Temple & Webster Group Ltd
Appendix 4D
Half-year report

1. Company details

Name of entity:	Temple & Webster Group Ltd
ABN:	69 608 595 660
Reporting period:	For the half-year ended 31 December 2016
Previous period:	For the half-year ended 31 December 2015

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	60.2%	to	34,042
Loss from ordinary activities after tax attributable to the owners of Temple & Webster Group Ltd	down	69.6%	to	(5,383)
Loss for the half-year attributable to the owners of Temple & Webster Group Ltd	down	69.6%	to	(5,383)

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

Comments
The loss for the Group after providing for income tax amounted to $5,383,000 (31 December 2015: $17,720,000).

Further commentary on these results can be found in the Temple & Webster Group 2016 Interim Report and Investor Presentation.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	3.82	14.79

The net tangible assets per ordinary share amount is calculated based on 105,673,725 ordinary shares on issue as at 31 December 2016 (105,780,680 as at 31 December 2015).

4. Control gained over entities

Refer to Note 19 'Business Combinations' to the financial statements for details of entities over which control was gained during the previous financial period. No changes to the group structure have occurred in the current financial year.

5. Loss of control over entities

Not applicable.

6. Dividends

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

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Audit qualification or review

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

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

10. Attachments

Details of attachments (if any):

The Interim Report of Temple & Webster Group Ltd for the half-year ended 31 December 2016 is attached.

Temple & Webster Group Ltd

ABN 69 608 595 660

Interim Report – Half-Year Ended 31 December 2016

Temple & Webster Group Ltd
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31 December 2016

Contents

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 half-year ended 31 December 2016.

Directors

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

Stephen Heath
Carol Schwartz (resigned on 25 October 2016)
Susan Thomas
Conrad Yiu

Principal activities

The Temple & Webster Group is one of Australia's leading online retailers of furniture and homewares. The Group's vision is to deliver beautiful solutions for our customers and be the first-place Australians turn to when shopping for their homes & work spaces.

Temple & Webster has over 140,000 products on sale from over 700 suppliers. The business runs an innovative drop-shipping model, whereby products are sent directly to customers by suppliers thereby enabling faster delivery times and reducing the need to hold inventory thereby allowing a larger product range.

The business also sells furniture under the Milan Direct brand, which has almost 10 years of experience in sourcing and selling private label furniture in the online Australian market.

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

Review of operations

The loss for the Group after providing for income tax amounted to $5,383,000 (31 December 2015: $17,720,000).

A Pro Forma income statement is presented below:

$m	H1FY17	H1FY16
Statutory Revenue	**34.0**	**21.3**
Milan Direct revenue (pre-acquisition)	-	10.0
ZIZO revenue (pre-acquisition)	-	0.9
Pro Forma Revenue	34.0	32.1
Pro Forma EBITDA	(4.9)	(7.5)
Restructuring costs	(0.5)	-
Cost associated with IPO and business combinations	-	(5.5)
Finance costs	-	(4.6)
Interest, depreciation and amortisation	-	(0.1)
Statutory Net Loss After Tax	**(5.4)**	**(17.7)**

Key Financial Performance Metrics for the half year ended December 2016 include:

- Revenue growth of 6% (inclusive of both continuing and discontinued businesses, please see the Group's half year Investor Presentation for continuing business growth rates)
- EBITDA improvement of 35%
- Closing cash balance at 31 December 2016 of $12.3m (no debt)

Revenue and EBITDA comparisons are performed on a pro forma basis which include the assumption that the Milan Direct and Zizo businesses were part of the group for the entire half year 2015 but exclude all costs associated with the acquisition and restructuring of Milan Direct and Zizo, depreciation, amortisation, interest and any costs associated with the Group's IPO.

Pro Forma and EBITDA results are non-IFRS measures that, in the opinion of the Directors, are useful in understanding and appraising the Company's performance. These measures have not been reviewed by the auditor.

Further commentary on the Group's operations and financial results can be found in the half year Investor Presentation.

Significant changes in the state of affairs

In December 2016, the group completed the integration of the Milan Direct business, the second major integration for the 2016 calendar year.

The integration see's Milan Direct's range of furniture for the home and office become a permanent private label available through the Temple & Webster online store. As a brand, Milan Direct will continue to maintain its product supply and inventory operations with a focus on further developing its core offering.

The integration of Milan Direct into the Temple & Webster online store supports the next phase of the Company's revised business plan and vision, as outlined in April 2016.

The move will further strengthen the financial position of the Group and accelerate the path to profitability by removing unnecessary duplication of core business operations and re-directing key resources.

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

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.

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.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Stephen Heath

Chairperson

27 February 2017
Sydney

Building a better working world

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

As lead auditor for the review of Temple & Webster Group Ltd for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review*;* and

b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Christopher George
Partner
27 February 2017

Temple & Webster Group Ltd
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

	Note	Consolidated 31/12/2016 $'000	Consolidated 31/12/2015* $'000
Revenue			
Sales revenue		34,042	21,254
Cost of goods sold		(19,773)	(13,649)
Gross margin		14,269	7,605
Net foreign exchange gain/(loss)		(48)	32
Interest income		191	40
Expenses			
Distribution		(5,405)	(3,691)
Merchant Fees		(651)	(315)
Marketing		(4,746)	(5,396)
Employee benefits		(6,907)	(4,410)
Depreciation and amortisation		(197)	(157)
Finance costs		-	(4,570)
Other		(1,442)	(895)
Restructuring costs		(465)	-
IPO and transactions costs		-	(5,963)
Loss before income tax expense		(5,401)	(17,720)
Income tax benefit		18	-
Loss after income tax expense for the half-year attributable to the owners of Temple & Webster Group Ltd		(5,383)	(17,720)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		11	2
Other comprehensive income for the half-year, net of tax		11	2
Total comprehensive income for the half-year attributable to the owners of Temple & Webster Group Ltd		(5,372)	(17,718)
		Cents	Cents
Basic earnings/(loss) per share	21	(0.05)	(35.77)
Diluted earnings/(loss) per share	21	(0.05)	(35.77)

** In accordance with AASB 101 Presentation of Financial Statements (para 41) "if an entity changes the presentation or classification of items in its financial statements, the entity shall reclassify comparative amounts unless reclassification is impracticable". The following changes have been made in the comparatives in the current half-year financial report:*

- *Employment expense of $2,769,000 was reclassified to IPO and transactions costs,*
- *Distribution expense of $510,000 was reclassified to Merchant fees ($315,000) and to Marketing ($195,000),*
- *Other expense of $227,000 was reclassified to IPO and transactions costs ($87,000), Distribution ($76,000) and Marketing ($64,000).*

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

Temple & Webster Group Ltd
Statement of financial position
As at 31 December 2016

	Note	Consolidated 31/12/2016 $'000	Consolidated 30/06/2016 $'000
Assets			
Current assets			
Cash and cash equivalents	4	12,314	18,437
Trade and other receivables		66	120
Inventories	5	3,174	3,530
Other	6	372	964
Total current assets		15,926	23,051
Non-current assets			
Property, plant and equipment		266	234
Intangibles	7	7,183	7,289
Other		59	69
Total non-current assets		7,508	7,592
Total assets		23,434	30,643
Liabilities			
Current liabilities			
Trade and other payables	8	8,453	9,116
Employee benefits	9	428	442
Provisions	10	1,201	671
Deferred consideration	11	-	2,000
Deferred revenue		1,897	1,905
Total current liabilities		11,979	14,134
Non-current liabilities			
Deferred tax		-	18
Employee benefits		144	113
Provisions		90	-
Total non-current liabilities		234	131
Total liabilities		12,213	14,265
Net assets		11,221	16,378
Equity			
Contributed capital	12	76,566	76,666
Reserves	13	416	90
Accumulated losses		(65,761)	(60,378)
Total equity		11,221	16,378

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

Temple & Webster Group Ltd
Statement of changes in equity
For the half-year ended 31 December 2016

Consolidated	Contributed capital $'000	Reserves $'000	Accumulated losses $'000	Total deficiency in equity $'000
Balance at 1 July 2015	8,222	-	(15,961)	(7,739)
Loss after income tax expense for the half-year	-	-	(17,720)	(17,720)
Other comprehensive income for the half-year, net of tax	-	2	-	2
Total comprehensive income for the half-year	-	2	(17,720)	(17,718)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	68,444	-	-	68,444
Share-based payments	-	21	-	21
Balance at 31 December 2015	76,666	23	(33,681)	43,008

Consolidated	Contributed capital $'000	Reserves $'000	Accumulated losses $'000	Total deficiency in equity $'000
Balance at 1 July 2016	76,666	90	(60,378)	16,378
Profit/(Loss) after income tax expense for the half-year	-	-	(5,383)	(5,383)
Other comprehensive income for the half-year, net of tax	-	11	-	11
Total comprehensive income for the half-year	-	11	(5,383)	(5,372)
Share-based payments	-	315	-	315
Shares forfeited	(100)	-	-	(100)
Balance at 31 December 2016	76,566	416	(65,761)	11,221

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

Temple & Webster Group Ltd
Statement of cash flows
For the half-year ended 31 December 2016

	Note	Consolidated 31/12/2016 $'000	Consolidated 31/12/2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		37,490	23,887
Payments to suppliers and employees (inclusive of GST)		(41,754)	(31,569)
		(4,264)	(7,682)
Interest received		191	40
Interest and other finance costs paid		-	(12)
Net cash used in operating activities		(4,073)	(7,654)
Cash flows from investing activities			
Payments for purchase of subsidiary, net of cash acquired		(2,000)	(13,641)
Payments for property, plant and equipment		(60)	-
Payments for intangibles		-	(316)
Payments for security deposits		-	(41)
Proceeds from disposal of property, plant and equipment		10	-
Net cash (used in)/from investing activities		(2,050)	(13,998)
Cash flows from financing activities			
Proceeds from issue of shares		-	61,915
Proceeds from convertible notes		-	12,000
Payments to shareholders		-	(21,621)
Share issue transaction costs		-	(4,841)
Net cash from financing activities		-	47,453
Net increase/(decrease) in cash and cash equivalents		(6,123)	25,801
Cash and cash equivalents at the beginning of the financial half-year		18,437	1,926
Cash and cash equivalents at the end of the financial half-year		12,314	27,727

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

Note 1. General information

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2017.

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.

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.

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

Refunds and replacements provision
In determining the level of provision, the Group has made judgements in respect of the expected return of products, number of customers who will actually return the products and how often, and the costs of fulfilling the return. Historical experience and current knowledge of the performance of the products have been used in determining this provision. Refer to Note 10 for further details.

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

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

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

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

Note 3. Operating segments

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

The operating segment information is the same information as provided throughout the financial statements and therefore not duplicated. The information reported to the CODM is on at least a monthly basis.

Note 4. Current assets - cash and cash equivalents

	Consolidated	
	31/12/2016	30/06/2016
	$'000	$'000
Cash at bank	3,314	8,637
Cash on deposit	9,000	9,800
	12,314	18,437

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 5. Current assets – inventories

	Consolidated	
	31/12/2016 $'000	30/06/2016 $'000
Stock in transit	1,058	577
Stock on hand	2,498	3,308
Less: Provision for impairment	(382)	(355)
	3,174	3,530

Inventory that was recognised as an expense in profit or loss amounted to $19,773,000 for the half-year ended 31 December 2016 ($13,649,000 for the half-year ended 31 December 2015).

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

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

Note 6. Current assets – other

	Consolidated	
	31/12/2016 $'000	30/06/2016 $'000
Prepayments	237	786
Security deposits	135	178
	372	964

Note 7. Non-current assets - intangibles

	Consolidated 31/12/2016 $'000	Consolidated 30/06/2016 $'000
Goodwill - at cost	21,600	21,600
Less: Accumulated Impairment	(17,902)	(17,902)
	3,698	3,698
Brands - at cost	2,781	2,781
Software and websites - at cost	2,155	2,155
Less: Accumulated amortisation	(345)	(280)
Less: Impairment	(1,474)	(1,474)
	336	401
Development - at cost	2,058	2,039
Less: Accumulated amortisation	(845)	(828)
Less: Accumulated Impairment	(1,092)	(1,092)
	121	119
Customer relationships - at cost	338	338
Less: Accumulated amortisation	(91)	(48)
	247	290
	7,183	7,289

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

Consolidated	Goodwill $'000	Brands $'000	Software and websites $'000	Development $'000	Customer relationships $'000	Total $'000
Balance at 1 July 2015	-	-	-	38	-	38
Additions	-	-	201	115	-	316
Additions through business combinations (note 19)	21,984	2,781	2,024	-	338	27,127
Amortisation expense	-	-	(104)	(12)	(6)	(122)
Balance at 31 December 2015	21,984	2,781	2,121	141	332	27,359
Balance at 1 July 2016	3,698	2,781	401	119	290	7,289
Additions	-	-	-	19	-	19
Amortisation expense	-	-	(65)	(17)	(43)	(125)
Balance at 31 December 2016	3,698	2,781	336	121	247	7,183

Note 7. Non-current assets – intangibles (continued)

Accounting policy for impairment of non-financial assets
Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

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

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

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

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

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

Note 8. Current liabilities - trade and other payables

	Consolidated	
	31/12/2016	30/06/2016
	$'000	$'000
Trade payables	4,549	4,484
Accrued payables	2,862	3,095
Employee related payables	850	1,041
Other payables	192	496
	8,453	9,116

Note 8. Current liabilities - trade and other payables (continued)

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

Note 9. Current liabilities – employee benefits

	Consolidated	
	31/12/2016 $'000	30/06/2016 $'000
Annual leave	428	442

Accounting policy for employee benefits

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

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

Note 10. Current liabilities – provisions

	Consolidated	
	31/12/2016 $'000	30/06/2016 $'000
Lease make good	-	30
Refunds and replacements	973	641
Restructuring	228	-
	1,201	671

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

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

Restructuring
The provision represents the estimated costs in relation to the Milan Direct integration which occurred in December 2016, with the Group announcing a number of strategic initiatives designed to accelerate the Group's path to profitability. Costs incurred as part of the restructure include redundancy expenses and onerous lease costs.

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

Note 11. Current liabilities – deferred consideration

	Consolidated	
	31/12/2016 $'000	30/06/2016 $'000
Deferred consideration	-	2,000

Deferred consideration related to the acquisition of Wayfair Australia Pty Limited. The purchase price for this acquisition was $6,073,000 of which $4,000,000 and $73,000 was paid on 31 July 2015 and 5 November 2015 respectively. The remaining balance of $2,000,000 was paid on 3 August 2016. Refer for further details to note 19.

Note 12. Equity – contributed capital

Group reorganisation
During the half-year ended 31 December 2015, an internal restructure took place in preparation of the listing of the Group on the Australian Securities Exchange ('ASX'). This resulted in a newly incorporated company, Temple & Webster Group Ltd, becoming the legal parent of the Group. The internal restructure was conditional on the listing of the Group on the ASX.

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

As a result, the consolidated financial statements of Temple & Webster Group Ltd have been prepared as a continuation of the financial statements of the accounting acquirer, T&W. Refer to basis of preparation in Note 21.

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

	Consolidated			
	31/12/2016 Shares	30/06/2016 Shares	31/12/2016 $'000	30/06/2016 $'000
Ordinary shares - fully paid	105,673,725	105,780,680	76,566	76,666

Note 12. Equity – contributed capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2015	1,969,121		8,222
Conversion of convertible notes tranches 1 and 2	4 December 2015	378,666	$22.73	8,607
Share split in the capital reorganisation	4 December 2015	46,166,092	$0.00	-
Conversion of convertible note tranche 3	4 December 2015	13,405,266	$0.93	12,534
Shares issued as part of the Milan Direct purchase consideration	4 December 2015	7,306,394	$1.10	8,037
Equity generated on closure of the TW East Share Plan	7 December 2015	-	$0.00	1,541
Shares issued at IPO	10 December 2015	36,363,635	$1.10	40,000
Shares issued to employees under bonus schemes	10 December 2015	106,955	$0.93	100
Shares issued to employees under new incentive plan	10 December 2015	84,551	$1.10	93
Transaction costs arising on IPO able to be offset against share capital	10 December 2015	-	$0.00	(2,468)
Balance	31 December 2015	105,780,680		76,666
Balance	1 July 2016	105,780,680		76,666
Forfeited shares	25 October 2016	(106,955)	$0.93	(100)
Balance	31 December 2016	105,673,725		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 less cash and cash equivalents.

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

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

Accounting policy for contributed capital
Ordinary shares are classified as equity.

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

Note 13. Equity - reserves

	Consolidated	
	31/12/2016	30/06/2016
	$'000	$'000
Foreign currency reserve	-	(11)
Share-based payments reserve	416	101
	416	90

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

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

Note 14. 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 over ordinary shares in the Company to employees and directors of the Group. The rights were issued for nil consideration and were granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

Set out below are summaries of performance rights granted under the LTI plans as at 31 December 2016:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ Forfeited/ Other	Balance at the end of the year
10/12/2015	09/12/2020	$0.00	818,182	-	-	-	818,182
10/12/2015	09/12/2020	$0.00	77,955	-	-	-	77,955
01/11/2016	30/09/2019	$0.00	-	2,350,000	-	-	2,350,000
			896,137	2,350,000	-	-	3,246,137

The weighted average remaining contractual life of performance rights outstanding at the end of the half year was 3 years.

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
10/12/2015	09/12/2020	$0.90	$0.00	34.75%	-	2.12%	$0.900
10/12/2015	09/12/2020	$0.90	$0.00	50.00%	-	2.12%	$0.432
01/11/2016	30/09/2019	$0.16	$0.00	65.00%	-	1.68%	$0.075

A short-term incentive ('STI') plan has also been established by the Group and approved by the Board, whereby the Group may, at the discretion of the 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.

Note 14. Share Based Payments (continued)

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

Grant date	Vesting date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ Forfeited/ Other	Balance at the end of the year
01/11/2016	31/08/2018	$0.00	-	2,800,000	-	-	2,800,000
			-	2,800,000	-	-	2,800,000

For the STI performance rights granted during the current financial year, the valuation model used to determine the fair value at the issue date is based on the market value of Temple & Webster Group Limited shares at the date each performance right was accepted by the participant.

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

The cost of equity-settled transactions 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.

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

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

Note 15. Equity - dividends

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

Note 16. Fair value measurement

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

Accounting policy for fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

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

Note 16. Fair value measurement (continued)

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

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 17. Contingent liabilities

The Group had no contingent liabilities at 31 December 2016 and 30 June 2016.

Note 18. Related party transactions

During the previous financial half-year the Group paid services to Ardenpoint Pty Ltd (a director-related entity) for consulting, planning and business advisory to the amount of $455,000. The contract with Ardenpoint Pty Ltd was cancelled in February 2016 and no further services were provided to the Group from that date.

Note 19. Business combinations

Temple & Webster Pty Limited
The acquisition of Temple & Webster Pty Limited on 4 December 2015 by the Company was accounted as a common control transaction rather than a business combination (refer to note 12).

Wayfair Australia Pty Ltd (renamed to Zizo Home Pty Ltd)
Temple & Webster Pty Limited acquired 100% of Wayfair Australia Pty Ltd (renamed to Zizo Home Pty Ltd) on 31 July 2015 for a purchase price of $6,073,000. This business combination accounting was finalised in the previous financial year.

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

	Fair Value $'000
Cash and cash equivalents	112
Trade and other receivables	60
Plant and equipment	16
Software and websites	1,562
Trade and other payables	(663)
Deferred tax liability	(469)
Other provisions	(186)
Deferred revenue	(130)
Net assets acquired	302
Goodwill	5,771
Acquisition-date fair value of the total consideration transferred	6,073
Representing:	
Cash paid or payable to vendor	4,073
Deferred consideration	2,000
	6,073
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	6,073
Less: cash and cash equivalents	(112)
Less: deferred payment consideration (Note 11)	(2,000)
Net cash used	3,961

Note 19. Business combinations (continued)

Milan Direct Group Investments Pty Ltd and Milan Direct UK Pty Ltd
On 4 December 2015, the Company acquired 100% of the issued share capital of the Milan Direct Group Investments Pty Ltd and Milan Direct UK Pty Ltd. The purchase price for this acquisition was $17,575,000, which was settled by the issue of 7,306,394 shares in the Company (fair value of $1.10 per share based on IPO share issue price) amounting to $8,037,000 and $9,538,000 in cash. This business combination accounting was finalised in the previous financial year.

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

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

Note 19. Business combinations (continued)

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

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

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date. Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

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

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

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

Note 20. Events after the reporting period

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 21. Earnings per share

	Consolidated	
	31/12/2016 $'000	31/12/2015 $'000
Loss after income tax attributable to the owners of Temple & Webster Group Ltd	(5,383)	(17,720)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	105,741,153	49,540,076
Weighted average number of ordinary shares used in calculating diluted earnings per share	105,741,153	49,540,076
	Cents	Cents
Basic earnings per share	(0.05)	(35.77)
Diluted earnings per share	(0.05)	(35.77)

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

The performance rights granted are not included in the calculation of diluted earnings per share because they are antidilutive for the half-year ended 31 December 2016. These options could potentially dilute basic earnings per share in the future.

Note 21. Earnings per share (continued)

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 22. Significant accounting policies

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

New, revised or amending Accounting Standards and Interpretations adopted
The Group has adopted all the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting year. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial half-year ended 31 December 2016.

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

Basis of preparation
These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard 134 ‘Interim Financial Reporting’ and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 ‘Interim Financial Reporting’.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

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

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

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

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

Note 22. Significant accounting policies (continued)

Basis of preparation (continued)

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.

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

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

Note 23. 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 half-year reporting period ended 31 December 2016. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Temple & Webster Group Ltd
Directors' declaration
31 December 2016

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and

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

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Stephen Heath

Chairperson

27 February 2017
Sydney

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To the members of Temple & Webster Group Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Temple & Webster Group Ltd, which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Temple & Webster Group Ltd and the entities it controlled during the period, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Temple & Webster Group Ltd is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Christopher George
Partner
Sydney
27 February 2017