</u>

Note 4. Expenses (continued)

	Consolidated	
	2016 \$'000	2015 \$'000
<i>Amortisation</i>		
Software and websites	280	-
Development costs	25	576
Customer relationships	48	-
Total amortisation	<u>353</u>	<u>576</u>
Total depreciation and amortisation	<u>476</u>	<u>625</u>
<i>Impairment</i>		
Goodwill	17,902	-
Software & websites	1,474	-
Development	16	929
Total impairment	<u>19,392</u>	<u>929</u>
<i>Costs associated with IPO and business combinations</i>		
Costs associated with IPO	2,521	232
Milan Direct Pty Ltd acquisition	176	-
Zizo Home Pty Ltd acquisition	881	-
Employee benefits settled on IPO	2,936	-
Total costs associated with IPO and business combinations	<u>6,514</u>	<u>232</u>
<i>Other expenses</i>		
Hosting and other IT	1,033	364
Merchant fees	828	356
Consulting	665	212
Rent and occupancy	787	366
Other	162	53
Total other expenses	<u>3,475</u>	<u>1,351</u>
<i>Finance costs</i>		
Convertible notes finance costs - non-cash (refer to note 11 for further details)	4,555	235
Other interest and finance charges	20	23
Finance costs expensed	<u>4,575</u>	<u>258</u>
<i>Employee benefits expense</i>		
Employee benefits expense excluding superannuation	10,220	4,739
Defined contribution superannuation expense	787	384
Total employee benefits expense	<u>11,007</u>	<u>5,123</u>
<i>Accounting for finance costs</i>		
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred. The difference between the fair value and the previous carrying amount of the option in the convertible notes is also expensed as a finance cost as well as the capitalised interest expense on the notes.		

Note 5. Income tax benefit (continued)

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Deferred tax assets not recognised</i>		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Deductible capital raising costs	96	5
Intangibles	362	12
Accrued expenses	120	51
Employee benefits	212	89
Provisions for returns, refunds, inventory and bad debtors	326	-
Foreign exchange	18	-
Deferred revenue	20	28
	<hr/>	<hr/>
Total deferred tax assets not recognised	<u>1,154</u>	<u>185</u>

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

Accounting for tax

Income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

(i) when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or

(ii) when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Notes to the Financial Statements

continued

Note 5. Income tax benefit (continued)

Tax consolidated group

Temple & Webster Group Ltd (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group ('tax group') under the tax consolidation regime during the financial year. Each entity in the tax group continues to account for their own current and deferred tax amounts. The tax group has applied the 'group allocation' approach in determining the appropriate amount of taxes to allocate to group members. In addition to its own tax amounts, the head entity also recognises the tax arising from unused tax losses and tax credits assumed from each subsidiary in the tax group.

Assets or liabilities arising under tax funding agreements are recognised as amounts receivable from or payable to other entities in the tax group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Note 6. Current assets - cash and cash equivalents

	Consolidated	
	2016	2015
	\$'000	\$'000
Cash at bank	18,437	1,926

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For cash flow purposes, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Note 7. Current assets - inventories

	Consolidated	
	2016	2015
	\$'000	\$'000
Stock in transit	577	1,050
Stock on hand	3,308	263
Less: Provision for impairment	(355)	-
	2,953	263
	3,530	1,313

Inventory that was recognised as an expense in profit or loss amounted to \$30,770,000 (2015: \$15,593,000) for the year ended 30 June 2016.

Accounting policy for inventories

Stock in transit and stock on hand are stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Both stock in transit and stock on hand are finished goods for which net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 8. Current assets - other

	Consolidated	
	2016	2015
	\$'000	\$'000
Prepayments	786	56
Security deposits	178	66
	<u>964</u>	<u>122</u>

Note 9. Non-current assets - intangibles

	Consolidated	
	2016	2015
	\$'000	\$'000
Goodwill - at cost	21,600	-
Less: Impairment	(17,902)	-
	<u>3,698</u>	<u>-</u>
Brands - at cost	<u>2,781</u>	<u>-</u>
Software and websites - at cost	2,155	-
Less: Accumulated amortisation	(280)	-
Less: Accumulated Impairment	(1,474)	-
	<u>401</u>	<u>-</u>
Development - at cost	2,039	1,917
Less: Accumulated amortisation	(828)	(803)
Less: Accumulated Impairment	(1,092)	(1,076)
	<u>119</u>	<u>38</u>
Customer relationships - at cost	338	-
Less: Accumulated amortisation	(48)	-
	<u>290</u>	<u>-</u>
	<u>7,289</u>	<u>38</u>

Notes to the Financial Statements

continued

Note 9. Non-current assets - intangibles (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill \$'000	Brands \$'000	Software and websites \$'000	Development \$'000	Customer relationships \$'000	Total \$'000
Balance at 1 July 2014	-	-	-	1,334	-	1,334
Additions	-	-	-	209	-	209
Impairment of assets	-	-	-	(929)	-	(929)
Amortisation expense	-	-	-	(576)	-	(576)
Balance at 30 June 2015	-	-	-	38	-	38
Additions	-	-	131	122	-	253
Additions through business combinations (note 27)	21,600	2,781	2,024	-	338	26,743
Impairment of assets	(17,902)	-	(1,474)	(16)	-	(19,392)
Amortisation expense	-	-	(280)	(25)	(48)	(353)
Balance at 30 June 2016	<u>3,698</u>	<u>2,781</u>	<u>401</u>	<u>119</u>	<u>290</u>	<u>7,289</u>

Impairment testing

At 30 June 2016, the Group significantly increased its intangible assets through two businesses combinations as disclosed above and in note 27.

The Group manages its online brands platform through two cash generating units (which are the two retail brands):

- (i) Temple and Webster (including the recently retired brand of Zizo) ('TPW'); and
- (ii) Milan Direct ('MD')

Goodwill and brands acquired through business combinations have therefore been allocated prior to impairment to the following cash-generating units:

	Consolidated	
	2016 \$'000	2015 \$'000
Online brands platform (TPW)	5,771	-
Online brands platform (MD)	18,610	-
	<u>24,381</u>	<u>-</u>

The recoverable amount of the Group's goodwill and brands has been determined based on value-in-use calculations, using a discounted cash flow model, based on a five-year projection period approved by the Directors (including the budget for the financial year ended 30 June 2017). The growth rates applied in the value-in-use model were calculated based on the combination of the internal historical growth rates over the past 3 years as well as external industry data. The cash flows beyond a five-year period, representing a terminal value, are extrapolated using a steady rate.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for the online brands platform TPW:

- (a) 16.6% pre-tax discount rate;
- (b) 4% per annum projected revenue growth rate for a terminal value.

Note 9. Non-current assets - intangibles (continued)

In the value-in-use calculation, management also took into account the fact that the Zizo and Temple & Webster brands merged in April 2016. Based on the above assumptions the calculated recoverable amount was lower than the carrying value of the assets. Therefore an impairment charge of \$7,261,000 (representing \$5,771,000 goodwill, software and websites of \$1,474,000 and development of \$16,000) was expensed to profit or loss for the year ended 30 June 2016.

The following key assumptions were used in the discounted cash flow model for the online brands platform MD:

- (a) 16.6% pre-tax discount rate;
- (b) 4% per annum projected revenue growth rate for a terminal value.

In accordance with AASB136 'Impairment of assets', forecasts do not include estimated future cash inflows or outflows that are expected to arise from improving or enhancing the CGU's performance. Accordingly, the directors only included strategic initiatives that do not improve the CGU's current condition. Based on the above assumptions the calculated recoverable amount was lower than the carrying value of the assets. Therefore an impairment charge of \$12,131,000 (representing goodwill) was expensed to profit or loss for the year ended 30 June 2016.

Sensitivity

Any change in the key assumptions would further impair the carrying value of goodwill.

Accounting policy for impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Brands

Brand costs acquired are capitalised as an asset. These costs are not subsequently amortised as they have an indefinite useful life, instead they are tested annually for impairment.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful lives of between four to eight years.

Notes to the Financial Statements

continued

Note 9. Non-current assets - intangibles (continued)

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of five years.

Customer relationships

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of five years.

Note 10. Current liabilities - trade and other payables

	Consolidated	
	2016	2015
	\$'000	\$'000
Trade payables	4,484	2,372
Accrued payables	3,095	2,523
Employee related payables	1,041	200
Other payables	496	110
	<u>9,116</u>	<u>5,205</u>

Refer to note 19 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the reporting period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 11. Current liabilities - borrowings

	Consolidated	
	2016	2015
	\$'000	\$'000
Convertible notes payable	<u>-</u>	<u>4,588</u>

Refer to note 19 for further information on financial instruments.

At 30 June 2015, there were 4,587,603 convertible notes on issue (Tranche 1 and 2). Each convertible note had a face value of \$1. The holders of Tranche 1 and 2 had optionality to convert into equity on trade sale or IPO, or be redeemed, which for Tranche 1 noteholders, being a fixed price of \$10.41 per share and for Tranche 2, being at a 15% discount to equity price on IPO/trade sale. The convertible notes were converted at IPO.

The option to convert was accounted for as an embedded derivative held at fair value though profit or loss. The remeasurement of the embedded derivative during the period was accounted for in finance costs and amounted to \$4,555,000. The liability and embedded derivative were converted to equity on 4 December 2015. Refer for further details to note 16.

On 31 July 2015, 11,997,399 convertible notes were issued under Tranche 3 to fund the acquisition of ZIZO Home Pty Ltd. At IPO these convertible notes were converted into shares. Refer for further details to note 16.

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Note 11. Current liabilities - borrowings (continued)

Accounting policy for convertible notes

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised. The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied to instruments of comparable credit status and providing substantially the same cash flows on the same terms, but without the conversion option. The liability is subsequently measured at amortised cost until conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost in profit or loss. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders' equity as a reserve, net of transaction costs.

Note 12. Current liabilities - employee benefits

	Consolidated	
	2016	2015
	\$'000	\$'000
Annual leave	442	190

Accounting policy for employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Note 13. Current liabilities - provisions

	Consolidated	
	2016	2015
	\$'000	\$'000
Lease make good	30	-
Refunds and replacements	641	169
	671	169

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

Refunds and replacements

The provision represents the expected value replacement of goods made to customers and returns by customers. The provision is estimated based on historical data using the percentage of actual refunds and replacements against sales revenue.

Notes to the Financial Statements

continued

Note 13. Current liabilities - provisions (continued)

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Lease make good \$'000	Refunds and replacements \$'000
Consolidated - 2016		
Carrying amount at the start of the year	-	169
Additional provisions recognised	-	5,086
Additions through business combinations (note 27)	30	-
Amounts used	-	(4,524)
Unused amounts reversed	-	(90)
	<u>30</u>	<u>641</u>
Carrying amount at the end of the year	<u>30</u>	<u>641</u>

Accounting policy for provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost in profit or loss.

Note 14. Current liabilities - deferred consideration

	Consolidated	
	2016 \$'000	2015 \$'000
Deferred consideration	<u>2,000</u>	<u>-</u>

Deferred consideration relates to the acquisition of Wayfair Australia Pty Limited. The purchase price for this acquisition was \$6,073,000 of which \$4,000,000 and \$73,000 was paid on 31 July and 5 November 2015 respectively. The remaining balance was paid on 3 August 2016. Refer for further details to note 27.

Note 15. Non-current liabilities - deferred tax

	Consolidated	
	2016 \$'000	2015 \$'000
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Property, plant and equipment	10	-
Intangibles	8	-
	<u>18</u>	<u>-</u>
Deferred tax liability	<u>18</u>	<u>-</u>
<i>Movements:</i>		
Credited to profit or loss (note 5)	(485)	-
Additions through business combinations (note 27)	503	-
	<u>18</u>	<u>-</u>
Closing balance	<u>18</u>	<u>-</u>

Note 16. Equity - contributed capital

Group reorganisation

During the financial year, an internal restructure took place in preparation of the listing of the Group on the Australian Securities Exchange ('ASX'). This resulted in a newly incorporated company, Temple & Webster Group Ltd, becoming the legal parent of the Group. The internal restructure was conditional on the listing of the Group on the ASX.

Temple & Webster Group Ltd has determined that this internal restructure, that resulted in the Company acquiring Temple & Webster Pty Ltd ('T&W') (former parent entity), represented a common control transaction rather than a business combination. The appropriate accounting treatment for recognising the new group structure is on the basis that the transaction is a form of capital reconstruction and group reorganisation. Therefore, the financial information has been prepared using the principles of a reverse acquisition by the existing Group of Temple & Webster Group Ltd.

As a result, the financial statements have been prepared as a continuation of the financial statements of the accounting acquirer, T&W. Refer to basis of preparation in note 33.

The number of shares on issue shown reflects those of Temple & Webster Group Ltd after the reconstruction. 34,079,321 ordinary shares held by existing shareholders are subject to voluntary escrow agreements.

	2016 Shares	Consolidated 2015 Shares	2016 \$'000	2015 \$'000
Ordinary shares - fully paid	105,780,680	1,969,121	76,666	8,222

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2014	1,969,121		8,222
Balance	30 June 2015	1,969,121		8,222
Conversion of convertible notes Tranches 1 and 2	4 December 2015	378,666	\$22.73	8,607
Share split in the capital reorganisation	4 December 2015	46,166,092	\$0.00	-
Conversion of convertible note Tranche 3	4 December 2015	13,405,266	\$0.93	12,534
Shares issued as part of the Milan Direct purchase consideration	4 December 2015	7,306,394	\$1.10	8,037
Equity generated on closure of the TW East Share Plan	7 December 2015	-	\$0.00	1,541
Shares issued at IPO	10 December 2015	36,363,635	\$1.10	40,000
Shares issued to employees under bonus schemes	10 December 2015	106,955	\$0.93	100
Shares issued to employees under new incentive plan	10 December 2015	84,551	\$1.10	93
Transaction costs arising on IPO able to be offset against share capital	10 December 2015	-	\$0.00	(2,468)
Balance	30 June 2016	105,780,680		76,666

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Notes to the Financial Statements

continued

Note 16. Equity - contributed capital (continued)

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

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

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group has pursued investments to integrate and grow its existing businesses in order to maximise synergies.

Accounting policy for contributed capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 17. Equity - reserves

	Consolidated	
	2016 \$'000	2015 \$'000
Foreign currency reserve	(11)	-
Share-based payments reserve	101	-
	90	-

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency \$'000	Share-based payments \$'000	Total \$'000
Balance at 1 July 2014	-	-	-
Balance at 30 June 2015	-	-	-
Foreign currency translation	(11)	-	(11)
Share-based payments	-	101	101
Balance at 30 June 2016	(11)	101	90

Note 18. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 19. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk) and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets		Liabilities	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
US dollars	-	-	112	12
Euros	-	-	-	18
	-	-	112	30

Based on this net position, the Group is not exposed to any significant foreign currency sensitivity from its existing liabilities.

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 Group is not materially exposed to any significant interest rate risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is not materially exposed to any significant credit risk. All receivables are neither past due nor impaired.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the Financial Statements

continued

Note 19. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2016	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	4,484	-	-	-	4,484
Other payables	-	496	-	-	-	496
Deferred consideration	-	2,000	-	-	-	2,000
Total non-derivatives		6,980	-	-	-	6,980
Consolidated - 2015						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	2,372	-	-	-	2,372
Other payables	-	110	-	-	-	110
<i>Interest-bearing - fixed rate</i>						
Convertible notes payable	12.00%	4,588	-	-	-	4,588
Total non-derivatives		7,070	-	-	-	7,070

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 20. Fair value measurement

The carrying amounts of trade and other receivables, trade and other payables and other financial assets and liabilities are assumed to approximate their fair values due to their short-term nature.

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

Note 20. Fair value measurement (continued)

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Note 21. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2016	2015
	\$	\$
Short-term employee benefits	930,194	168,788
Post-employment benefits	57,501	16,035
	<u>987,695</u>	<u>184,823</u>

Note 22. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young Australia, the auditor of the Company:

	Consolidated	
	2016	2015
	\$	\$
<i>Audit services - Ernst & Young Australia</i>		
Audit or review of the financial statements	295,130	30,000
<i>Other services - Ernst & Young Australia</i>		
Tax compliance	27,000	7,500
Due diligence, assurance and tax services for IPO	772,715	45,000
	<u>799,715</u>	<u>52,500</u>
	<u>1,094,845</u>	<u>82,500</u>

Note 23. Contingent liabilities

The Group had no contingent liabilities at 30 June 2016 and 30 June 2015.

Notes to the Financial Statements

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Note 24. Commitments

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	393	51
One to five years	1,146	-
	<u>1,539</u>	<u>51</u>

Operating lease commitments includes contracted amounts for various retail showrooms under non-cancellable operating leases expiring within one to four years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Note 25. Related party transactions

Parent entity

Temple & Webster Group Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 21 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2016	2015
	\$	\$
Payment for other expenses:		
Payment for services from Ardenpoint Pty Ltd (director-related entity of Conrad Yiu and Mark Coulter)	505,000	120,000
Payment for services from Heath Investments (Aust) Pty Ltd (director related entity of Stephen Heath)	4,300	-

The services paid to Ardenpoint Pty Ltd and Heath Investments (Aust) Pty Ltd included consulting, planning and business advisory. The contract with Ardenpoint was cancelled in February 2016 and no further services were provided to the Group afterwards.

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2016	2015
	\$	\$
Non-current receivables:		
Trade receivables from other related party	-	710,423

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 25. Related party transactions (continued)

Terms and conditions

Except for the related party balance which was interest free, all transactions were made on normal commercial terms and conditions and at market rates.

Note 26. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	2016 \$'000
Loss after income tax	<u>(21,727)</u>
Total comprehensive income	<u>(21,727)</u>

Statement of financial position

	2016 \$'000
Total current assets	<u>27,672</u>
Total assets	<u>75,165</u>
Total current liabilities	<u>2,014</u>
Total liabilities	<u>2,014</u>
Equity	
Contributed capital	94,878
Accumulated losses	<u>(21,727)</u>
Total equity	<u><u>73,151</u></u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2016.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2016.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2016.

Accounting period

The parent entity was incorporated on 6 October 2015 and therefore there are no balances for the comparative period.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 33, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Notes to the Financial Statements

continued

Note 27. Business combinations

Temple & Webster Pty Limited

The acquisition of Temple & Webster Pty Limited on 4 December 2015 by the Company is accounted as a common control transaction rather than a business combination (refer to note 16).

Wayfair Australia Pty Ltd (renamed to Zizo Home Pty Ltd)

Temple & Webster Pty Limited acquired 100% of Wayfair Australia Pty Ltd (renamed to Zizo Home Pty Ltd) on 31 July 2015 for a purchase price of \$6,073,000. The acquired business contributed revenues of \$12,642,000 and net loss of \$1,049,000 to the consolidated entity for the period from 31 July 2015 to 30 June 2016. If the acquisition occurred on 1 July 2015, the full year contribution would have been revenues of \$13,501,000 and net loss of \$1,132,000.

This business combination was finalised in the current financial year and this resulted in an increase in trade and other payables by \$207,000, decrease in other provisions by \$269,000, increase in the consideration payment by \$73,000 and increase in goodwill by \$11,000.

Details of the purchase consideration, the fair value of the net liabilities acquired and goodwill are final and determined as follows:

	Fair value \$'000
Cash and cash equivalents	112
Trade and other receivables	60
Plant and equipment	16
Software and websites	1,562
Trade and other payables	(662)
Deferred tax liability	(469)
Other provisions	(187)
Deferred revenue	(130)
	<hr/>
Net assets acquired	302
Goodwill	5,771
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>6,073</u>
Representing:	
Cash paid or payable to vendor	4,073
Deferred consideration	2,000
	<hr/>
	<u>6,073</u>
	<hr/>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	6,073
Less: cash and cash equivalents	(112)
Less: deferred payment consideration	(2,000)
	<hr/>
Net cash used	<u>3,961</u>

From the purchase price of \$6,073,000, \$4,000,000 and \$73,000 were paid on 31 July 2015 and 5 November 2015, respectively. The remaining balance was paid on 3 August 2016.

Milan Direct Group Investments Pty Ltd and Milan Direct UK Pty Ltd

On 4 December 2015, the Company acquired 100% of the issued share capital of the Milan Direct Group Investments Pty Ltd and Milan Direct UK Pty Ltd. The purchase price for this acquisition was \$17,575,000, which was settled by the issue of 7,306,394 shares in the Company (fair value of \$1.10 per share based on IPO share issue price) amounting to \$8,037,000 and \$9,538,000 in cash. The acquired business contributed revenues of \$12,762,000 and net loss of \$2,439,000 to the consolidated entity for the period from 4 December 2015 to 30 June 2016. If the acquisition occurred on 1 July 2015, the full year contribution would have been revenues of \$22,768,000 and net loss of \$3,460,000.

Note 27. Business combinations (continued)

This business combination was finalised in the current financial year and this resulted in an increase in inventories by \$233,000, decrease in plant and equipment by \$62,000, increase in trade and other payables by \$36,000, decrease in deferred tax liability by \$206,000, decrease in other provisions by \$51,000, decrease in deferred revenue by \$3,000 and a decrease in goodwill by \$395,000.

Details of the purchase consideration, the fair value of the net liabilities acquired and goodwill are final and determined as follows:

	Fair value \$'000
Cash and cash equivalents (net)	(215)
Trade and other receivables	53
Inventories	2,945
Plant and equipment	59
Brands	2,781
Software and websites	462
Customer relationships	338
Trade and other payables	(3,887)
Deferred tax liability	(34)
Lease make good provision	(30)
Other provisions	(112)
Deferred revenue	(614)
Net assets acquired	1,746
Goodwill	15,829
Acquisition-date fair value of the total consideration transferred	<u>17,575</u>
Representing:	
Cash paid or payable to vendor	9,538
Temple & Webster Group Ltd shares issued to vendor	8,037
	<u>17,575</u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	17,575
Add: cash and cash equivalents (net)	215
Less: shares issued by Company as part of consideration	(8,037)
Net cash used	<u>9,753</u>

Accounting policy for business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Notes to the Financial Statements

continued

Note 27. Business combinations (continued)

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Note 28. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 33:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
Temple & Webster Pty Ltd	Australia	100.00%	-
Zizo Home Pty Ltd *	Australia	100.00%	-
TPW Group Services Pty Ltd	Australia	100.00%	-
Milan Direct Group Investments Pty Ltd	Australia	100.00%	-
Milan Direct Pty Ltd	Australia	100.00%	-
Milan Direct UK Pty Ltd	United Kingdom / Australia	100.00%	-

* previously known as Wayfair Australia Pty Ltd.

The principal continuing activities of the Group consisted of the sale of furniture, homeware, and other lifestyle products.

Note 29. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Temple & Webster Group Ltd (Holding Entity)
Temple & Webster Pty Ltd
Zizo Home Pty Ltd
TPW Group Services Pty Ltd
Milan Direct Group Investments Pty Ltd
Milan Direct Pty Ltd
Milan Direct UK Pty Ltd

Note 29. Deed of cross guarantee (continued)

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

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 Temple & Webster Group Ltd, they also represent the 'Extended Closed Group'.

The statement of profit or loss and other comprehensive income and statement of financial position are substantially the same as the Group and therefore have not been separately disclosed.

Note 30. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2016 \$'000	2015 \$'000
Loss after income tax benefit for the year	(44,417)	(6,512)
Adjustments for:		
Depreciation and amortisation	476	625
Impairment of intangibles	19,392	929
Foreign exchange differences	44	-
Convertible notes interest expense - non-cash	4,555	-
Costs associated with IPO and business combinations	5,433	-
Doubtful debts	15	-
Income tax benefit	(485)	-
Change in operating assets and liabilities:		
Decrease in trade and other receivables	2	4
Decrease/(increase) in inventories	728	(310)
Increase in other operating assets	(911)	(12)
Increase/(decrease) in trade and other payables	(632)	1,192
Increase in employee benefits	365	-
Increase in other provisions	174	26
Decrease in deferred revenue	(631)	-
Increase in other operating liabilities	-	200
Net interest received	183	-
Net cash used in operating activities	<u>(15,709)</u>	<u>(3,858)</u>

Note 31. Earnings per share

	Consolidated	
	2016 \$'000	2015 \$'000
Loss after income tax attributable to the owners of Temple & Webster Group Ltd	<u>(44,417)</u>	<u>(6,512)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>77,538,213</u>	<u>40,689,262</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>77,538,213</u>	<u>40,689,262</u>

Notes to the Financial Statements

continued

Note 31. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	(57.28)	(16.00)
Diluted earnings per share	(57.28)	(16.00)

The basic and diluted earnings per share above is calculated based on the number of ordinary shares that would have been in existence had the share split (20.66 additional shares for each existing 1 share) had occurred at 1 July 2014.

896,137 (2015: Nil) performance rights are not included in the calculation of diluted earnings per share because they are anti-dilutive for the financial year ended 30 June 2016. These options could potentially dilute basic earnings per share in the future.

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Temple & Webster Group Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 32. Share-based payments

A long-term incentive ('LTI') plan has been established by the Group and approved by shareholders at a general meeting, whereby the Group may, at the discretion of the Nomination and Remuneration Committee, grant performance rights over ordinary shares in the Company to employees and directors of the Group. The rights are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

Set out below are summaries of performance rights granted under the plan:

2016

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other *	Balance at the end of the year
10/12/2015	09/12/2020	\$0.00	-	1,818,182	-	(1,000,000)	818,182
10/12/2015	09/12/2020	\$0.00	-	171,819	-	(93,864)	77,955
			-	1,990,001	-	(1,093,864)	896,137

* Represents the forfeited performance rights on resignation of employee or director.

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 3 1/2 years.

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
10/12/2015	10/12/2020	\$0.90	\$0.00	34.75%	-	2.12%	\$0.900
10/12/2015	10/12/2020	\$0.90	\$0.00	50.00%	-	2.12%	\$0.432

Note 32. Share-based payments (continued)

Accounting policy for share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Trinomial, Monte Carlo or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 33. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting year. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial year ended 30 June 2016.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Notes to the Financial Statements

continued

Note 33. Significant accounting policies (continued)

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Group structure and comparative information

During the financial year, an internal restructure took place in preparation of the listing of the Group on the Australian Securities Exchange ('ASX'). This resulted in a newly incorporated company, Temple & Webster Group Ltd, becoming the legal parent of the Group. The internal restructure was not conditional on the listing of the Group on the ASX.

Temple & Webster Group Ltd has determined that this internal restructure, that resulted in the Company acquiring Temple & Webster Pty Ltd ('T&W') (former parent entity), represented a common control transaction rather than a business combination. The appropriate accounting treatment for recognising the new group structure is on the basis that the transaction is a form of capital reconstruction and group reorganisation. Therefore, the financial information has been prepared using the principles of a reverse acquisition by the existing Group of Temple & Webster Group Ltd.

As a result these consolidated financial statements have been prepared as a continuation of the financial statements of the accounting acquirer T&W.

For presentation purposes, the comparative information presented in these financial statements represent those of T&W only for the year ended at 30 June 2015. The information for the current financial year are T&W from 1 July 2015 and its subsidiary WayFair Australia Pty Limited (renamed as Zizo Home Pty Ltd) ('Zizo') from the date of acquisition on 31 July 2015, and Temple & Webster Group Ltd from the date of its incorporation on 6 October 2015. On completion of the listing of the Group on the ASX the Group acquired Milan Direct Group Investments Pty Ltd and Milan Direct UK Pty Ltd (collectively called 'Milan Direct'). The acquisitions of the Milan Direct and Zizo businesses have been accounted for as business combinations. The consideration paid has been allocated to the identifiable assets and liabilities at the respective acquisition dates.

Historical cost convention

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, which are measured at fair value.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 26.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Temple & Webster Group Ltd as at 30 June 2016 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Note 33. Significant accounting policies (continued)

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sales revenue - sale of goods

Sale of goods revenue 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 occurring on shipment of the goods. Revenue from the sale of good is measured net of returns, allowances, discounts and deferred revenue.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

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

Notes to the Financial Statements

continued

Note 33. Significant accounting policies (continued)

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

Goods and Services Tax ('GST') and other similar taxes

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

Reclassification

Comparative figures in the statement of profit or loss and other comprehensive income have been reclassified to conform to the current year presentation.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 34. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2016. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Group.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Group.

Notes to the Financial Statements

continued

Note 34. New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the Group.

Note 35. Events after the reporting period

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 33 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 29 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors



Carol Schwartz
Chairperson

29 August 2016
Sydney



Ernst & Young Services Pty Limited
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

Report on the financial report

We have audited the accompanying financial report of Temple & Webster Group Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated 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 of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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 and fair presentation of the financial report 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, a copy of which is included in the directors' report.



Opinion

In our opinion:

- a. the financial report of Temple & Webster Group Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 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.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Temple & Webster Group Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Christopher George
Partner
Sydney
29 August 2016

Shareholder Information

The shareholder information set out below was applicable as at 8 August 2016.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

Range	Securities	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	91,359	111	-
1,001 to 5,000	327,972	90	-
5,001 to 10,000	560,965	68	-
10,001 to 100,000	6,846,439	162	-
100,001 and over	97,953,945	63	-
	105,780,680	494	-
Holding less than a marketable parcel	-	135	-

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
Macquarie Corporate Holdings Pty Ltd	15,217,673	14.39
National Nominees Limited (Db A/C)	10,664,134	10.08
Bond Street Custodians Limited (Htt - V56243 A/C)	8,598,718	8.13
Lolek Raja Pty Ltd (Ramlar)	7,306,394	6.91
National Nominees Limited	6,508,090	6.15
Sandhurst Trustees Ltd (Jmfg Consol A/C)	6,463,937	6.11
HSBC Custody Nominees (Australia) Limited	6,019,305	5.69
Ap Ecommerce Pty Ltd (Ardenpoint E Fund Unit A/C)	4,277,828	4.04
Citicorp Nominees Pty Limited	3,626,918	3.43
Brian Shanahan & Jacqueline Shanahan (The Shanahan Fam A/C)	3,205,324	3.03
Super Properties Pty Ltd (The Shayne Smyth A/C)	2,449,000	2.32
Adam Richard McWhinney (The McWhinney Fam A/C)	2,205,389	2.08
Super Properties P/L (The Shayne Smyth A/C)	1,676,028	1.58
Jewelcross Proprietary Limited (Schwartz Children's A/C)	1,643,235	1.55
Hingtai Pty Limited (Hingtai A/C)	1,638,792	1.55
Perle Ventures Pty Ltd (Pv Investments 3 A/C)	1,225,899	1.16
Perle Ventures Pty Ltd (877 Cap Investments 2 A/C)	1,213,994	1.15
Wildflower Pty Limited	990,000	0.94
Ben Buckler Investments Pty Ltd (Ben Buckler Investment A/C)	925,000	0.87
Anglo Ports Pty Limited (Anglo Ports Investment A/C)	916,081	0.87
	86,771,739	82.03

Unquoted equity securities

	Number on issue	Number of holders
Performance rights over ordinary shares	896,137	1

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares Number held	% of total shares issued
Macquarie Group Limited	15,217,673	14.39
IG Investment Management, Inc	12,308,490	11.64
Mr Dean J Ramler	7,306,394	6.91
Tackelly Pty Limited as Trustee for Tackelly Trust	5,988,884	5.66
Super Properties Pty Ltd as Trustee for Shayne Smyth Trust	5,880,810	5.56

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Securities subject to voluntary escrow

Class		Number of shares
Ordinary shares	Escrowed until the date on which the Company's audited full year results for the period ending 30 June 2016 are released to the ASX	27,720,768
Ordinary shares	Escrowed until the date on which the Company's audited full year results for the period ending 30 June 2017 are released to the ASX	6,358,553
		<u>34,079,321</u>

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Corporate Directory

Directors	Carol Schwartz, chairperson and independent non-executive director Susan Thomas, independent non-executive director Stephen Heath, independent non-executive director Conrad Yiu, non-executive director
Company secretary	Michael Egan
Notice of annual general meeting	The details of the annual general meeting of Temple & Webster Group Ltd are: Wentworth Sofitel Sydney, NSW 2000 Tuesday 25 October at 10:30 am (AEDT)
Registered office / principal place of business	8DD Hiles Street Alexandria, NSW 2015 Head office telephone: 02 9698 4548
Share register	Link Market Services Limited Level 12 680 George Street Sydney, NSW 2000 Share registry telephone: 1300 554 474
Auditor	Ernst & Young 200 George Street Sydney, NSW 2000
Solicitors	Norton Rose Fulbright Australia Level 18, Grosvenor Place 225 George Street Sydney, NSW 2000
Bankers	Westpac Retail & Business Banking Level 5 24-32 Lexington Drive Bella Vista, NSW 2153 Macquarie Bank Level 2 1 Shelley Street Sydney, NSW 2000
Stock exchange listing	Temple & Webster Group Ltd shares are listed on the Australian Securities Exchange (ASX code: TPW)
Website	www.templeandwebstergroup.com.au
Business objectives	Please refer to the Directors' report, section 'Review of operations'
Corporate Governance Statement	Refer to the Company's website for all corporate governance information www.templeandwebstergroup.com.au/Home/?page=corporate-governance

TEMPLE &
WEBSTER
GROUP

