
# Annual Report 2019

TEMPLE & WEBSTER

# Contents



**Temple & Webster Group Ltd**
ABN 69 608 595 660


MAKING THE WORLD MORE BEAUTIFUL
ONE ROOM AT A TIME

# Summary

FY19 Revenue
**$101.6M**
*41% Growth YoY*

FY18 Revenue
**$72.2M**

FY19 EBITDA
**$1.1M**

FY18 EBITDA
**($0.7M)**

June 19 Cash
**$13.5M**

June 18 Cash
**$9.9M**

FY18 and FY19 revenue and EBITDA take into consideration AASB 15, prior year comparatives have not been restated in the financial report.

EBITDA is a non-IFRS measure that, in the opinion of the Directors, is useful in understanding and appraising the Group's performance.

- Temple & Webster is the online market leader in furniture & homewares
- Large addressable market, of which only 4-5% moved online
- Business is now trading profitably with strong top-line growth and a debt free balance sheet

Sources: Euromonitor International Limited; Home Furnishings and Homewares System 2018 edition.
IBISWorld Industry Report OD4176 Online Household Furniture Sales in Australia.

# Chairperson's Report

**Dear shareholders,**

**On behalf of the Board of Directors, it gives me great pleasure to present the 2019 Annual Report.**

### MAIDEN YEAR OF PROFIT

As promised, FY19 was Temple & Webster's first full year of profit, with an EBITDA result of $1.1m for the year and a net profit after tax of $3.8m. This result was the culmination of the turnaround strategy put in place during 2016. This profit, combined with the underlying negative working capital nature of our business, meant we ended the year with $13.5m in cash and zero debt, which represents net cash flows of $3.6m. Our strong balance sheet, combined with a profitable business model, has secured the business and now allows us to sustainably reinvest for future growth.

### STRONG GROWTH IN A WEAK HOUSING MARKET

The group delivered full year revenue of $101.6m, a 41% growth rate compared to the prior financial year. This growth was driven by a 37% increase in active customers, with growth from both new and repeat customers. We are especially pleased with this revenue and customer growth given the challenging macro environment impacting both the housing market and the retail sector. We believe these headwinds are being opposed by stronger tailwinds, being the shift to online caused by the aging of the millennial cohort and our brand positioning around "affordable beauty" which is important in these tougher economic times. While we remain watchful of the broader macroeconomic environment, we are confident that we are better positioned than many of our competitors to grow during challenging times.

### LARGE TOTAL ADDRESSABLE MARKET

Temple & Webster's core furniture and homewares retail market is worth ~$14b. While the Australian online retail market continues to grow, it remains underpenetrated compared to other markets. Euromonitor estimates only 4.4% of the total market sales are made online (vs 14.8% in the UK and 14.9% in the US). We believe this adoption curve has been slowed by macroeconomic headwinds and the slow progress of omnichannel adoption by some leading Australian retailers. Over the short to mid-term the adoption of online shopping in our category should accelerate as the oldest millennials enter their prime furniture buying years (35-65 years). This generation of shopper has already adopted online shopping to a high degree in other categories such as fashion and appliances, and we believe the furniture and homewares category will be next. The take-up of the online channel should also be helped as major offline players further enhance and optimise their online experience, mobile and broadband speeds improve, and logistics becomes cheaper and faster.

We also continue to expand our efforts into new addressable markets such as home improvement and the B2B market (e.g. offices, developers, hospitality businesses). With these additional markets we estimate our total addressable market is actually much larger, closer to ~$30b. This large addressable market should help us deliver strong growth for many years to come.

### LOOKING AHEAD

We believe that now is the time to reinvest for future growth, given the once in a generation structural change that is happening in retail. Temple & Webster is well positioned to be the household name for future generations of furniture buyers. As such, our strategy is to deliver a high growth business while remaining profitable.

On behalf of the directors of the Group, I would like to thank you, our shareholders, for your continued support and contribution. We look forward to another great year in FY20.

**STEPHEN HEATH**
*Non-Executive Chairperson*

# CEO's Report

**Dear fellow shareholders,**

It is with great pleasure I can announce that FY19 was Temple & Webster's most successful year in its 8-year history. We reached the incredibly important milestones of profitability and our revenue crossed the $100m threshold to end at $101.6m for the year. More than a quarter of a million Australians bought an item for their homes during the year, a 37% increase over the year before. During our mid-year sale we reached our first million-dollar day (checkout revenue). While symbolically a great milestone, it shows the capacity of our suppliers, our technology platform and our customer service and delivery capabilities to scale and become a much larger business.

While these are great outcomes, they are the result of the hard work of an incredibly passionate team. We started Temple & Webster with a simple vision to make the world more beautiful, one room at a time. Buying furniture and homewares is an emotional purchase decision, and we want customers to come to us to make their homes beautiful in an affordable way. We want to be famous for having the largest and best range, the most inspirational content and services, and the best delivery experience and customer service. It's great to be able to say that we made significant progress on all of these strategic pillars, placing Temple & Webster in its strongest position to date.

### RANGE EXPANSION

We now have 150,000 product listings across 195 categories, which is a net increase of 25% over the year before. We added depth and breadth to all of our key categories, and we still firmly believe in our strategy of being a one-stop shop for the home. Our range expansion also included entering into the home improvement market with the listings of thousands of products for the renovator.

### PRIVATE LABEL

Over the year we added resources to our private label team including furniture and homewares buyers and merchandise and inventory planning support. A focus for the year was improving our outdoor private label range which we see as a key growth category. Buying outdoor furniture can be a difficult proposition offline as many retailers will only keep products in stock for the seasonally strong period leading up to and including summer. We are working towards having a good range of outdoor furniture available all year round as part of the differentiated Temple & Webster offer. We also made our first orders of private label homeware products including rugs and art, and strengthened our bed & bath offer. While our preference is to work with our drop ship suppliers on all new ranges, we see expanding our private label sales as important to ensure stock security and to fill product and price gaps.

### IMPROVED CUSTOMER EXPERIENCE

Our net promoter score continues to improve. We hit our target score of ~60% which was primarily driven by delivery experience improvements, working more closely with our freight carriers, enforcing stricter quality standards across our supplier base and upskilling our customer care team. We also managed to reduce our average dispatch time from 2 days down to 1.5 days, which is a great effort considering the increase in our volumes. Note that the Net Promoter Score ranges from -100% to +100%, so a score of 60 is very good and means that the vast majority of our customers are very happy.

### CUSTOMER ACQUISITION COSTS AND MARKETING ROI HOLDING STEADY AS WE SCALE

Our customer acquisition cost (CAC) has remained steady between FY18 and FY19 at $43, even as our marketing budget has scaled 37%. When you combine this with the 12 month margin an average customer delivers to the business (after COGS and fulfilment costs), the first-year marketing ROI has also held steady at around 2.6x, which is impressive given we are adding record numbers of first time customers. This strong marketing ROI has been helped by gains in both revenue per active customer and conversion rate.

### SCALING OUR B2B DIVISION

Our B2B division, which we call Trade & Commercial, also had a strong finish to the year. While NSW and Federal elections were more challenging periods, we saw a strong recovery in the fourth quarter. The net result was a year on year revenue growth rate of 38%. Over the year we added business development managers and operational support, both onshore and offshore. We also opened our first by appointment showroom for our Trade & Commercial clients. This space allows our clients to meet their dedicated account manager, review designs and product selections, and touch and feel key lines and samples. We remain bullish on this division as an alternative growth channel to the main game in B2C.

### NEW PHOTOGRAPHIC STUDIO & ROOM IDEAS

One of the key pillars to our strategy is having the most inspirational content (and services) in our category. We want our customers to be inspired to make their homes more beautiful and realise that they can afford to do so with Temple & Webster. This year we moved our creative team into a much larger, dedicated photographic studio which has space for multiple simultaneous room builds, ample storage for props and samples and is most likely the best equipped dedicated interiors photography studio in Australia. We also launched a new feature on the site named "Room Ideas". This is a collection of some of the back catalogue of our content, allowing customers to select looks they like and then be able to shop that specific look with the same or similar items.

# CEO's Report (cont.)

**SITE ENHANCEMENTS**

Along with launching room ideas, we added multiple new features and functionality across our website and mobile site. Product recommendations have been added across the site and homepage, which use artificial intelligence and machine learning to identify and predict what a customer may be looking for based on their observed behaviours. This personalisation journey has been extended into our email marketing channel. We also made significant enhancements to our mobile site, improving the homepage, category pages, product pages and checkout. Our technology team has also been hard at work in building and testing our first mobile app which will be launching in FY20.

**WOMEN'S COMMUNITY SHELTERS**

As announced last year, Temple & Webster has entered into a partnership with Women's Community Shelters (WCS), the leading sector expert in establishing and running shelters for victims of domestic violence and homelessness in NSW. WCS's mission is to "work with communities to establish new shelters, which provide short term emergency accommodation and support in a safe environment that enables homeless women to rebuild self-esteem and achieve control and fulfilment of their lives."

During the year, Temple & Webster, along with support from some of our key suppliers, furnished and styled WCS's newest shelter in Sydney. The shelter looks great and so far the feedback from the women and children who have stayed there has been very positive. As I said in last year's annual report, our vision is to make the world a more beautiful place, and the aim of this partnership is to extend that vision (even a little bit) to those who need it more than most.

**WHERE TO FROM HERE**

We have made the decision that given the growth we are experiencing, the best strategic decision is to focus on Australia and ensure we own our home market before trialling international. We are still keen on this as a future growth play however we have more work to do in Australia to ensure that when the retail and housing markets do bounce back, we are there to capture as much of that growth as possible. Our estimated market share for both our Australian B2C and B2B divisions is less than 0.5%, so we have a lot of growth ahead of us if we can continue to execute our disruptive proposition.

Our plan to extend our market leadership of the B2C online furniture & homewares market has not changed:

- Firstly, we will continue to add depth and breadth to our product categories, including expanding our private label offering
- As we grow, we will leverage our scale, working with our suppliers in obtaining exclusivity on new product ranges and negotiating improved trading terms
- As big as we are, only 31% of Australians have even heard of Temple & Webster, so we will continue to build our brand awareness using both digital and non-digital channels with the aim of becoming a nationally recognised brand over the next 5 years
- Next up on innovating our offer is launching our mobile app and getting real world feedback. We will also be expanding our personalisation efforts across all customer touch points, and preparing for the Augmented/Virtual Reality trend which we see as becoming increasingly important for our sector over the next few years
- We will continue to run our own delivery pilot and are working with our freight partners on what an improved service offering looks like for our Temple & Webster customers
- And lastly, we will add more customer advice touch points across our customer care and social media channels.

Our plan for the B2B market involves:

- Adding trade only ranges to broaden the types of clients we can serve including more commercial grade furniture
- Expanding our inbound sales team (both onshore & offshore) and adding business development managers with category and/or geographic specialisation for outbound sales
- Subject to a successful pilot of our Sydney by appointment showroom, opening additional by appointment showrooms in other major metro locations
- Continuing to improve our turnkey solution for our clients including delivery consolidation, install & assembly, packaging removal and styling
- And lastly, we also see an opportunity to increase the brand awareness of our B2B offering through dedicated trade marketing activities

Given the nascent stage of the online furniture & homewares market and the favourable structural changes occurring, we remain committed to our strategy of investing to ensure Temple & Webster is the brand for the next generation of furniture buyers. We want Temple & Webster to be the first place Australians turn to when shopping for their homes and work spaces. As such, our strategy is to pursue high revenue growth, reinvesting back into the business, while remaining profitable.

Finally, I would like to thank the Tempster team for their hard work, energy, style and passion for our customers. They are the real reason why Temple & Webster is in such a great position today.

**MARK COULTER**
*Chief Executive Officer*

# Financial Report 2019

**The Directors of the Temple & Webster Group present the report, together with the consolidated financial report for the year ended 30 June 2019.**

# 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 2019.

### Directors

The following persons were directors of Temple & Webster Group Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Stephen Heath
Susan Thomas
Conrad Yiu

### Principal activities

Temple & Webster is Australia's leading online retailer of furniture and homewares.

Temple & Webster has over 150,000 products on sale from hundreds of suppliers. The business runs an innovative drop-shipping model, where products are sent directly to customers by suppliers, enabling a larger product range, faster delivery times and reducing the need to hold inventory.

The drop-ship range is complemented by a private label range which is sourced directly by Temple and Webster from overseas suppliers.

The Temple & Webster Group is headquartered in Sydney, Australia and is listed on the Australian Securities Exchange under the code TPW.

### Dividends

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

### Financial and operational review

Revenue for financial year 2019 was $101,613,000 (2018: $72,595,000) with a net profit after tax of $3,764,000 (2018: loss of $21,000).

| | 30/06/2019 $m | 30/06/2018 $m |
|---|---|---|
| Revenue | 101.6 | 72.6 |
| Gross margin | 45.3 | 32.1 |
| *%* | *44.6%* | 44.2% |
| EBITDA | 1.1 | (0.6) |
| Net profit/(loss) after tax | 3.8 | 0.0 |
| Cash balance | 13.5 | 9.9 |

At the end of financial year 2016, the Group communicated a goal of achieving a full year of profitability in FY19. The Directors are pleased to confirm that this goal was achieved with an EBITDA result of $1.1m and a net profit after tax of $3.8m for FY19.

Key financial and operational metrics for the year ended 30 June 2019 include:

- Revenue growth of 40% *(41% if FY18 restated for AASB 15 purposes)*
- Active customer growth of 37%
- 44% of orders from repeat customers
- Gross margin % increase from 44.2% to 44.6%
- First full year of profit with an EBITDA result of $1.1m and a net profit after tax of $3.8m
- Cash flow positive with an ending cash balance of $13.5m and no debt

The Group has adopted the new revenue accounting standard AASB 15 using the modified retrospective method, resulting in an adjustment to the opening balance of retained earnings. The comparative period has not been adjusted. Refer to the Group's FY19 results presentation for like for like comparisons and further commentary on the Group's financial results.

### Significant changes in the state of affairs

There were no 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 2019 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 Chairperson's and the CEO's reports.

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

### Share Options

### Unissued shares
As at the date of this report and at the reporting date, there were 5,543,078 unissued ordinary shares under options. Refer to the remuneration report for further details of the options outstanding for Key Management Personnel ('KMP').

### Information on directors

| | |
|---|---|
| Name: | Stephen Heath |
| Title: | Independent Non-Executive Director and Chairperson |
| 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 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 for both ASX Listed and Private Equity owned companies. |
| Other current directorships: | None |
| Former directorships (last 3 years): | Non-Executive Director of Funtastic Limited (appointed on 18 October 2010 and resigned on 6 February 2019). |
| Special responsibilities: | Chair of the Board and the Nomination and Remuneration Committee |
| Interests in shares: | 184,000 |
| Interest in options over shares: | 181,026 |

| | |
|---|---|
| Name: | Susan Thomas |
| 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. Susan founded and was the Managing Director at FlexiPlan Australia, an investment administration platform sold to MLC. |
| Other current directorships: | Director of Fitzroy River Holdings Limited (appointed on 26 November 2012) and Royalco Resources Limited (appointed on 22 February 2017). |
| Former directorships (last 3 years): | Board Chairperson of Alexium International Group Limited (appointed to Board on 10 December 2017, Chairperson on 8 May 2018 and resigned on 31 March 2019) |
| Special responsibilities: | Chair of the Audit and Risk Management Committee |
| Interests in shares: | Nil |
| Interest in options over shares: | 181,026 |

| | |
|---|---|
| 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, the CEO of Temple & Webster Group Ltd. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | None |
| Interests in shares: | 3,232,018 ordinary shares |
| Interest in options over shares: | 181,026 |

'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, business and 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 Group's Board of Directors ('the Board') held during the year ended 30 June 2019, 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 |
| Stephen Heath | 5 | 5 | 2 | 2 | 4 | 4 |
| Susan Thomas | 5 | 5 | 2 | 2 | 4 | 4 |
| Conrad Yiu | 5 | 5 | - | - | 4 | 4 |

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

## Remuneration report (audited)

The Directors of Temple & Webster Group Ltd present the Remuneration Report (the Report) for the Company and its controlled entities for the year ended 30 June 2019. This Report forms part of the Directors' Report and has been audited in accordance with section 300A of the Corporations Act 2001.The Report provides an explanation of the remuneration strategy of the Group 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.

For the purposes of this report, "executive" means the Chief Executive Officer ('CEO'), the Chief Financial Officer ('CFO') and the Chief Experience Officer ('CXO'). 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* | |
| Stephen Heath | Chairperson (Board and Nomination and Remuneration Committee) |
| Sue Thomas | Non-Executive Director and Audit and Risk Management Committee Chairperson (Independent) |
| Conrad Yiu | Non-Executive Director |
| | |
| *Executives* | |
| Mark Coulter | Chief Executive Officer |
| Mark Tayler | Chief Financial Officer |
| Adam McWhinney | Chief Experience Officer |

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 Group 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.

**Principles used to determine the nature and amount of remuneration (continued)**

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 Group.

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')
- At risk long-term incentive ('LTI')

| Benchmarking remuneration | Short term incentive | Long term incentive |
|---|---|---|
| Ensures employees are rewarded fairly and appropriately for their contribution to the Group's success by benchmarking against comparable positions in comparable organisations.<br><br>Independent remuneration advice and guidance is sought to ensure remuneration is set competitively relative to industry peers and similarly sized publicly listed companies.<br><br>Gender remuneration analysis is undertaken and corporate objectives are established to achieve parity between male and female remuneration for like roles. | The STI is tied to achievement of business objectives over the short term (12 months).<br><br>The STI could be a combination of equity in the Company and/or cash, the make-up of which is determined at the Board's discretion.<br><br>STIs are measured on achievement of both financial and non-financial KPIs to create innovation and growth.<br><br>STI performance targets are based on Group and Individual KPIs, which are set at the beginning of the performance period and are aligned to business level strategic priorities.<br><br>Each participant might need to meet a service condition for STI (performance rights) to vest. | The 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.<br><br>The LTI is in the form of equity in the Company.<br><br>LTI performance targets are based on share price hurdles, which are set at the beginning of the performance period and are aligned to business level strategic priorities.<br><br>Each participant might need to meet a service condition for LTI (performance rights) to vest. |

*Employee equity plans*
The Board has at its disposal the following plans available for the benefit of employees and directors:
- Employee Performance Rights Plan
- Employee Share Options Plan
- Non-executive Directors Equity Plan

*Use of remuneration consultants*
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 2019:

| Remuneration Consultant | Fees |
|---|---|
| Godfrey Remuneration Group | $13,500 |
| Guerdon Associates | $27,221 |

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:

*Chief Executive Officer (CEO)*
Mark Coulter is a founder of the business and was employed on a permanent basis from 1 September 2016. His permanent contract was renewed on 1 September 2018:

Under the terms of the current contract, as disclosed to the ASX on 10 September 2018:

- the CEO receives fixed remuneration of $329,469 per annum from 1 September 2018, and in addition, 9.5% in superannuation entitlements (up to the Upper Superannuation Guarantee Limit),
- the CEO will receive fixed remuneration of $374,469 per annum from 1 September 2019, and in addition, 9.5% in superannuation entitlements (up to the Upper Superannuation Guarantee Limit),
- the CEO is eligible to participate in a LTI plan on terms determined by the Board, in accordance with the rules of the Share Options Plan. The number of options awarded will be a maximum of 5 million, based on meeting a single service condition of not having resigned prior to the approval of the FY22 Annual Accounts.

*Chief Financial Officer (CFO)*
Mark Tayler has been employed on a permanent basis since 24 October 2016.

Under the terms of the current contract:

- the CFO receives fixed remuneration of $254,469 per annum and in addition, 9.5% in superannuation entitlements (up to the Upper Superannuation Guarantee Limit),
- the CFO may be eligible to participate in the Group's STI plan in accordance with the rules of the Share-based compensation paid in cash Plan,
- the CFO may be eligible to participate in a LTI plan on terms determined by the Board, in accordance with the rules of the Group's Performance Rights Plan.

*Chief Experience Officer (CXO)*
Adam McWhinney is employed on a permanent basis with the current contract taking effect 1 September 2018.

Under the terms of the current contract:

- the CXO receives fixed remuneration of $274,469 per annum and in addition, 9.5% in superannuation entitlements (up to the Upper Superannuation Guarantee Limit),
- the CXO may be eligible to participate in the Group's STI plan in accordance with the rules of the Share-based compensation paid in cash Plan,
- the CXO may be eligible to participate in the replacement LTI plan on terms determined by the Board, in accordance with the rules of the Group's Performance Rights Plan.

Other key terms of the executive employment arrangements for the CEO, CFO and CXO are summarised below:

| | | | Notice Period | |
|---|---|---|---|---|
| | Contract term | Resignation | Termination for cause | Termination payment |
| Mark Coulter | No fixed term | 3 months | Nil | 3 months |
| Mark Tayler | No fixed term | 3 months | Nil | 3 months |
| Adam McWhinney | No fixed term | 2 months | Nil | 2 months |

*Non-executive director remuneration*
Non-executive director fees are established relative to the size of the Group 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 $700,000 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 comparably sized 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.

***Details of remuneration (continued)***

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

| | Cash fee paid to chair | Cash fee paid to member |
|---|---|---|
| Board | $80,000 | $50,000 |
| Audit and Risk Management Committee | $30,000 | $10,000 |
| Nomination and Remuneration Committee | $30,000 | $10,000 |

In addition to the above, as stated in the notice of Annual General Meeting and the explanatory statement dated on 23 October 2018, the Group established a non-executive directors equity plan to assist in motivation, retention and reward of non-executive directors of the Group. Pursuant to the plan, non-executive directors were entitled to receive options in lieu of an increase in the cash amount payable to the non-executive directors. The resolution from the shareholders' votes resulted in favour of this equity plan per the results of Annual General Meeting report dated on 27 November 2018. Refer below for details on this plan.

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

| | Short-term benefits | | | | Post-employment benefits | Long-term benefits | | |
|---|---|---|---|---|---|---|---|---|
| **2019** | Salary and fees $ | Cash bonus [1] $ | Non-monetary $ | Termination payments $ | Super-annuation $ | Long service leave $ | Share-based payments [2] $ | Total $ |
| *Non-Executive Directors:* | | | | | | | | |
| Susan Thomas [3] | 82,192 | - | - | - | 7,808 | - | 35,843 | 125,843 |
| Stephen Heath [3] | 109,589 | - | - | - | 10,411 | - | 35,843 | 155,843 |
| Conrad Yiu [3] [4] | 82,192 | - | - | - | 7,808 | - | 35,843 | 125,843 |
| *Other Key Management Personnel:* | | | | | | | | |
| Mark Coulter | 323,724 | - | - | - | 20,531 | - | 487,115 | 831,370 |
| Mark Tayler | 252,081 | 69,734 | - | - | 20,531 | - | 33,874 | 376,220 |
| Adam McWhinney | 265,390 | - | - | - | 20,531 | - | 198,431 | 484,352 |
| | 1,115,168 | 69,734 | - | - | 87,620 | - | 826,949 | 2,099,471 |

(1) Share-based payment settled in cash.
(2) The value of the options and performance rights granted to key management personnel as part of their remuneration is calculated as at the grant date. The amounts disclosed as part of remuneration for the financial year have been determined by allocating the grant date value on a straight-line basis over the period from grant date to vesting date.
(3) In the notice of Annual General Meeting and the explanatory statement dated on 23 October 2018, the number of options to be issued were equivalent to $25,000 in annual fee sacrifice per year for 3 years. The formula for calculating the number of options to be issued was based on a Black-Scholes model prepared for the purpose of the notice, which resulted in 181,026 options per non-executive director for 3 years. As per Group's accounting policy, the options value disclosed in these financial statements was calculated based the Black-Scholes model prepared on 27 November 2018, i.e. the date when the non-executive directors equity plan was approved by the shareholders on the Annual General Meeting. As a result, the inputs used in the model changed the annual accounting value for options issued to each non-executive director to $35,843.
(4) Conrad Yiu's short-term benefits include fees for consulting services of $30,000 (including superannuation).

***Details of remuneration (continued)***

| 2018 | Short-term benefits | | | | Post-employment benefits | Long-term benefits | | |
|---|---|---|---|---|---|---|---|---|
| | Salary and fees $ | Cash bonus (1) $ | Non-monetary $ | Termination payments $ | Super-annuation $ | Long service leave $ | Share-based payments (2) $ | Total $ |
| *Non-Executive Directors:* | | | | | | | | |
| Susan Thomas | 82,192 | - | - | - | 7,808 | - | - | 90,000 |
| Stephen Heath | 109,589 | - | - | - | 10,411 | - | - | 120,000 |
| Conrad Yiu (3) | 66,009 | - | - | - | 6,271 | - | - | 72,280 |
| *Other Key Management Personnel:* | | | | | | | | |
| Mark Coulter | 278,333 | - | - | - | 20,049 | - | 458,797 | 757,179 |
| Mark Tayler | 235,000 | 34,920 | - | - | 20,049 | - | 49,635 | 339,604 |
| Adam McWhinney | 220,000 | 32,284 | - | - | 20,049 | - | 136,045 | 408,378 |
| | 991,123 | 67,204 | - | - | 84,637 | - | 644,477 | 1,787,441 |

(1) Share-based payment settled in cash.
(2) The value of the options and rights granted to key management personnel as part of their remuneration is calculated as at the grant date. The amounts disclosed as part of remuneration for the financial year have been determined by allocating the grant date value on a straight-line basis over the period from grant date to vesting date.
(3) Conrad Yiu's short-term benefits include fees for consulting services of $12,280 (including superannuation).

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

| | Fixed remuneration 2019 | Remuneration linked to performance 2019 | Fixed remuneration 2018 | Remuneration linked to performance 2018 |
|---|---|---|---|---|
| *Non-Executive Directors:* | | | | |
| Susan Thomas | 100% | - | 100% | - |
| Stephen Heath | 100% | - | 100% | - |
| Conrad Yiu | 100% | - | 100% | - |
| *Other Key Management Personnel:* | | | | |
| Mark Coulter | 41% | 59% | 39% | 61% |
| Mark Tayler | 72% | 28% | 75% | 25% |
| Adam McWhinney | 59% | 41% | 59% | 41% |

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

| Name | Cash bonus paid/payable 2019 | Cash bonus forfeited 2019 | Cash bonus paid/payable 2018 | Cash bonus forfeited 2018 |
|---|---|---|---|---|
| Mark Coulter | - | - | - | - |
| Mark Tayler | 26% | - | 14% | - |
| Adam McWhinney | - | - | 13% | - |

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*
Details of shares issued to key management personnel during the year ended 30 June 2019 as a result of performance rights vesting are as follows:

| Name | Shares issued | Class of shares |
|---|---|---|
| Mark Coulter | 1,428,775 | Ordinary |
| Mark Tayler | 614,584 | Ordinary |
| Adam McWhinney | 212,059 | Ordinary |

*Performance rights*
Details of performance rights over ordinary shares granted, vested and replaced for directors and other KMP as part of compensation up until 30 June 2019 are set out below:

| Name | Service period start | Grant date | Vesting date | Number of rights granted | Value of rights granted $ | Number of rights Vested | Value of rights vested $ | Number of rights replaced |
|---|---|---|---|---|---|---|---|---|
| **STI** | | | | | | | | |
| Mark Tayler | 01/07/2016 | 01/11/2016 | 31/08/2018 | 281,250 | 42,188 | 281,250 | 42,188 | - |
| Adam McWhinney | 01/07/2016 | 01/11/2016 | 31/08/2018 | 160,089 | 28,816 | 160,089 | 28,816 | - |
| Mark Coulter | 01/07/2017 | 01/09/2017 | 31/08/2018 | 1,428,775 | 457,208 | 1,428,775 | 457,208 | - |
| Mark Tayler | 01/07/2017 | 31/08/2017 | 31/08/2019 | 46,997 | 34,920 | - | - | - |
| Adam McWhinney | 01/07/2017 | 31/08/2017 | 31/08/2019 | 43,449 | 32,284 | - | - | - |

| Name | Service period start | Grant date | Vesting date | Number of rights granted | Value of rights granted $ | Number of rights vested | Value of rights vested $ | Number of rights replaced [(1)] |
|---|---|---|---|---|---|---|---|---|
| **LTI** | | | | | | | | |
| Mark Tayler [(2)] | 01/11/2016 | 01/09/2016 | 30/09/2019 | 500,000 | 37,258 | 333,334 | 25,708 | - |
| Mark Tayler [(3)] | 01/07/2018 | 01/07/2018 | 31/08/2021 | 92,905 | 34,561 | - | - | - |
| Adam McWhinney | 09/12/2015 | 09/12/2015 | 31/08/2020 | 818,182 | 345,273 | - | - | 818,182 |
| Adam McWhinney [(4)] | 01/07/2018 | 01/07/2018 | 31/08/2022 | 500,000 | 380,000 | - | - | - |
| Adam McWhinney [(4)] | 01/07/2018 | 01/07/2018 | 31/08/2022 | 1,300,000 | 514,800 | - | - | - |

[(1)] The CXO's LTI scheme from the prior year has been replaced in the current year with new LTI scheme granted 1 July 2018.
[(2)] The LTI plan consists of three tranches which vest over the life of the scheme. As at 30 June 2019, 333,334 performance rights already vested. The remaining performance rights vesting date is 30 September 2019.
[(3)] This LTI plan issued in the current year had an exercise price of nil and fair value at grant date of $0.372.
[(4)] This LTI plan issued in the current year had an exercise price of nil and fair value at grant date of $0.760 and $0.396 respectively.

*Options*
Details of options over ordinary shares granted, vested and lapsed for directors and other KMP as part of compensation up until 30 June 2019 are set out below:

| Name | Service period start | Grant date | Vesting date | Number of options granted | Value of options granted $ | Number of options Vested | Value of options vested $ | Number of options lapsed |
|---|---|---|---|---|---|---|---|---|
| **LTI** | | | | | | | | |
| Mark Coulter [(1)] | 01/07/2018 | 01/07/2018 | 31/08/2022 | 5,000,000 | 1,760,000 | - | - | - |
| Stephen Heath [(2)] | 01/07/2018 | 27/11/2018 | 30/06/2021 | 181,026 | 107,529 | 60,342 | 35,843 | - |
| Conrad Yiu [(2)] | 01/07/2018 | 27/11/2018 | 30/06/2021 | 181,026 | 107,529 | 60,342 | 35,843 | - |
| Susan Thomas [(2)] | 01/07/2018 | 27/11/2018 | 30/06/2021 | 181,026 | 107,529 | 60,342 | 35,843 | - |

[(1)] The CEO's LTI scheme issued in the current year has an exercise price of $0.740 and fair value at grant date of $0.352.
[(2)] The Non-executive Directors' LTI scheme issued in the current year has an exercise price of $0.990 and fair value at grant date of $0.594.

***Share-based compensation (continued)***

*Share-based compensation paid in cash*

Details of share-based payments compensation payable in cash to KMP as part of their compensation during the year ended 30 June 2019 are set out below:

| Name | Service period start | Grant date | Vesting date | Cash bonus $ |
|---|---|---|---|---|
| **STI** | | | | |
| Mark Tayler | 01/07/2018 | 01/07/2018 | 30/06/2019 | 69,734 |

***Additional disclosures relating to KMP***

*Shareholding* [(1)]

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 | Granted as remuneration | Net change [(2)] | Balance at the end of the year |
|---|---|---|---|---|
| *Ordinary shares* | | | | |
| Conrad Yiu | 3,181,537 | - | 50,481 | 3,232,018 |
| Mark Coulter | 5,233,537 | 1,428,775 | (100,000) | 6,562,312 |
| Stephen Heath | 184,000 | - | - | 184,000 |
| Mark Tayler | - | 614,584 | - | 614,584 |
| Adam McWhinney | 2,205,389 | 212,059 | - | 2,417,448 |
| | 10,804,463 | 2,255,418 | (49,519) | 13,010,362 |

[(1)] Includes shares held directly, indirectly and beneficially by KMP.
[(2)] All equity transactions with KMP other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

*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 as remuneration | Vested/ Exercised | Expired/ forfeited/ replaced [(2)] | Balance at the end of the year |
|---|---|---|---|---|---|
| *Performance rights over ordinary shares* | | | | | |
| Mark Coulter | 1,428,775 | - | (1,428,775) | - | - |
| Mark Tayler [(1)] | 661,580 | 92,905 | (447,917) | - | 306,568 |
| Adam McWhinney [(1)] | 1,021,720 | 1,800,000 | (160,089) | (818,182) | 1,843,449 |
| | 3,112,075 | 1,892,905 | (2,036,781) | (818,182) | 2,150,017 |

[(1)] Performance rights vested during the financial year ended 30 June 2019 as per the vesting conditions of the performance rights plan. Shares were not issued as at 30 June 2019.
[(2)] The CXO's LTI scheme from prior year was replaced in the current financial year with the new LTI scheme granted 1 July 2018.

*Options holding*

The number of options 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 as remuneration | Exercised | Balance at the end of the year | Vested and exercisable | Vested but not exercisable |
|---|---|---|---|---|---|---|
| *Options over ordinary shares* | | | | | | |
| Mark Coulter | - | 5,000,000 | - | 5,000,000 | - | - |
| Stephen Heath | - | 181,026 | - | 181,026 | 60,342 | - |
| Conrad Yiu | - | 181,026 | - | 181,026 | 60,342 | - |
| Susan Thomas | - | 181,026 | - | 181,026 | 60,342 | - |
| | - | 5,543,078 | - | 5,543,078 | 181,026 | - |

***Security dealing policy***

The Group securities trading policy applies to all directors and employees. The policy prohibits KMPs from dealing in Temple & Webster Group Ltd securities while in possession of material non-public information relevant to the Group, as originally disclosed to the ASX on 9 December 2015. This policy was subsequently updated as disclosed to the ASX on 23 May 2019.

***This concludes the remuneration report, which has been audited.***

### Shares issued on the exercise of performance rights
During the financial year, employees and executives have exercised performance rights to acquire 3,875,469 fully paid ordinary shares in Temple & Webster Group Ltd (refer to note 18).

### 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
The amounts paid or payable to the auditor for non-audit services during the financial year was $44,805 (2018: $0). This is outlined in note 23 to the financial statements.

The directors are of the opinion that the services as disclosed in note 23 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
Amounts in this report have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar, under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

### 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

Stephen Heath
Chairperson
28 August 2019

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
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## Auditor's Independence Declaration to the Directors of Temple & Webster Group Ltd

As lead auditor for the audit of Temple & Webster Group Ltd for the financial year ended 30 June 2019, 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 Ltd and the entities it controlled during the financial year.

Ernst & Young

Graham Leonard
Partner
28 August 2019

# Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019

| | Note | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Revenue from contracts with customers | 4 | 101,613 | 72,595 |
| Cost of goods sold | | (56,316) | (40,478) |
| Gross margin | | 45,297 | 32,117 |
| | | | |
| Net foreign exchange gain/(loss) | | 18 | 59 |
| Interest income | | 142 | 98 |
| Other operating income | | 32 | - |
| | | | |
| **Expenses** | | | |
| Distribution | | (14,746) | (9,568) |
| Merchant Fees | | (1,607) | (984) |
| Marketing | | (11,121) | (8,135) |
| Employee benefits | 5 | (13,583) | (11,623) |
| Depreciation and amortisation | 5 | (266) | (242) |
| Finance costs | | - | (3) |
| Other | 5 | (3,184) | (2,422) |
| | | | |
| **Profit/(loss) before income tax benefit** | | 982 | (703) |
| | | | |
| Income tax benefit | 6 | 2,782 | 682 |
| | | | |
| **Profit/(loss) after income tax benefit for the year attributable to the owners of Temple & Webster Group Ltd** | | 3,764 | (21) |
| | | | |
| **Other comprehensive income** | | | |
| | | | |
| Other comprehensive income for the year, net of tax | | - | - |
| | | | |
| **Total comprehensive income for the year attributable to the owners of Temple & Webster Group Ltd** | | 3,764 | (21) |
| | | | |
| | | **Cents** | **Cents** |
| | | | |
| Basic earnings per share | 31 | 3.37 | (0.02) |
| Diluted earnings per share | 31 | 3.18 | (0.02) |

*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 2019

| | Note | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 13,539 | 9,933 |
| Trade and other receivables | | 103 | 30 |
| Inventories | 8 | 3,521 | 2,218 |
| Other | 9 | 1,609 | 1,123 |
| Total current assets | | 18,772 | 13,304 |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 471 | 187 |
| Intangibles | 11 | 7,596 | 7,516 |
| Other | | 22 | 34 |
| Deferred tax assets | 6 | 3,464 | 682 |
| Total non-current assets | | 11,553 | 8,419 |
| **Total assets** | | 30,325 | 21,723 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | 8,891 | 7,177 |
| Employee benefits | 13 | 528 | 491 |
| Provisions | 14 | 947 | 1,029 |
| Deferred revenue | 15 | 4,331 | 1,936 |
| Other | 20 | 30 | - |
| Total current liabilities | | 14,727 | 10,633 |
| **Non-current liabilities** | | | |
| Employee benefits | | 300 | 208 |
| Provisions | | 85 | 60 |
| Total non-current liabilities | | 385 | 268 |
| **Total liabilities** | | 15,112 | 10,901 |
| **Net assets** | | 15,213 | 10,822 |
| **Equity** | | | |
| Contributed capital | 16 | 76,566 | 76,566 |
| Reserves | 17 | 2,615 | 1,586 |
| Accumulated losses | | (63,968) | (67,330) |
| **Total equity** | | 15,213 | 10,822 |

*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 2019

| Consolidated | Contributed capital $'000 | Reserves $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|
| Balance at 1 July 2017 | 76,566 | 792 | (67,309) | 10,049 |
| Loss after income tax benefit for the year | - | - | (21) | (21) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | (21) | (21) |
| Share-based payments (note 18) | - | 794 | - | 794 |
| Balance at 30 June 2018 | 76,566 | 1,586 | (67,330) | 10,822 |

| Consolidated | Contributed capital $'000 | Reserves $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|
| Balance at 1 July 2018 | 76,566 | 1,586 | (67,330) | 10,822 |
| Effect of adoption of new accounting standard (AASB 15) | - | - | (402) | (402) |
| Balance at 1 July 2018 (restated) | 76,566 | 1,586 | (67,732) | 10,420 |
| Profit after income tax benefit for the year | - | - | 3,764 | 3,764 |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | 3,764 | 3,764 |
| Share-based payments (note 18) | - | 1,047 | - | 1,047 |
| Transaction cost | - | (18) | - | (18) |
| Balance at 30 June 2019 | 76,566 | 2,615 | (63,968) | 15,213 |

*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 2019

| | Note | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 112,553 | 80,238 |
| Payments to suppliers and employees (inclusive of GST) | | (108,533) | (79,063) |
| Interest received | | 142 | 98 |
| Interest and other finance costs paid | | - | (3) |
| Net cash from operating activities | 30 | 4,162 | 1,270 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | 10 | (315) | (65) |
| Payments for intangibles | 11 | (223) | - |
| Proceeds from disposal of property, plant and equipment | | 30 | - |
| Net cash used in investing activities | | (508) | (65) |
| **Cash flows from financing activities** | | | |
| Transaction costs of issue of shares | | (18) | - |
| Payment of finance lease liabilities | | (30) | - |
| Net cash from financing activities | | (48) | - |
| Net increase in cash and cash equivalents | | 3,606 | 1,205 |
| Cash and cash equivalents at the beginning of the financial year | | 9,933 | 8,728 |
| Cash and cash equivalents at the end of the financial year | 7 | 13,539 | 9,933 |

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

## Note 1. Corporate 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 for profit company incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange. The Group's principal place of business is:

1A / 1-7 Unwins Bridge Road
St Peters, NSW 2044

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 28 August 2019. 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.

*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 amount of the cash-generating unit has been determined based on a value-in-use calculation. This calculation requires the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

*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 of LTI performance rights 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 fair value of STI performance rights is based on the market value of Temple & Webster Group Ltd shares less dividend yield at the date each performance right is accepted by the participant, or a fixed percentage of remuneration as determined by the Performance Rights Plan. 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 provision*
In determining the level of the 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 14 for further details.

*Deferred Tax Asset*
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Refer to note 6 for further details.

## Note 3. Operating segments

*Identification of reportable operating segments*
The Group operates in one segment being the sale of furniture, homewares, 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. Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

| | Consolidated 2019 $'000 |
|---|---|
| Sale of goods | 100,900 |
| Purchase protection | 713 |
| | 101,613 |

*Accounting policy for revenue*

*Revenue recognition*
AASB 15 supersedes AASB 118 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

*Contracts with customers and performance obligations*
The Group sells furniture and homewares online to both end consumers and commercial customers. Each sale represents a separate identified contract with a customer for which generally two performance obligations are expected: sales of goods and purchase protection revenue. The Group has concluded that for sales of goods, the revenue is recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Under the previous Australian Accounting Standards, the revenue for sales of goods was recognised on shipment of the goods. Therefore, the adoption of AASB 15 has resulted in an additional $1,550,000 of revenue being deferred for the year ended 30 June 2019. AASB 15 requires purchase protection to be recognised over time, however given its short-term nature (30 days) this treatment does not have a material impact on the Group's financial statements.

*Transaction price and variable consideration*
In accordance with AASB 15, when a performance obligation is satisfied, the Group recognises revenue to the extent of the transaction price allocated to that performance obligation taking into account the impact of constraints arising from variable consideration. If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts provide customers with a right of return and/or trade discounts. Such provisions might give rise to variable consideration.

*Right of return*
When a contract with a customer provides a right to return the good within a specified period, under the previous Group's accounting policy, a provision for the amount of revenue related to the expected returns was recognised in the statement of financial position with no corresponding adjustment made to cost of sales for the right to recover products from customers on settling the refund liability. The estimated calculation for refunds has not changed under AASB 15 however an additional asset for the right to recover products from customers of $128,000 is recognised in the statement of financial position for the year ended 30 June 2019. This also reduces cost of goods sold for the same amount.

*Advances received from customers – gift cards / store credits*
Under the previous accounting policy, upfront payments received for gift cards were recognised as revenue only when the future performance to which they relate occurred. Initially all receipts were recognised in the statement of financial position as deferred revenue. As a result, revenue from the sale of a gift card was accounted for when the Group supplied the goods upon exercise of the gift card. Store credits were treated in a similar way with the difference that no cash was received from customers when they were issued. Under AASB 15, when a customer purchases a gift card, it is pre-paying for goods or services to be delivered in the future. The Group has an obligation to transfer, or stand ready to transfer, the goods or services in the future – creating a performance obligation. The Group recognises a contract liability for the prepayment and derecognises the liability (and recognises revenue) when it fulfils the performance obligation. With the adoption of AASB 15, this approach has not impacted materially the previous treatment for gift cards and store credits. AASB 15 requires breakage (i.e. the customer's unexercised right) to be estimated and recognised as revenue in proportion to the pattern of rights exercised by the customer. This does not have a material impact on the Group's financial statements.

### Note 4. Revenue from contracts with customers (continued)

*Advances received from customers – other*
Generally, the Group receives only short-term advances from its customers. Prior to the adoption of AASB 15, the Group presented such advances as deferred revenue, with no interest accrued given its short-term nature. The Group does not receive material long term advances. Under AASB 15, the Group must determine whether there is a significant financing component in its contracts. However, the Group has decided to use the practical expedient provided in AASB 15 and has not adjusted the promised amount of consideration for the effects of a significant financing component in the contracts, where the Group expects, at contract inception, that the period between the Group transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less. The Group has concluded this requirement of AASB 15 does not have a material impact on the Group's financial statements.

*Presentation and disclosure requirements*
As required for the financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict the nature and amount. Refer above for the disclosure on disaggregated revenue.

*Method of adoption and impact*
The Group adopted AASB 15 using the modified retrospective method of adoption and elected to apply this method to all contracts at the date of initial application. As a result, the comparative prior periods in the financial statements have not been adjusted. The Group has recognised the cumulative effect of initial application of $402,000 in equity on 1 July 2018.

Had AASB 15 been applied from 1 July 2017, the impact on the financial statement would have been as disclosed below.

Impact on the statement of profit or loss (increase/(decrease)) for the year ended 30 June 2018:

| | Consolidated | | | |
|---|---|---|---|---|
| | | 30/06/2018 | | 30/06/2019 |
| | AASB 118<br>$'000 | Adjustment<br>$'000 | AASB 15<br>$'000 | <br>$'000 |
| Revenue from contracts with customers | 72,595 | (392) | 72,203 | 101,613 |
| Cost of goods sold | (40,478) | 247 | (40,231) | (56,316) |
| ***Gross margin*** | **32,117** | **(145)** | **31,972** | **45,297** |
| Distribution | (9,568) | 67 | (9,501) | (14,746) |
| ***Net profit/(loss) after tax*** | **(703)** | **(78)** | **(781)** | **982** |

Impact on the statement of financial position (increase/(decrease)) as at 30 June 2018:

| | Consolidated | | | |
|---|---|---|---|---|
| | | 30/06/2018 | | 30/06/2019 |
| | AASB 118<br>$'000 | Adjustment<br>$'000 | AASB 15<br>$'000 | <br>$'000 |
| Inventories | 2,218 | 149 | 2,367 | 3,521 |
| Other | 1,123 | 95 | 1,218 | 1,609 |
| ***Total current assets*** | **13,304** | **244** | **13,548** | **18,772** |
| ***Total assets*** | **21,723** | **244** | **21,968** | **30,325** |
| | | | | |
| Trade and other payables | 7,177 | (952) | 6,225 | 8,891 |
| Deferred revenue | 1,936 | 1,660 | 3,596 | 4,331 |
| Provisions | 1,029 | (62) | 967 | 947 |
| ***Total current liabilities*** | **10,633** | **646** | **11,279** | **14,727** |
| ***Total liabilities*** | **10,901** | **646** | **11,547** | **15,112** |
| ***Net assets*** | **10,822** | **(402)** | **10,420** | **15,213** |
| Accumulated losses | (67,330) | (402) | (67,732) | (63,968) |
| ***Total Equity*** | **10,822** | **(402)** | **10,420** | **15,213** |

## Note 5. Expenses

| | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| Profit/ (loss) before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Plant and equipment | 59 | 69 |
| Leasehold improvements | 56 | 30 |
| Motor Vehicles | 8 | - |
| Total depreciation | 123 | 99 |
| *Amortisation* | | |
| Software and websites | 59 | 59 |
| Customer relationships | 84 | 84 |
| Total amortisation | 143 | 143 |
| Total depreciation and amortisation | 266 | 242 |
| *Other expenses* | | |
| Hosting and other IT | 1,160 | 675 |
| Consulting | 517 | 506 |
| Rent, occupancy and property insurance | 614 | 527 |
| Business and other insurance | 399 | 295 |
| Travelling expenses | 161 | 145 |
| Other | 333 | 274 |
| Total other expenses | 3,184 | 2,422 |
| *Employee benefits expense* | | |
| Employee benefits expense excluding superannuation | 11,297 | 9,883 |
| Equity-settled share-based payment expense (refer to note 18) | 1,047 | 794 |
| Cash-settled share-based payment expense (refer to note 18) | 242 | 175 |
| Superannuation contribution expense | 871 | 771 |
| Employee benefits paid on termination | 126 | - |
| Total employee benefits expense | 13,583 | 11,623 |

*Accounting for rent and occupancy*
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability (refer to note 33 for further details).

## Note 6. Income tax benefit

The Group calculates the income tax benefit for the period using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax benefit in the consolidated statement of profit or loss are:

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Deferred income tax benefit | (2,782) | - |
| | (2,782) | - |

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| *Income tax benefit* | | |
| Deferred tax - origination and reversal of temporary differences | 2,782 | 682 |
| Income tax benefit reported in the statement of profit or loss | 2,782 | 682 |
| *Reconciliation of income tax benefit and the accounting loss at the statutory tax rate* | | |
| **Accounting profit/(loss) before income tax benefit** | **982** | **(703)** |
| Income tax expense/(benefit) at the statutory tax rate of 30% | 295 | (211) |
| Adjustments in respect of current income tax of previous years | (6) | (225) |
| Net non-deductible expenses for tax purposes | 203 | 257 |
| Tax losses utilised, not previously recognised | (377) | - |
| Carry-forward tax losses not previously recognised | (2,897) | - |
| Current tax losses not recognised | - | 179 |
| Temporary differences recognised | - | (682) |
| **Income tax benefit reported in the statement of profit or loss** | **(2,782)** | **(682)** |

*Deferred tax*
Deferred tax asset recognised comprises temporary differences attributable to:

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Deductible capital raising costs | 217 | 457 |
| Provisions for returns, refunds, inventory and bad debtors | 338 | 385 |
| Employee benefits | 314 | 271 |
| Deferred revenue | 560 | 160 |
| Accrued expenses | (190) | 83 |
| Intangibles | (667) | (651) |
| Foreign exchange | (1) | (18) |
| Prepayments | (4) | (5) |
| Carry-forward tax losses not previously recognised | 2,897 | - |
| | 3,464 | 682 |

Deferred tax assets have been recognised to the extent the Group has estimated it will be probable that future taxable amounts will be available to utilise those temporary differences. The deferred tax asset on unrecognised tax losses amounting to $2,897,000 was recognised for the first time as a result of the Group reaching profitability for the year ended 30 June 2019. The carry-forward tax losses have been recognised to the extent that it is probable that future taxable amounts with be able to be utilised in the foreseeable future.

### Note 6. Income tax benefit (continued)

The below potential tax benefit resulting from accumulated tax losses has not been recognised in the statement of financial position as the recovery of this benefit is uncertain. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| *Tax losses not recognised* | | |
| Unused tax losses for which no deferred tax asset has been recognised | 38,465 | 49,398 |
| Potential tax benefit @ 30% | 11,540 | 14,820 |

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.

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.

*Tax consolidated group*
Temple & Webster Group Ltd (the 'head entity') and its wholly-owned Australian subsidiaries formed an income tax consolidated group ('tax group') under the tax consolidation regime with effect from 4 December 2015. 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 7. Current assets - cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Cash at bank | 5,169 | 2,728 |
| Cash on deposit | 8,370 | 7,205 |
| | 13,539 | 9,933 |

*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 8. Current assets - inventories

| | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| Stock in transit | 780 | 555 |
| | | |
| Stock on hand | 2,930 | 1,807 |
| Less: Provision for impairment | (189) | (144) |
| | 2,741 | 1,663 |
| | | |
| | 3,521 | 2,218 |

Inventory that was recognised as an expense in profit or loss amounted to $56,316,000 (2018: $40,478,000) for the year ended 30 June 2019.

*Accounting policy for inventories*
Stock in transit and stock on hand are stated at the lower of cost and net realisable value. The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

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 selling costs necessary to make the sale.

## Note 9. Current assets - other

| | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| Prepayments | 1,368 | 1,003 |
| Right of return assets | 128 | - |
| Security deposits | 113 | 120 |
| | | |
| | 1,609 | 1,123 |

## Note 10. Non-current assets – property, plant and equipment

| | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| Plant and equipment - at cost | 547 | 449 |
| Less: Accumulated depreciation | (402) | (343) |
| | 145 | 106 |
| | | |
| Leasehold improvements - at cost | 429 | 186 |
| Less: Accumulated depreciation | (161) | (105) |
| | 268 | 81 |
| | | |
| Motor vehicle - at cost | 66 | 95 |
| Less: Accumulated depreciation | (8) | (95) |
| | 58 | - |
| | | |
| | 471 | 187 |

**Note 10. Non-current assets – property, plant and equipment (continued)**

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

| Consolidated | Plant and equipment $'000 | Leasehold improvements $'000 | Motor vehicle $'000 | Total $'000 |
|---|---|---|---|---|
| Balance at 1 July 2017 | 127 | 100 | - | 227 |
| Additions | 48 | 11 | - | 59 |
| Depreciation expense | (69) | (30) | - | (99) |
| Balance at 30 June 2018 | 106 | 81 | - | 187 |
| Additions | 98 | 243 | 66 | 407 |
| Depreciation expense | (59) | (56) | (8) | (123) |
| Balance at 30 June 2019 | 145 | 268 | 58 | 471 |

*Accounting policy for property, plant and equipment*
Property, plant and equipment is initially measured at cost at the date on which control is obtained. All asset categories displayed above are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. All repair and maintenance costs are recognised in profit or loss as incurred. The present value of any expected cost for the decommissioning of an asset or leased property after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

| | |
|---|---|
| Plant and equipment | 1 to 20 years |
| Leasehold improvements | 3 to 20 years |
| Motor vehicle | 4 to 8 years |

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

## Note 11. Non-current assets - intangibles

| | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| Goodwill - at cost | 22,434 | 22,434 |
| Less: Accumulated Impairment | (17,902) | (17,902) |
| | 4,532 | 4,532 |
| | | |
| Brands - at cost | 2,781 | 2,781 |
| | | |
| Software and websites - at cost | 1,967 | 1,926 |
| Less: Accumulated amortisation | (429) | (370) |
| Less: Accumulated Impairment | (1,474) | (1,474) |
| | 64 | 82 |
| | | |
| Development costs | 182 | - |
| | | |
| Customer relationships - at cost | 338 | 338 |
| Less: Accumulated amortisation | (301) | (217) |
| | 37 | 121 |
| | | |
| | 7,596 | 7,516 |

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 costs $'000 | Customer relationships $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Balance at 1 July 2017 | 4,532 | 2,781 | 141 | - | 205 | 7,659 |
| Additions | - | - | - | - | - | - |
| Amortisation expense | - | - | (59) | - | (84) | (143) |
| Balance at 30 June 2018 | 4,532 | 2,781 | 82 | - | 121 | 7,516 |
| Additions | - | - | 41 | 182 | - | 223 |
| Amortisation expense | - | - | (59) | | (84) | (143) |
| Balance at 30 June 2019 | 4,532 | 2,781 | 64 | 182 | 37 | 7,596 |

*Impairment testing*

For impairment testing, goodwill and brands acquired through business combinations are allocated to the Temple and Webster CGU ('TPW') and amounted to $7,313,000 in the current and previous financial year. The Group performed its annual impairment test in June 2019 and 2018. The recoverable amount of the TPW CGU has been determined based on a value-in-use calculation, using a discounted cash flow model, based on a five-year projection period including the budget approved by the board for the financial year ended 30 June 2020. The key assumptions used to determine the value-in-use of the TPW CGU are based on the Directors' current expectations. They are considered to be reasonably achievable, however, significant changes in any of these key estimates, assumptions or regulatory environments may result in the TWP CGU carrying value exceeding its recoverable value, requiring an impairment charge to be recognised. A reasonably possible change in any of the assumptions used does not result in an impairment charge at 30 June 2019. The key assumptions are those to which the recoverable amount of an asset or CGU is most sensitive.

The following key assumptions were used in the value-in-use calculation for the TPW CGU:

a) 15.4% pre-tax discount rate (15.5% in the previous financial year),
b) revenue growth in year 1 as per the next financial year budget approved by the board (consistent approach with the previous financial year),
c) revenue growth in years 2 to 5 calculated based on the combination of the historical growth rates over the past 4 years as well as external industry data (consistent approach with the previous financial year),
d) 4% terminal growth rate in the current and the previous financial year.

### Note 11. Non-current assets - intangibles (continued)

In accordance with AASB 136 '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.

Based on the above assumptions, the calculated recoverable amount was higher than the carrying value of the TPW CGU and therefore no impairment charge was expensed to profit or loss for the year ended 30 June 2019.

No changes to the CGU structure have been made in the current financial year.

*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 with 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 and websites*
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 two to seven years.

*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 four years.

### Note 12. Current liabilities - trade and other payables

| | Consolidated | |
|---|---|---|
| | 2019<br>$'000 | 2018<br>$'000 |
| Trade payables | 6,553 | 4,354 |
| Accrued payables | 728 | 1,773 |
| Employee related payables | 922 | 454 |
| Cash-settled share-based payments (refer to note 18) | 242 | 175 |
| On-costs on share-based payments (refer to note 18) | 133 | 86 |
| Other payables | 313 | 335 |
| | 8,891 | 7,177 |

## Note 12. Current liabilities - trade and other payables (continued)

*Accounting policy for trade and other payables*
These amounts represent liabilities for wages, salaries and 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.

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

## Note 13. Current liabilities - employee benefits

| | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| Annual leave | 528 | 491 |

*Accounting policy for employee benefits*

*Employee benefits*

*Annual leave*
Liabilities for annual leave are calculated based on remuneration rates the Group expects to pay when the liability is expected to be settled. Annual leave is a long-term benefit and is measured using the projected credit unit method.

*Long service leave*
The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using rates attached to bonds with sufficiently long maturities at the balance sheet date, which have maturity dates approximating to the terms of the Group's obligations.

## Note 14. Current liabilities - provisions

| | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| Lease make good | 24 | 24 |
| Refunds and replacements | 923 | 1,005 |
| | 947 | 1,029 |

*Movements in provisions*
Movements in each class of provision during the current financial year are set out below:

| Consolidated | Restructuring $'000 | Lease make good $'000 | Refunds and replacements $'000 |
|---|---|---|---|
| Carrying amount at 1 July 2017 | 122 | 30 | 940 |
| Additional provisions recognised | - | - | 6,533 |
| Amounts used | (122) | (6) | (5,548) |
| Unused amounts reversed | - | - | (920) |
| Carrying amount at 30 June 2018 | - | 24 | 1,005 |
| Additional provisions recognised | - | - | 7,562 |
| Amounts used | - | - | (6,876) |
| Unused amounts reversed | - | - | (768) |
| Carrying amount at 30 June 2019 | - | 24 | 923 |

## Note 14. Current liabilities – provisions (continued)

*Accounting policy for provisions*

*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 refunds provision represents the value of goods expected to be returned by customers as a result of 'change of mind' or defective goods receipted by customers. The replacement provision represents the value of goods expected to be replaced by the Group as a result of defective goods receipted by customers. The provisions are estimated based on historical data using the percentage of actual refunds and replacements against sales revenue and cost of goods sold.

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 15. Current liabilities – deferred revenue

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Deferred revenue | 4,331 | 1,936 |

Movements in deferred revenue during the current financial year are set out below:

| | Deferred revenue $'000 |
|---|---|
| Carrying amount at 1 July 2017 | 1,565 |
| Additional provisions recognised | 72,966 |
| Amounts used | (72,595) |
| Carrying amount at 30 June 2018 | 1,936 |
| Additional revenue deferred | 104,008 |
| Revenue recognised | (101,613) |
| Carrying amount at 30 June 2019 | 4,331 |

Refer to note 4 for the accounting policies on deferred revenue.

## Note 16. Equity - contributed capital

| | Consolidated 2019 Shares | 2018 Shares | 2019 $'000 | 2018 $'000 |
|---|---|---|---|---|
| Ordinary shares - fully paid | 112,556,694 | 108,681,225 | 76,566 | 76,566 |

*Movements in ordinary share capital*

| Details | Date | Shares | Issue price | $'000 |
|---|---|---|---|---|
| Balance | 1 July 2017 | 105,673,725 | | 76,566 |
| Shares issued to employees under STI scheme | 29 August 2017 | 2,800,000 | $0.00 | - |
| Shares issued to employees under STI scheme | 9 May 2018 | 157,500 | $0.00 | - |
| Shares issued to employees under LTI scheme | 9 May 2018 | 50,000 | $0.00 | - |
| Balance | 1 July 2018 | 108,681,225 | | 76,566 |
| Shares issued to employees under STI and LTI scheme | 29 August 2018 | 3,196,982 | $0.00 | - |
| Shares issued to employees under LTI scheme | 20 September 2018 | 633,333 | $0.00 | - |
| Shares issued to employees under STI scheme | 15 February 2019 | 45,154 | $0.00 | - |
| Balance | 30 June 2019 | 112,556,694 | | 76,566 |

*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.

*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, trade and other payables, 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 or issue new shares.

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.

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2019 and 30 June 2018.

The group used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives in the financial year ended 30 June 2019 and 30 June 2018.

*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 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Share-based payments reserve | 2,615 | 1,586 |
| | 2,615 | 1,586 |

*Accounting policy for reserves*

*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 to 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 | Share-based payments $'000 | Total $'000 |
|---|---|---|
| Balance at 1 July 2017 | 792 | 792 |
| Share-based payments | 794 | 794 |
| Balance at 30 June 2018 | 1,586 | 1,586 |
| Transaction Cost | (18) | (18) |
| Share-based payments | 1,047 | 1,047 |
| Balance at 30 June 2019 | 2,615 | 2,615 |

## Note 18. Share-based payments

Long-term incentive ('LTI') plans were established by the Group and approved by the Board, whereby the Group may, at the discretion of the Committee, grant performance rights or options over ordinary shares in the Company to employees and directors of the Group. The LTI performance rights are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. The LTI options are issued at a pre-determined consideration amount and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. The LTI performance targets are based on share price hurdles, which are set at the beginning of the performance period and are aligned to business level strategic priorities. Each participant might need to meet a service condition for performance rights to vest.

Set out below are summaries of performance rights granted under the LTI plans as at 30 June 2019:

| Grant date | Vesting date | Exercise price | Balance at the start of the year | Granted | Vested/ Exercised | Expired/ forfeited/ replaced | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 09/12/2015[(1)] | 09/12/2020 | $0.00 | 818,182 | - | - | (818,182) | - |
| 01/11/2016[(2)] | 30/09/2019 | $0.00 | 1,266,667 | - | (633,333) | - | 633,334 |
| 15/02/2019 | 31/08/2021 | $0.00 | - | 50,000 | - | - | 50,000 |
| 1/07/2018 | 31/08/2021 | $0.00 | - | 402,909 | - | - | 402,909 |
| 1/07/2018 | 31/08/2022 | $0.00 | - | 500,000 | - | - | 500,000 |
| 1/07/2018 | 31/08/2022 | $0.00 | - | 1,300,000 | - | - | 1,300,000 |
| | | | 2,084,849 | 2,252,909 | (633,333) | (818,182) | 2,886,243 |

(1) This LTI scheme, granted to CXO, has been replaced with the new scheme granted on 1 July 2018. Refer to the Remuneration Report for more information.
(2) This LTI scheme from the prior year consists of three tranches which vest over the life of the scheme. As at 30 June 2019, 1,316,666 had already vested and the last remaining rights to vest on 30 September 2019.

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 2.37 years.

## Note 18. Share-based payments

Set out below are summaries of performance rights granted under the LTI plans as at 30 June 2018:

| Grant date | Vesting date | Exercise price | Balance at the start of the year | Granted | Vested/ Exercised | Expired/ forfeited/ lapsed | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 9/12/2015 | 31/08/2020 | $0.00 | 818,182 | - | - | - | 818,182 |
| 9/12/2015 | 31/08/2018 | $0.00 | 77,955 | - | (51,970) | (25,985) | - |
| 01/11/2016[1] | 30/09/2019 | $0.00 | 2,050,000 | - | (683,333) | (100,000) | 1,266,687 |
| | | | 2,946,137 | - | (735,303) | (125,985) | 2,084,849 |

[1] This LTI scheme from the prior year consists of three tranches which vest over the life of the scheme. As at 30 June 2019, 683,333 had already vested and the last remaining rights to vest on 30 September 2019.

The weighted average remaining contractual life of performance rights outstanding at the end of the previous financial year was 1.7 years.

For the LTI 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 | Vesting date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|---|---|---|---|---|---|---|---|
| 1/07/2018 | 31/08/2021 | $0.76 | $0.00 | 60.00% | - | 2.20% | $0.372 |
| 1/07/2018 | 31/08/2022 | $0.76 | $0.00 | 58.00% | - | 2.19% | $0.760 |
| 1/07/2018 | 31/08/2022 | $0.76 | $0.00 | 58.00% | - | 2.19% | $0.396 |

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

| Grant date | Vesting date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|---|---|---|---|---|---|---|---|
| 9/12/2015 | 31/08/2020 | $0.90 | $0.00 | 50.00% | - | 2.12% | $0.432 |
| 9/12/2015 | 31/08/2018 | $0.90 | $0.00 | 34.75% | - | 2.12% | $0.900 |
| 1/11/2016 | 30/09/2019 | $0.16 | $0.00 | 65.00% | - | 1.68% | $0.075 |

Set out below are summaries of options granted under the LTI plans as at 30 June 2019:

| Grant date | Vesting date | Exercise price | Balance at the start of the year | Granted | Vested/ Exercised | Expired/ forfeited/ lapsed | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 1/07/2018 | 31/08/2022 | $0.74 | - | 5,000,000 | - | - | 5,000,000 |
| 27/11/2018 | 30/06/2021 | $0.99 | - | 543,078 | - | - | 543,078 |
| | | | - | 5,543,078 | - | - | 5,543,078 |

For the LTI options granted during the current financial year to the CEO and non-executive directors ('NED'), the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Vesting date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|---|---|---|---|---|---|---|---|
| 1/07/2018 | 31/08/2022 | $0.76 | $0.74 | 58.00% | - | 2.19% | $0.352 |
| 27/11/2018 | 30/06/2021 | $1.15 | $0.99 | 60.00% | - | 2.20% | $0.594 |

Nil dividend yield was used in the valuation of the share-based payments granted in the current financial year.

**Note 18. Share-based payments (continued)**

A short-term incentive ('STI') plan was also established by the Group and approved by the Board, 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. STI performance targets are based on Group and Individual KPIs, which are set at the beginning of the performance period and are aligned to business level strategic priorities. Each participant might need to meet the service condition for STI performance rights to vest.

Set out below are summaries of performance rights granted under the STI plan as at 30 June 2019:

| Grant date | Vesting date | Exercise price | Balance at the start of the year | Granted | Vested/ exercised | Expired/ forfeited/ lapsed | Balance at the end of the year | Fair Value at grant date |
|---|---|---|---|---|---|---|---|---|
| 01/11/2016 | 31/08/2018 | $0.00 | 1,082,902 | - | (1,082,902) | - | - | $0.160 |
| 01/09/2017 | 31/08/2018 | $0.00 | 1,428,775 | - | (1,428,775) | - | - | $0.320 |
| 31/08/2017 | 31/08/2019 | $0.00 | 235,964 | - | (45,154) | - | 190,810 | $0.740 |
| | | | 2,747,641 | - | (2,556,831) | - | 190,810 | - |

Set out below are summaries of performance rights granted under the STI plan as at 30 June 2018:

| Grant date | Vesting date | Exercise price | Balance at the start of the year | Granted | Vested/ exercised | Expired/ forfeited/ lapsed | Balance at the end of the year | Fair Value at grant date |
|---|---|---|---|---|---|---|---|---|
| 01/09/2016 | 31/08/2017 | $0.00 | 1,000,000 | - | (1,000,000) | - | - | $0.170 |
| 01/11/2016 | 31/08/2017 | $0.00 | 1,800,000 | - | (1,800,000) | - | - | $0.150 |
| 01/11/2016 | 31/08/2018 | $0.00 | 1,240,402 | - | (157,500) | - | 1,082,902 | $0.160 |
| 01/09/2017 | 31/08/2018 | $0.00 | - | 1,428,775 | - | - | 1,428,775 | $0.320 |
| 31/08/2017 | 31/08/2019 | $0.00 | - | 235,964 | - | - | 235,964 | $0.740 |
| | | | 4,040,402 | 1,664,739 | (2,957,500) | - | 2,747,641 | - |

Cash-settled share-based payments of $242,000 were granted under the STI Plan on 1 July 2018 and vested on 30 June 2019 ($175,000 in the previous financial year).

A short-term incentive ('STI') plan was also established by the Group during the financial year, whereby non-executives employees will receive $1,000 of ordinary shares in the Company if the STI performance targets, based on Group KPIs for the year ending 30 June 2019, are met. As at 30 June 2019, the Group KPIs were met.

*Accounting policy for share-based payments*

*Equity-settled transactions*
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 is measured at fair value on grant date. For the LTI performance rights or options, 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 and hurdles that do not determine whether the Group receives the services that entitle the employees to receive payment. For the STI performance rights the valuation model used to determine the fair value at the issue date is based on the market value of Temple & Webster Group Ltd shares less dividend yield at the date each performance right was accepted by the participant, or a fixed percentage of remuneration as determined by the Performance Rights Plan.

The cost of equity-settled transactions is 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.

## Note 18. Share-based payments (continued)

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 are treated as if they were a modification.

*Cash-settled transactions*
A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense (refer to note 5). The fair value is expensed over the period until the vesting date with recognition of a corresponding liability and is determined as a percentage of the fixed remuneration.

## Note 19. Equity - dividends

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

## Note 20. 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 Group uses foreign exchange forward contracts to manage some of its transaction exposures resulting from purchases in USD. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 3 months. The foreign exchange forward contract balances vary with the level of expected foreign currency purchases and changes in foreign exchange forward rates. The foreign exchange forward contracts are measured at fair value through profit or loss.

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

| | Assets | | Liabilities | |
|---|---|---|---|---|
| Consolidated | 2019 $'000 | 2018 $'000 | 2019 $'000 | 2018 $'000 |
| US dollars | - | - | 142 | 95 |
| NZ dollars | - | - | 3 | - |
| | - | - | 145 | 95 |

Based on this 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.

## Note 20. Financial instruments (continued)

***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 cash and cash equivalents are held by well-established banks, hence the expected default rate for these institutions is highly unlikely based on both financial and non-financial data available. 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.

*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 - 2019 | 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** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 6,553 | - | - | - | 6,553 |
| Other payables | - | 313 | - | - | - | 313 |
| Total non-derivatives | | 6,866 | - | - | - | 6,866 |
| **Derivatives** | | | | | | |
| Foreign exchange forward contracts | - | 30 | - | - | - | 30 |
| Total derivatives | - | 30 | - | - | - | 30 |

| Consolidated - 2018 | 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** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 4,354 | - | - | - | 4,354 |
| Other payables | - | 335 | - | - | - | 335 |
| Total non-derivatives | | 4,689 | - | - | - | 4,689 |
| **Derivatives** | | | | | | |
| Foreign exchange forward contracts | - | - | - | - | - | - |
| Total derivatives | - | - | - | - | - | - |

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

***AASB 9 Financial Instruments***
In December 2014, the AASB issued the final version of AASB 9 Financial Instruments that replaces AASB 139 Financial Instruments: Recognition and Measurement and all previous versions of AASB 9. AASB 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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 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').

## Note 20. Financial instruments (continued)

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, in accordance with AASB 9, the amount of change in fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. 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 has adopted the new standard from 1 July 2018 and has not restated comparative information. The Group concludes there has been no significant impact on its statement of financial position and equity resulting from AASB 9.

*Accounting policy for financial instruments*

***Financial assets - classification and measurement***
The Group classifies its financial assets into the following categories: those to be measured subsequently at fair value (either through OCI, or profit or loss) and those to be held at amortised cost. Classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value. Subsequent measurement is at the fair value in which the net change is recognised in the statement of profit or loss.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

***Financial liabilities***
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, payables or as derivatives designated as hedging instruments. The Group's financial liabilities include trade and other payables and derivative financial instruments.

All financial liabilities are recognised initially at fair value. Subsequent measurement is at the fair value in which the net change is recognised in the statement of profit or loss.

***Derivatives***
The Group uses derivative financial instruments to hedge its risks associated with foreign currency fluctuations arising from operating activities. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

## Note 21. Fair value measurement

The carrying amounts of trade and other receivables, trade and other payables and other financial liabilities 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. Derivatives held by the Group are considered to be level 2. 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.

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 22. Key management personnel disclosures

*Compensation*
The aggregate compensation made to directors and other members of KMP of the Group is set out below:

| | Consolidated 2019 $ | 2018 $ |
|---|---|---|
| Short-term employee benefits | 1,184,902 | 1,058,327 |
| Post-employment benefits | 87,620 | 84,637 |
| Share-based payment | 826,949 | 644,477 |
| | 2,099,471 | 1,787,441 |

## Note 23. 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 Group:

| | Consolidated 2019 $ | 2018 $ |
|---|---|---|
| *Audit services - Ernst & Young Australia* | | |
| Audit or review of the financial report | 197,600 | 175,100 |
| *Other services - Ernst & Young Australia* | | |
| Tax compliance | 44,805 | - |
| | 242,405 | 175,100 |

## Note 24. Contingent liabilities

The Group had no contingent liabilities at 30 June 2019 and 30 June 2018.

## Note 25. Commitments

| | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| *Lease commitments - operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 368 | 394 |
| One to five years | 45 | 455 |
| | 413 | 849 |

Operating lease commitments includes contracted amounts for various offices and 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. Refer to note 33 for details on AASB 16.

The Group had no capital commitments at 30 June 2019 and 30 June 2018.

## Note 26. 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 22 and the remuneration report included in the directors' report.

*Transactions with related parties*
No transactions with related parties other than key management personnel occurred in the current and previous financial year.

*Receivable from and payable to related parties*
There were no outstanding balances in relation to transactions with related parties at the current and previous reporting date.

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

## Note 27. Parent entity information

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

*Statement of profit or loss and other comprehensive income*

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Loss after income tax | (1,972) | (1,599) |
| Total comprehensive income | (1,972) | (1,599) |

*Statement of financial position*

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Total current assets | 27,672 | 27,672 |
| Total assets | 33,712 | 33,712 |
| Total current liabilities | 4,499 | 3,575 |
| Total liabilities | 4,499 | 3,575 |
| Net assets | 29,213 | 30,137 |
| Equity | | |
| Contributed capital | 94,878 | 94,878 |
| Reserves | 2,633 | 1,586 |
| Accumulated losses | (68,297) | (66,327) |
| Total equity | 29,213 | 30,137 |

### Note 27. Parent entity information (continued)

*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 2019 and 30 June 2018.

*Contingent liabilities*
The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

*Capital commitments - Property, plant and equipment*
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

*Significant accounting policies*
The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 32, 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.

*Deed of cross guarantee*
The parent entity is a party to a deed of cross guarantee (refer to note 29).

### Note 28. Interests in subsidiaries

The consolidated financial statements of the Group include the following subsidiaries:

| Name | Principal place of business / Country of incorporation | Ownership interest 2019 % | Ownership interest 2018 % |
|---|---|---|---|
| Temple & Webster Pty Ltd | Australia | 100.00% | 100.00% |
| Temple & Webster Services Pty Ltd | Australia | 100.00% | 100.00% |
| TPW Group Services Pty Ltd | Australia | 100.00% | 100.00% |
| Milan Direct Group Investments Pty Ltd | Australia | 100.00% | 100.00% |
| Milan Direct Pty Ltd | Australia | 100.00% | 100.00% |
| Milan Direct UK Pty Ltd | Australia | 100.00% | 100.00% |
| Temple & Webster NZ Ltd | New Zealand | 100.00% | 0.00% |

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
Temple & Webster Services Pty Ltd
TPW Group Services Pty Ltd
Milan Direct Group Investments Pty Ltd
Milan Direct Pty Ltd
Milan Direct UK Pty Ltd

By entering into the deed, the wholly-owned Australian entities have been relieved from the requirement to prepare financial statements and directors' report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the ASIC Instrument, 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 profit or loss after income tax to net cash used in operating activities

| | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| Profit/ (loss) after income tax benefit for the year | 3,764 | (21) |
| Adjustments for: | | |
| Share based payment expense | 1,047 | 794 |
| Depreciation and amortisation | 266 | 242 |
| Movements in make good provision | (25) | 6 |
| Income tax benefit | (2,782) | (682) |
| Retained earnings effect of adoption of AASB 15 | (402) | - |
| Gain on disposal of property, plant and equipment | (32) | - |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | (73) | (25) |
| (Increase)/decrease in inventories | (1,303) | (833) |
| (Increase)/decrease in other assets | (474) | (291) |
| Increase/(decrease) in trade and other payables | 1,709 | 1,621 |
| Increase/(decrease) in employee benefits | 129 | 151 |
| (Decrease)/increase in other provisions | (57) | (63) |
| Increase/(decrease) in deferred revenue | 2,395 | 371 |
| Net cash from operating activities | 4,162 | 1,270 |

## Note 31. Earnings per share

| | Consolidated 2019 $'000 | 2018 $'000 |
|---|---|---|
| Profit/ (loss) after income tax attributable to the owners of Temple & Webster Group Ltd | 3,764 | (21) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 111,871,045 | 108,051,252 |
| Effects of dilution from share based payments | 6,636,884 | - |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 118,507,929 | 108,051,252 |
| | **Cents** | **Cents [1]** |
| Basic earnings per share | 3.37 | (0.02) |
| Diluted earnings per share | 3.18 | (0.02) |

*[1] Losses are not dilutive and therefore basic earnings per share is used for diluted earnings per share. There are items which could be dilutive and they have been disclosed in note 18.*

*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. 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 accounting policies adopted in the preparation of the Group's annual consolidated financial statements are consistent with those following in the preparation in the previous period, expect for the adoption of new standards effective for the Group as of 1 July 2018. The group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments. Refer to the respective notes for details of the new accounting policies.

Several other amendments and interpretations apply for the first time in the current financial year, but do not have an impact on the annual consolidated financial statements of the Group.

### 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').

The consolidated financial statements provide comparative information in respect of the previous period with the exception of new accounting standards adopted in the period.

From 1 July 2018, the group has adopted AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments to replace AASB 118 Revenue and AASB 139 Financial Instruments: Recognition and Measurement respectively. The Group has adopted these two standards by using the modified retrospective method, and therefore the comparatives have not been adjusted.

*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 2019 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.

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.

## Note 32. Significant accounting policies (continued)

### 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.

### 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.

### 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.

### 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.

### 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 33. 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 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are either set out in the respective notes or below.

***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, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. 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 on a straight line basis. A liability corresponding to the capitalised lease will also be recognised as the present value of future cashflows. 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 increased 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.

The Group will adopt this standard from 1 July 2019. While leases will come on balance sheet, based on an initial assessment, the net balance sheet result is not expected to materially impact on the Group’s financial results.

### Note 34. Events after the reporting period

No matter or circumstance has arisen since 30 June 2019 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 32 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 2019 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

Stephen Heath
Chairperson

28 August 2019
Sydney

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# Independent Auditor's Report to the Members of Temple & Webster Group Ltd

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Temple & Webster Group Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Impairment of goodwill and other intangible assets

| Why significant | How our audit addressed the key audit matter |
| --- | --- |
| As disclosed in note 11 to the financial report at 30 June 2019 the Group's goodwill and other intangible assets balance is $7.6 million which represents 25% of total assets.<br><br>The Director's assessment of the recoverable amount of the goodwill and other intangible assets has been identified as a Key Audit Matter as the impairment assessment is complex and judgmental and is based on assumptions relating to the future performance of the Group. | Our audit procedures included:<br>- Assessing whether the methodology used by the Group met the requirements of *Australian Accounting Standards*, including the appropriateness of the identified cash generating unit;<br>- Testing the mathematical accuracy of the cash flow model;<br>- Assessing the cash flow forecasts by considering the historical reliability of the Group's cash flow forecasts, recent results, and our knowledge of the business and industry, corroborating this data with external information where possible;<br>- Evaluating the Group's analysis of the sensitivity of changes in key assumptions used in their impairment testing model, by considering a range of reasonably possible changes in key assumptions;<br>- Involving our business valuation and modelling specialists in the consideration of key assumptions such as, the discount rate, terminal growth rates and capital expenditure assumptions; and<br>- Assessed the adequacy of the financial statement disclosures contained in Note 11. |

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2. Revenue recognition

| Why significant | How our audit addressed the key audit matter |
|---|---|
| As disclosed in note 4 to the financial report, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.<br><br>Due to the volume of online retail transactions processed on a daily basis and arrangements in place with suppliers, whereby suppliers dispatch goods directly to the Group's customers, the timing of when revenue is recognised is considered to be a Key Audit Matter. | Our audit procedures included the following:<br>- Testing the operating effectiveness of controls over the capture and measurement of revenue transactions;<br>- For a sample of revenue transactions during the year, near year-end and subsequent to year-end, testing whether the revenue was recorded in the appropriate period including testing whether the sale transactions not delivered to the customer were appropriately included as deferred revenue at balance date;<br>- Considering whether customer returns, and credit notes issued post balance date that related to sales recognised in the 2019 financial year were recorded in the proper period;<br>- Assessing whether the revenue recognition policy applied to the terms and conditions of sale was in accordance with Australian Accounting Standards; and<br>- Considering the adequacy of the revenue recognition policy disclosure contained in note 4. |

## Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2019 Annual Report but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 18 of the Annual Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Temple & Webster Group Ltd for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

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.

Ernst & Young

Ernst & Young

Graham Leonard
Partner
Sydney
28 August 2019

# Shareholder Information

The shareholder information set out below is applicable as at 22 July 2019.

### Number of Equity Security Holders

The number of holders of Ordinary equity securities was 532.
The number of holders of unquoted performance rights was 18.
The number of holders of unquoted Options was 4.

### Voting rights

The voting rights attaching to each class of equity securities 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.

*Performance rights*
Holders of Performance Rights do not have any voting rights.

*Options*
Holders of Options do not have any voting rights.

### Distribution of Equity Securities

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

| Range | Securities | % | No. of holders of ordinary shares | % |
|---|---|---|---|---|
| 100,001 and Over | 107,674,760 | 95.66 | 58 | 10.90 |
| 10,001 to 100,000 | 3,907,969 | 3.47 | 117 | 21.99 |
| 5,001 to 10,000 | 490,024 | 0.44 | 62 | 11.65 |
| 1,001 to 5,000 | 366,933 | 0.33 | 124 | 23.31 |
| 1 to 1,000 | 117,008 | 0.10 | 171 | 32.14 |
| Total | 112,556,694 | 100.00 | 532 | 100.00 |

### Distribution of unquoted equity securities

Analysis of number of unquoted performance rights holders by size of holding:

| Range | Securities | % | No. of holders of ordinary shares | % |
|---|---|---|---|---|
| 100,001 and Over | 2,644,686 | 85.95 | 5 | 27.78 |
| 10,001 to 100,000 | 392,363 | 12.75 | 9 | 50.00 |
| 5,001 to 10,000 | 40,000 | 1.30 | 4 | 22.22 |
| 1,001 to 5,000 | - | - | - | - |
| 1 to 1,000 | - | - | - | - |
| Total | 3,077,049 | 100.00 | 18 | 100.00 |

Analysis of number of unquoted option holders by size of holding:

| Range | Securities | % | No. of holders of ordinary shares | % |
|---|---|---|---|---|
| 100,001 and Over | 5,543,078 | 100.00 | 4 | 100.00 |
| 10,001 to 100,000 | - | - | - | - |
| 5,001 to 10,000 | - | - | - | - |
| 1,001 to 5,000 | - | - | - | - |
| 1 to 1,000 | - | - | - | - |
| Total | 5,543,078 | 100.00 | 4 | 100.00 |

# Shareholder Information
continued

### Substantial holders

Substantial holders as disclosed in substantial holding notices given to the Company are:

| | Ordinary shares held | % of issued shares |
|---|---|---|
| Kinderhook 2 LP | 20,040,229 | 18.5 |
| Macquarie Group Limited | 15,217,673 | 14.4 |
| ICE Investors | 7,427,980 | 6.6 |
| Tackelly Pty Limited as Trustee for Tackelly Trust | 5,988,884 | 5.7 |
| Super Properties Pty Ltd as Trustee for Shayne Smyth Trust | 5,880,810 | 5.4 |
| IG Investment Management, Inc | 5,738,252 | 5.5 |

### Marketable parcel

The number of holders holding less than a marketable parcel of Ordinary securities was 22.

### Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities as per the Company's share register are listed below:

| Name | Ordinary Shares held | % of issued shares |
|---|---|---|
| Citicorp Nominees Pty Limited | 30,099,301 | 26.74 |
| HSBC Custody Nominees (Australia) Limited | 17,082,750 | 15.18 |
| Macquarie Corporate Holdings Pty Ltd | 15,217,673 | 13.52 |
| AP Ecommerce Pty Ltd | 4,277,828 | 3.80 |
| Mark Coulter | 4,228,775 | 3.76 |
| Hingtai Pty Ltd | 3,830,699 | 3.40 |
| Bond Street Custodians Limited | 3,684,683 | 3.27 |
| Brian Shanahan & Jacqueline Shanahan | 3,205,324 | 2.85 |
| Tackelly Pty Ltd | 3,000,000 | 2.67 |
| Sandhurst Trustees Ltd | 2,552,448 | 2.27 |
| National Nominees Limited | 2,322,372 | 2.06 |
| Adam Richard McWhinney | 2,205,389 | 1.96 |
| Jewelcross Proprietary Limited | 1,643,235 | 1.46 |
| J P Morgan Nominees Australia Pty Limited | 1,491,369 | 1.32 |
| BNP Paribas Nominees Pty Ltd | 1,290,665 | 1.15 |
| Lolek Raja Pty Ltd | 1,144,699 | 1.02 |
| Bariloche Investments Pty Limited | 1,042,623 | 0.93 |
| Jam Hole LP | 624,718 | 0.56 |
| Mark Tayler | 614,583 | 0.55 |
| Eva Xiradis | 502,808 | 0.45 |
| Total | 100,061,942 | 88.90 |
| Balance of register | 12,494,752 | 11.10 |
| Grand total | 112,556,694 | 100.00 |

### Securities subject to voluntary escrow

| | Number of shares |
|---|---|
| Shares escrowed until 29 August 2019 | 3,732,902 |
| Shares escrowed until 28 September 2019 | 550,002 |
| Shares escrowed until 21 August 2020 | 1,428,775 |
| Shares escrowed until 20 September 2020 | 550,000 |
| Total Ordinary shares subject to voluntary escrow | 6,261,679 |

These Securities have been issued under an employee incentive scheme that have restrictions on their transfer under the terms of the scheme.

### On-market buy-back

There is no current on-market buy-back.

# Corporate Directory

| | |
|---|---|
| Directors | Stephen Heath, chairperson and independent non-executive director<br>Susan Thomas, independent non-executive director<br>Conrad Yiu, non-executive director |
| Company secretary | Michael Egan |
| Registered office / principal place of business | 1A/1-7 Unwins Bridge Road<br>St Peters, NSW 2044 |
| Share register | Link Market Services Limited<br>Level 12<br>680 George Street<br>Sydney, NSW 2000<br>Share registry telephone: 1300 554 474 |
| Auditor | Ernst & Young<br>200 George Street<br>Sydney, NSW 2000 |
| Bankers | Westpac Retail & Business Banking<br>Level 5<br>24-32 Lexington Drive<br>Bella Vista, NSW 2153 |
| Stock exchange listing | Temple & Webster Group Ltd shares are listed on the Australian Securities Exchange (ASX code: TPW) |
| Website | www.templeandwebstergroup.com.au |
| Corporate Governance Statement | Refer to the Company's website for all corporate governance information<br>www.templeandwebstergroup.com.au/Home/?page=corporate-governance |

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