

HOME & DECOR HOLDINGS PTY LIMITED
ABN 50 147 375 451
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AUDITED FINANCIAL STATEMENTS
29 JUNE 2014

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DIRECTORS' REPORT

The Directors have pleasure in presenting their report on the consolidated financial statements for the 52 weeks ending 29 June 2014.

DIRECTORS

The names of the Directors of the Group in office during the year and until the date of this report are:

Aaron Hood
Trent Peterson
Greg Milne
Brett Blundy
Michael Anthony Cherubino
David John Milroy Maclean

PRINCIPAL ACTIVITIES

The principal activity of the group during the 52 weeks ending 29 June 2014 comprised of retail operations in the Manchester, Home wares and Home Décor market segments within Australia.

RESULTS AND DIVIDENDS

The profit of the Group for the 52 weeks ending 29 June 2014 after providing for income tax amounted to \$7,545,446 (2013: loss of \$873,028)

The Group reported an EBITDA of \$30.047m (2013: EBITDA \$21.992m). The directors note that interest bearing liabilities including Redeemable preference shares of \$50.136m which are debt by definition of Accounting Standards, are held by shareholders and therefore do not represent a liability to a bank or third party.

Refer to the reconciliation below for definition of EBITDA

	2014 \$'000	2013 \$'000
Profit/(Loss) after income tax	7,545	(873)
Add back:		
Finance expenses	4,184	5,135
RPS interest	11,742	10,137
Depreciation and amortisation expenses	6,663	7,577
Income tax (benefit)/expense	(87)	16
EBITDA⁽¹⁾	30,047	21,992

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the Group's state of affairs that occurred during the 52 weeks ending 29 June 2014, other than those referred to elsewhere in this report.

SIGNIFICANT POST BALANCE DATE EVENTS

No matters or circumstances have arisen since the balance date which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in the future financial years.

FUTURE DEVELOPMENTS AND RESULTS

The Group expects to maintain the present status and level of operations.

⁽¹⁾ Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) is used as a measure of financial performance by excluding certain variables that affect operating profits but which may not be directly related to all financial aspects of the operations of the group. EBITDA is not a measure of operating income, operating performance or liquidity under A-IFRS. Other companies may calculate EBITDA in a different manner to us. The above EBITDA reconciliation has not been audited.

DIRECTORS' REPORT (continued)

INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Group has agreed to indemnify all the Directors and executive officers against loss, cost, damage, expense or other liability suffered or incurred by the Directors as officers of the Group. The indemnity does not extend to indemnify the Director

- (a) in bringing or prosecuting any claim, unless the claim is a claim in the nature of a cross-claim or third-party claim for contribution or indemnity in, and results directly from, any proceedings in respect of which the Directors have made a claim under the indemnity;
- (b) in connection with any proceedings between the Directors and the Director's appointee or any related body corporate of the appointer (within the meaning of section 50 of the *Corporations Act 2001*) or their respective insurers; or
- (c) to the extent that the amount of the claim under the indemnity is increased as a result of failure of the Director to comply with their obligations under the indemnity agreement.

During or since the financial year, the Company has paid premiums in respect of a contract insuring all the directors of Home & Décor Holdings Pty Limited against legal costs incurred in defending proceedings for conduct other than:

- (a) A wilful breach of duty
- (b) A contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*

The total amount of insurance contract premiums paid was \$14,641.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

CORPORATE STRUCTURE

Home & Décor Holdings Pty Limited is a company that is incorporated and domiciled in Australia. Home & Décor Holdings Pty Limited is the ultimate group parent entity.

REGISTERED OFFICE

2 International Court
Scoresby, VIC 3179

EMPLOYEES

The Group employed 924 full-time equivalent employees as at 29 June 2014.

ROUNDING

The amounts contained in the Directors' report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE

The directors received an Auditor's Independence Declaration which immediately follows the Audit Opinion.

Signed in accordance with a resolution of the directors.

On behalf of the Board



Michael Cherubino
Director

Melbourne

Date 28 October 2014

Independent auditor's report to the members of Home & Decor Holdings Pty Limited

Report on the financial report

We have audited the accompanying financial report of Home & Decor Holdings Pty Limited, which comprises the consolidated statement of financial position as at 29 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 52 weeks then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the 52 weeks ended or from time to time during the financial period.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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



Opinion

In our opinion the financial report of Home & Decor Holdings Pty Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the financial position of the consolidated entity at 29 June 2014 and of its performance for the 52 weeks ended on that date; and
- (b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Ernst & Young

Ashley Butler
Partner
Melbourne
28 October 2014



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Auditor's Independence Declaration to the Directors of Home & Decor Holdings Pty Limited

In relation to our audit of the financial report of Home & Decor Holdings Pty Limited for the 52 weeks ended 29 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ashley Butler
Partner
28 October 2014

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Home & Décor Holdings Pty Limited, I state that in the opinion of the directors:

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

(i) giving a true and fair view of the company's and Group's financial position as at 29 June 2014 and of their performance for the 52 weeks ending on that date; and

(ii) complying with Accounting Standards - Reduced Disclosure Requirements and Corporations Regulations 2001; and

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

On behalf of the Board



Michael Cherubino
Director

Melbourne

Date 28 October 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE 52 WEEKS ENDING 29 JUNE 2014

	Note	52 weeks ending 29 June 2014 \$'000	52 weeks ending 30 June 2013 \$'000
Revenues from sale of goods	3	232,229	207,019
Cost of sales		<u>(86,399)</u>	<u>(77,442)</u>
Gross Profit		145,830	129,577
Other income	3	642	460
Depreciation and amortisation expenses	3	(6,663)	(7,577)
Finance expenses	3	(15,926)	(15,273)
Salaries and employee benefits expense	3	(57,769)	(53,233)
Asset, property and maintenance expenses		(459)	(400)
Occupancy expenses		(40,069)	(38,072)
Advertising expenses		(6,539)	(5,723)
Other expenses from ordinary activities	3	<u>(11,589)</u>	<u>(10,616)</u>
Profit/(loss) before income tax		7,458	(857)
Income tax benefit/(expense)	4	<u>87</u>	<u>(16)</u>
Profit/(loss) after income tax		7,545	(873)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net movement of cash flow hedges		(262)	1,597
Income tax relating to the components of other comprehensive income	4	<u>(197)</u>	<u>(479)</u>
Other comprehensive income for the period, net of tax		<u>(459)</u>	<u>1,118</u>
Total comprehensive income for the period		<u>7,086</u>	<u>245</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 29 JUNE 2014

	Note	2014 \$'000	2013 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	24,377	9,122
Trade and other receivables	6	4,585	4,149
Inventories	7	26,517	25,190
Current tax receivable		99	-
Derivative financial instruments	15	-	1,093
TOTAL CURRENT ASSETS		55,578	39,554
NON CURRENT ASSETS			
Trade and other receivables	6	115	130
Property, plant and equipment	8	13,840	14,565
Intangibles	9	112,718	111,246
Deferred tax assets	4	4,286	4,377
TOTAL NON CURRENT ASSETS		130,959	130,318
TOTAL ASSETS		186,537	169,872
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	10	15,267	13,235
Interest bearing liabilities	11	854	1,803
Current tax liabilities		-	292
Provisions	12	4,576	4,371
Derivative financial instruments	15	1,277	1,039
TOTAL CURRENT LIABILITIES		21,974	20,740
NON CURRENT LIABILITIES			
Deferred tax liabilities	4	99	439
Trade and other payables	10	6,309	5,444
Interest bearing liabilities	11	111,291	103,134
Provisions	12	4,600	4,240
Derivative financial instruments	15	364	1,039
TOTAL NON CURRENT LIABILITIES		122,663	114,296
TOTAL LIABILITIES		144,637	135,036
NET ASSETS		41,900	34,836
EQUITY			
Contributed equity	13	34,718	34,740
Reserves	13	(1,149)	(690)
Retained earnings		8,331	786
TOTAL EQUITY		41,900	34,836

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 52 WEEKS ENDING 29 JUNE 2014

	Ordinary shares	Cash flow hedge reserve	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2013	34,740	(690)	786	34,836
Profit for the period	-	-	7,545	7,545
Other comprehensive income	-	(459)	-	(459)
Total comprehensive income for the period	-	(459)	7,545	7,086
Transactions with owners in their capacity as owners:				
Share buy-back	(22)	-	-	(22)
At 29 June 2014	34,718	(1,149)	8,331	41,900

	Ordinary shares	Cash flow hedge reserve	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2012	34,740	(1,808)	1,659	34,591
Loss for the period	-	-	(873)	(873)
Other comprehensive income	-	1,118	-	1,118
Total comprehensive income for the period	-	1,118	(873)	245
Transactions with owners in their capacity as owners:				
Shares Issued	-	-	-	-
At 30 June 2013	34,740	(690)	786	34,836

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 52 WEEKS ENDING 29 JUNE 2014

	Note	52 weeks ending 29 June 2014 \$'000	52 weeks ending 30 June 2013 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		256,179	227,299
Payments to suppliers and employees (inclusive of GST)		(226,592)	(206,154)
Interest received		417	223
Income tax (paid)/refunded		(391)	637
Interest paid		(3,602)	(4,782)
Net cash flows from operating activities	5	26,011	17,223
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		18	5
Acquisition of property, plant and equipment		(4,532)	(5,919)
Acquisition of intangible assets		(2,111)	(54)
Net cash flows used in investing activities		(6,625)	(5,968)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share buy-back		(11)	-
Proceeds from borrowings		(16)	-
Repayment of borrowings		(4,104)	(9,050)
Net cash flows used in financing activities		(4,131)	(9,050)
Net increase in cash and cash equivalents		15,255	2,205
Cash and cash equivalents at beginning of the period		9,122	6,917
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5	24,377	9,122

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDING 29 JUNE 2014

NOTE 1. CORPORATE INFORMATION

The financial report of Home & Décor Holdings Pty Limited (the 'Group') for the 52 weeks ending 29 June 2014 was authorised for issue in accordance with a resolution of the directors on 28 October 2014.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

The financial report has been prepared on the basis of accounting practices applicable to a going concern. This basis presumes that funds will be available to finance future operations and the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

(b) Statement of Compliance

The Group has adopted AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* for the 52 weeks ending 29 June 2014.

The Group is a for-profit, private sector entity which is not publicly accountable. Therefore the consolidated financial statements of the Group are tier 2 general purpose financial statements which have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements (AASB – RDRs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The adoption of AASB1053 and AASB 2010-2 allowed Home & Décor Holdings Pty Limited to remove a number of disclosures. There were no other impacts on the current or prior period financial statements.

(c) Changes in accounting policy, accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial period except as follows:

New and amended standards and interpretations

The Group has adopted all the new and amended Australian Accounting Standards and AASB Interpretations that apply for the first time from 1 July 2013. However, they do not impact the annual consolidated financial statements of the Group.

Treatment of Computer Software assets

Computer Software assets have historically been classified under the property, plant and equipment asset class of 'computer equipment'. Due to significant additions to Computer Software assets in the 52 weeks ended 29 June 2014, management have reclassified these assets as Intangible assets.

All Computer Software assets that meet the definition of an Intangible asset under AASB 138 have been reclassified in the current and prior period in the financial statements and notes to the financial statements. Management have determined this provides more reliable and relevant information which aligns with the recognition and measurement requirements of AASB 138.

The following adjustments have been made to the financial statements in the comparative period:

	Property, plant and equipment \$'000	Intangibles \$'000
At 30 June 2013	15,262	110,492
Adjustment	(754)	754
Restated balance at 30 June 2013	14,508	111,246

Amortisation is calculated on a straight-line basis over the estimated useful life of the asset, which has been determined as 8 years for computer software.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

(d) Trade and other receivables

Lay-by customers make up the majority of trade receivables, which generally have 60 day terms, and are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. An allowance for lay-by cancellations is made when there is objective evidence that the Group will not be able to collect the debts, based on historical trends and ageing of debts. Bad debts are written off when identified.

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 29 June 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by the Group are accounted for at cost in the separate financial statements of the parent entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition (see note (f) below).

(f) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the consideration for the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances dictate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 8 *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

(g) Income Tax

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

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

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when taxable temporary differences are associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference associated with investments in subsidiaries, associates and interests in joint ventures, in which case deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

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

Tax consolidation legislation

Home & Decor Holdings Pty Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 November 2010.

The head entity, Home & Decor Holdings Pty Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Home & Decor Holdings also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

(h) Other Taxes

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

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

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

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

(i) Foreign currency transactions and balances

(i) Functional and presentation currency

Both the functional and presentation currency of Home & Décor Holdings Pty Limited and its Australian subsidiaries is Australian dollars (A\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying a standard exchange rate determined by management. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date, and any gains or losses on retranslation are taken to the Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(j) Leases

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

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Statement of Comprehensive Income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

(k) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis; and
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(l) Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

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

Class	Method	
• Computer Hardware	Straight Line	2 - 3 years
• Plant & Equipment	Straight Line	5 years
• Leasehold Improvements	Straight Line	5 years
• Shop Fixtures & Fittings	Straight Line	Over initial lease term

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date with recoverable amount being estimated, when events or changes in circumstances indicate the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is written down to its recoverable amount.

Impairment losses are recognised in the Statement of Comprehensive Income.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise 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 comprehensive income in the year the asset is derecognised.

(m) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

(m) Intangible assets (continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is de-recognised.

(i) Computer Software

The Group record direct costs associated with the development of computer software for external direct costs of materials and services consumed. Computer software has been determined to have a finite life, and is amortised on a straight line basis over its useful life.

(ii) Brand Names

Brand Names have been determined to have an indefinite life, are not amortised, are acquired and are subject to impairment testing annually, or where an indicator of impairment exists. The indefinite-useful life reflects management's intention to continue to operate these brands to generate net cash inflows into the foreseeable future.

At each reporting date or where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amounts.

Recoverable amount is the greater of fair value less costs of disposal and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs of disposal and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(m) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

Where funds are borrowed to finance major developments which extend for greater than one year, the borrowing costs on such funds are included as a capital cost of development up to the date of commissioning and are amortised over the expected useful economic life of the development.

(n) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Statement of Financial Position.

(o) Employee leave benefits

(i) Wages, salaries and annual leave

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

(ii) Long service leave

The liability for long service leave is recognised and measured in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

(p) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(q) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(s) Revenue recognition

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

Interest income is recognised as it accrues.

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

(t) Contributed Equity

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

(u) Derivative Financial Instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. 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 to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to net profit or loss for the year. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

(u) Derivative Financial Instruments (continued)

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

(i) Cash Flow Hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the Statement of Comprehensive Income when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the statement of comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the Statement of Comprehensive Income.

(v) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss and the related assets are classified as current assets in the Statement of Financial Position.

(ii) Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iii) Investments in subsidiaries

Investments in subsidiaries are carried at their cost of acquisition in the Parent's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

(w) Significant accounting judgments, estimates and assumptions

In applying the Group's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

(i) Significant accounting judgments

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular assets that may lead to impairment. These include product, manufacturing and retail performance, technology and economic environments and future product expectations. If an impairment trigger exists the recoverable amount of the assets is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

(ii) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 9.

Long service leave provision

As discussed in note 2(p), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at reporting date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

Make good provisions

Provision is made for the anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with dismantling and removal of shop fittings and cleaning. These future cost estimates are discounted to their present value. The calculation of this provision requires assumptions such as store closure dates, available technologies and removal cost estimates.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment) and lease terms (for shop fittings). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 8.

Lay-by sales

A lay-by sale is a contract for the sale of merchandise conditional that the goods are not to pass to the purchaser until the full purchase price is paid. The purchase price of the merchandise is to be paid at some specified future date. Revenue is recognised at the point where the lay-by contract is signed by the customer and a deposit paid. This recognition criteria is based on historical data maintained by the company in relation to the likelihood of defaults or non-collection. An allowance for cancellations expressed as a percentage of lay-by sales is calculated based on historical data and recorded at the time of recognising the related sale.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

	2014 \$'000	2013 \$'000
NOTE 3. REVENUES AND EXPENSES		
(a) Revenue		
<i>Sales revenue</i>		
Sale of Goods	232,229	207,019
<i>Other revenue</i>		
Rental income	15	17
Interest income	410	224
Other	217	219
	<u>642</u>	<u>460</u>
(b) Depreciation and amortisation included in the Statement of Comprehensive Income:		
Depreciation of property, plant and equipment	6,023	7,189
Amortisation of computer software	640	388
	<u>6,663</u>	<u>7,577</u>
(c) Finance costs		
Interest paid/payable to banks and other financial institutions	4,132	5,069
RPS interest payable/paid	11,742	10,137
Unwinding of provisions	52	67
	<u>15,926</u>	<u>15,273</u>
(d) Salaries and employee benefits expense		
Wages and salaries	53,596	49,533
Defined contribution superannuation expense	4,173	3,700
	<u>57,769</u>	<u>53,233</u>
(e) Other expenses		
Bank fees	1,532	1,309
Professional fees	956	1,036
Storage costs	2,518	2,076
Postage and stationary	2,127	1,879
Other	4,456	4,316
	<u>11,589</u>	<u>10,616</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

	2014 \$'000	2013 \$'000
NOTE 4. INCOME TAX		
The major components of income tax expense are:		
Statement of Comprehensive Income		
<i>Current income tax</i>		
Current income tax charge	2,500	33
Adjustments in respect of current income tax of previous years	(2,698)	(365)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences taken to income statement	111	349
Income tax (benefit)/ expense reported in the statement of comprehensive income	(87)	16
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences taken to other comprehensive income	(197)	479
	(284)	495
A reconciliation of income tax (benefit)/expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Total accounting profit/(loss) before income tax	7,458	(857)
At the statutory income tax rate of 30% (2013: 30%)	2,237	(257)
Adjustments in respect of income tax of previous years	(2,698)	(365)
Adjustments in respect of current income tax in respect of Dusk's non membership periods	-	(550)
Non deductible redeemable preference share interest	-	1,220
De Recognition of low AF Dusk Losses	276	-
Profit adjustment for tax purposes	65	-
Other	33	(32)
	(87)	16
Aggregate income tax expense is attributable to:		
Continuing operations	(87)	16
Income tax (benefit)/expense reported in the statement of comprehensive income	(87)	16
	<i>Balance Sheet</i>	<i>Balance Sheet</i>
	2014	2013
	\$'000	\$'000
Deferred income tax		
Deferred income tax at period end relates to the following:		
<i>Deferred tax liabilities</i>		
Provision for make good	(99)	(111)
Financial instruments	-	(328)
	(99)	(439)
<i>Deferred tax assets</i>		
Losses available for offset against future taxable income	396	233
Trade and other receivables	25	30
Inventory	236	296
Property, plant and equipment	68	156
Provisions	2,891	2,742
Financial instruments	492	623
Tax only assets	177	297
	4,286	4,377
Amounts (charged) or credited directly to equity	(197)	(479)
Amounts (charged) or credited directly to the income statement	111	(349)
Movement in deferred tax in the Statement of Comprehensive Income	(86)	(828)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

	2014 \$'000	2013 \$'000
NOTE 5. CASH AND CASH EQUIVALENTS		
Cash at bank	24,244	8,992
Cash on hand	133	130
	<u>24,377</u>	<u>9,122</u>

Reconciliation Statement of Cash Flows

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at period end:

Cash at bank	24,244	8,992
Cash on hand	133	130
	<u>24,377</u>	<u>9,122</u>

STATEMENT OF CASH FLOWS RECONCILIATION

	2014 \$'000	2013 \$'000
(a) Reconciliation of net profit/(loss) after tax to net cash flows from operations		
Net profit/(loss) after tax	7,545	(873)
Adjustments and non cash items		
Depreciation and amortisation	6,663	7,894
Interest expense not paid in cash	12,273	10,612
Interest expense not paid in cash - Make good	22	38
Additions to PPE relating to make good assets	(28)	-
Net gain / loss on sale of P&E	23	9
Changes in assets and liabilities		
(Increase) in trade and other receivables	(724)	(470)
(Increase)/Decrease in inventories	(1,320)	815
Increase/(Decrease) in payables	1,490	(1,020)
(Decrease) in deferred taxes	(478)	(74)
Increase in provisions	545	292
Cash flow from operations	<u>26,011</u>	<u>17,223</u>

NOTE 6. TRADE AND OTHER RECEIVABLES

	2014 \$'000	2013 \$'000
Current		
Lay-by receivables	882	972
Allowance for lay-by cancellations	(85)	(101)
	<u>797</u>	<u>871</u>
Prepaid expenses	2,415	2,254
Deposits	282	153
Other receivables	1,091	871
	<u>4,585</u>	<u>4,149</u>
Non current		
Other receivables	115	130
	<u>115</u>	<u>130</u>
	<u>4,700</u>	<u>4,279</u>
Current	4,585	4,149
Non-current	115	130
	<u>4,700</u>	<u>4,279</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

NOTE 7. INVENTORIES

	2014 \$'000	2013 \$'000
Raw materials and work in progress	1,133	1,827
Finished goods at net realisable value	25,384	23,363
Total inventories at lower of cost and net realisable value	26,517	25,190

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

	Shop Fixtures & Fittings \$'000	Leasehold Improvements \$'000	Computer Hardware \$'000	Plant & Other Equipment \$'000	Total \$'000
Cost or valuation					
At 30 June 2013	39,325	490	4,654	11,891	56,360
Additions	4,246	-	583	565	5,394
Disposals	(459)	-	(64)	(254)	(777)
At 29 June 2014	43,112	490	5,173	12,202	60,977
Depreciation and impairment					
At 30 June 2013	27,271	262	4,030	10,289	41,852
Depreciation charge for the year	4,839	98	504	582	6,023
Disposals	(425)	-	(60)	(253)	(738)
At 29 June 2014	31,685	360	4,474	10,617	47,137
Net book value					
At 30 June 2013	12,054	228	624	1,602	14,508
At 29 June 2014	11,427	130	699	1,584	13,840

NOTE 9. INTANGIBLE ASSETS

	Computer Software \$'000	Brand Names with indefinite useful life \$'000	Goodwill \$'000	Total \$'000
Cost or valuation				
At 30 June 2013	1,464	47,532	82,870	131,866
Additions	2,112	-	-	2,112
At 29 June 2014	3,576	47,532	82,870	133,978
Amortisation and impairment				
At 30 June 2013	710	-	19,910	20,620
Amortisation	640	-	-	640
At 29 June 2014	1,350	-	19,910	21,260
Net book value				
At 30 June 2013	754	47,532	62,960	111,246
At 29 June 2014	2,226	47,532	62,960	112,718

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

NOTE 9. INTANGIBLE ASSETS (continued)

Impairment testing of goodwill and intangibles with indefinite lives

Goodwill acquired through business combinations and brand names with indefinite lives has been allocated to two CGUs for impairment testing as follows:

- Adairs CGU
- Dusk CGU

Carrying amount of goodwill and brands allocated to each of the CGUs:

	Adairs \$'000	Dusk \$'000	Total \$'000
Goodwill	57,533	5,427	62,960
Brand	41,317	6,215	47,532

Adairs CGU

The Group performed its annual impairment test as at 29 June 2014. The Group considers the relationship between its enterprise value and its carrying value, among other factors, when reviewing for indicators for impairment. The recoverable amount of the Adairs CGU has been determined based on the value in use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The post-tax discount rate applied to cash flow projections is 12.2% and cash flows beyond the five year period are extrapolated using a 3% growth. As a result of the analysis, no impairment has been recognised for the period.

Dusk CGU

The Group performed its annual impairment test as at 29 June 2014. The Group considers the relationship between its enterprise value and its book value, among other factors, when reviewing for indicators for impairment. The recoverable amount of the Dusk CGU has been determined based on the value in use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The post-tax discount rate applied to cash flow projections is 12.0% and cash flows beyond the five year period are extrapolated using a 3% growth. As a result of the analysis, no impairment has been recognised for the period.

Key assumptions used in value in use calculations

The calculation of value in use for both Adairs and Dusk are most sensitive to the following assumptions:

- Gross margin
- Discount rate
- Growth rate

Gross margins - Gross margins are based on average values achieved in the past. These are increased over the budget period for anticipated efficiency improvements.

Discount rate - Discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return of investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual risk factors into the WACC.

Growth rate - Rates are based on managements best estimate of anticipated growth in the short to medium term.

Sensitivity to changes in assumptions

There are reasonable possible changes in key assumptions that could cause the carrying value of the cash generating units (CGUs) to exceed its recoverable amount. The implications of the key assumptions on the recoverable amount are discussed below:

Growth rate - management recognises that future growth rates may vary to what they have estimated. Management notes that the growth rates would need to be (3.1%) and (2.2%) for each forecasted year for the recoverable amount of the Adairs and Dusk CGU's respectively to fall below their carrying amounts.

NOTE 10. TRADE AND OTHER PAYABLES

	2014 \$'000	2013 \$'000
Current		
Trade creditors	8,896	7,900
Accrued expenses	4,047	3,357
Other payables	2,324	1,978
	<u>15,267</u>	<u>13,235</u>
Non current		
Accrued redeemable preference share interest - non-compounded	6,309	5,444
	<u>21,576</u>	<u>18,679</u>
Current	15,267	13,235
Non current	6,309	5,444
	<u>21,576</u>	<u>18,679</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

NOTE 11. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate %	Maturity	2014 \$'000	2013 \$'000
Current				
Bank Loan - Facility B	BBSW + 3.50	5/12/2015	1,072	1,149
Bank Loan - Earn Out Facility	BBSW + 3.25	5/12/2015	549	1,240
Capitalised borrowing cost			(767)	(586)
			<u>854</u>	<u>1,803</u>
Non-current				
Bank Loan - Facility B	BBSW + 3.50	5/12/2015	29,373	32,851
Bank Loan - Earn Out Facility	BBSW + 3.25	5/12/2015	3,572	3,431
Capitalised borrowing cost			(538)	(1,252)
			<u>32,407</u>	<u>35,030</u>
Redeemable preference shares	16.00	6/12/2019	50,136	50,168
Accrued redeemable preference share interest - compounded	16.00	6/12/2019	28,748	17,936
			<u>111,291</u>	<u>103,134</u>

(a) Financing facilities available

At reporting date, the following non-shareholder financing facilities had been negotiated with the bank and were available:

Facilities available at reporting date:	48,726	53,271
Facilities used at reporting date:	<u>(30,445)</u>	<u>(38,671)</u>
Facilities unused at reporting date:	<u>18,281</u>	<u>14,600</u>

NOTE 12. PROVISIONS

	2014 \$'000	2013 \$'000
Current		
Lease incentives	437	395
Straight-line lease	679	611
Employee benefits	3,168	3,048
Make good provision	<u>292</u>	<u>317</u>
	<u>4,576</u>	<u>4,371</u>
Non-current		
Lease incentives	875	878
Straight-line lease	1,901	1,549
Employee benefits	867	712
Make good provision	<u>957</u>	<u>1,101</u>
	<u>4,600</u>	<u>4,240</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

NOTE 13. ISSUED CAPITAL AND RESERVES

	2014 Thousands	2013 Thousands
(a) Authorised Shares		
Ordinary Shares	34,718	34,740
	<u>34,718</u>	<u>34,740</u>
Ordinary shares issued and fully paid	Thousands	\$'000
At 30 June 2013	34,740	34,740
Share buy-back	(22)	(22)
At 29 June 2014	<u>34,718</u>	<u>34,718</u>
(b) Other Capital Reserves		
As at 29 June 2014	Cash flow hedge reserve \$'000	Total \$'000
	<u>(283)</u>	<u>(283)</u>
Forward currency contracts	(866)	(866)
Interest rate swap contracts	<u>(1,149)</u>	<u>(1,149)</u>
As at 30 June 2013	Cash flow hedge reserve \$'000	Total \$'000
	765	765
Forward currency contracts	(1,455)	(1,455)
Interest rate swap contracts	<u>(690)</u>	<u>(690)</u>

NOTE 14. COMMITMENTS AND CONTINGENCIES

	2014 \$'000	2013 \$'000
Leases		
Non cancellable operating lease commitments not provided for in the accounts		
- not later than one year	28,796	26,346
- later than one year and not later than five years	56,025	47,268
- later than five years	<u>5,749</u>	<u>3,364</u>
	<u>90,570</u>	<u>76,978</u>

The Group has entered into operating leases for rental of shop premises. These leases have an average life of between 3 and 7 years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS

	2014 \$'000	2013 \$'000
Current assets		
Forward currency contracts - cash flow hedges	-	1,093
	<u>-</u>	<u>1,093</u>
Current liabilities		
Forward currency contracts - cash flow hedges	404	-
Interest rate swap contracts - cash flow hedges	873	1,039
	<u>1,277</u>	<u>1,039</u>
Non-current liabilities		
Interest rate swap contracts - cash flow hedges	364	1,039
	<u>364</u>	<u>1,039</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Instruments used by the Group

Forward currency contracts - cash flow hedges

The Group buys inventories that are purchased in US Dollars. In order to protect against exchange rate movements and to manage the inventory purchases process, the Group has entered into forward exchange contracts to purchase USD. These contracts are hedging committed purchases and they are timed to mature when payments are scheduled to be made. These derivatives have met the requirements to qualify for hedge accounting with movements recorded in other comprehensive income accordingly.

The cash flows are expected to occur between 0-12 months from 29 June 2014.

Interest rate swaps- cash flow hedges

Interest-bearing loans of the Group are currently subject to variable interest rate charges. In order to protect against rising interest rates the Group has entered into interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover approximately 75% of the principal outstanding and are timed to expire at the renewal dates of each loan.

NOTE 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, cumulative redeemable preference shares, cash and short-term deposits and derivatives.

Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security.

The Group enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and liquidity risk.

(i) Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term unhedged debt obligations. The level of debt is disclosed in note 11.

Financial Assets

Cash and Cash Equivalents

Financial Liabilities

Bank Loans (unhedged component)

Net Exposure

2014 \$'000	2013 \$'000
24,377	9,122
(2,057)	(6,041)
22,320	3,081

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date:

At 29 June 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows due to the higher/lower interest rate costs from variable debt and cash balances:

Judgments of reasonably possible movements:

+1% (100 basis points)
-0.5% (100 basis points)

2014 \$'000	2013 \$'000
Post tax profit higher/(lower)	
156	22
(78)	(11)

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating, relationships with finance institutions, the level of debt that is expected to be renewed as well as a review of the last two year's historical movements and economic forecaster's expectations.
- The net exposure at reporting date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

(ii) Foreign currency risk

As a result of large purchases of inventory denominated in United States Dollars, the Group's Statement of Financial Position can be affected significantly by movements in the US\$/A\$ exchange rates. The group attempts to mitigate this risk by entering into forward foreign exchange contracts, as detailed below.

At reporting date, the Group had the following exposure to US\$ foreign currency that is not designated in cash flow hedges:

2014 \$'000	2013 \$'000
(15)	(276)

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date:

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

NOTE 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Interest rate risk (continued)

At 29 June 2014, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

Judgments of reasonably possible movements:

	2014 \$'000	2013 \$'000
	Post tax profit higher/(lower)	
AUD to US Dollar +15%	1	11
AUD to US Dollar -15%	(2)	(43)

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years historical movements and economic forecaster's expectations.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from reporting date.
- The sensitivity does not include financial instruments that are non-monetary items as these are not considered to give rise to currency risk.

(iii) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, preference shares and committed available credit lines.

A. Non-derivative financial liabilities

The following liquidity risk disclosures reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities and financial guarantees as of 29 June 2014. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

	< 6 months \$'000	6 - 12 months \$'000	1 - 5 years \$'000	> 5 years \$'000	Total \$'000
52 weeks ended 29 June 2014					
Liquid financial assets					
Cash and cash equivalents	24,377	-	-	-	24,377
Trade and other receivables	4,585	-	115	-	4,700
Financial Liabilities					
Trade and other payables	(15,267)	-	-	-	(15,267)
Interest bearing loans and borrowings	(1,347)	(275)	(32,944)	-	(34,566)
Redeemable preference shares	-	-	-	(50,136)	(50,136)
Net Inflow/(Outflow)	12,348	(275)	(32,829)	(50,136)	(70,892)

	< 6 months \$'000	6 - 12 months \$'000	1 - 5 years \$'000	> 5 years \$'000	Total \$'000
52 weeks ended 30 June 2013					
Liquid financial assets					
Cash and cash equivalents	9,122	-	-	-	9,122
Trade and other receivables	4,149	-	-	130	4,279
Financial Liabilities					
Trade and other payables	(18,679)	-	-	-	(18,679)
Interest bearing loans and borrowings	(620)	(620)	(37,431)	-	(38,671)
Redeemable preference shares	-	-	-	(50,168)	(50,168)
Net Inflow/(Outflow)	(6,028)	(620)	(37,431)	(50,038)	(94,117)

B. Derivative financial liabilities

Due to the unique characteristics and risks inherent to derivative instruments the Group separately monitors the liquidity risk arising from transacting in derivative instruments.

The table below details the liquidity risk arising from the derivative liabilities held by the Group at reporting date:

	< 6 months \$'000	6 - 12 months \$'000	1 - 5 years \$'000	> 5 years \$'000	Total \$'000
52 weeks ended 29 June 2014					
Derivatives - Forward currency contracts	(301)	(103)	-	-	(404)
Derivatives - Interest rate swap contracts	(437)	(437)	(364)	-	(1,237)
Net Inflow/(Outflow)	(737)	(540)	(364)	-	(1,641)

	< 6 months \$'000	6 - 12 months \$'000	1 - 5 years \$'000	> 5 years \$'000	Total \$'000
52 weeks ended 30 June 2013					
Derivatives - Forward currency contracts	847	246	-	-	1,093
Derivatives - Interest rate swap contracts	(519)	(519)	(1,039)	-	(2,078)
Net Inflow/(Outflow)	(1,148)	(1,353)	(1,767)	-	(985)

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

NOTE 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(vi) Fair value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 — the fair value is calculated using quoted prices in active markets.

Level 2 — the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 — the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps, forward commodity contracts and foreign exchange contracts not traded on a recognised exchange.

	52 weeks ended 29 June 2014		52 weeks ended 30 June 2013	
	Valuation technique - market observable inputs (Level 2)	Total	Valuation technique - market observable inputs (Level 2)	Total
Consolidated	\$' 000	\$' 000	\$' 000	\$' 000
Financial assets and liabilities				
Forward exchange contracts	404	404	(1,093)	(1,093)
Interest rate swaps	1,237	1,237	2,078	2,078
	1,641	1,641	985	985

NOTE 17. INFORMATION RELATING TO HOME & DECOR HOLDINGS PTY LIMITED ('the parent entity')

	2014 \$'000	2013 \$'000
Current assets	33	38
Total assets	84,095	84,864
Current liabilities	(195)	(255)
Total liabilities	(85,853)	(73,914)
	(1,758)	10,950
Issued capital	34,718	34,740
Accumulated losses	(36,476)	(23,791)
	(1,758)	10,950
Loss of the parent entity	11,599	10,350
Total comprehensive loss of the parent entity	11,599	10,350

NOTE 18. RELATED PARTY DISCLOSURES

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

		Purchases from related parties \$'000	Amounts owed by related parties \$'000
Entity with significant influence over the Group:			
BBRC International Pte Ltd	2014	250	-
	2013	250	-
Key management personnel of the Group:			
Executive Loans	2014	-	115
	2013	-	130

Loans to key management personnel

The Executive Loans are granted to Key Management Personnel of the Group, and are intended to finance the acquisition of Series A Redeemable Preference Shares. The loans are secured by the KMP's rights to shares in the Group, and is repayable in full on 20 March 2019. No interest is charged on these loans.

Terms and conditions of transactions with related parties other than KMP

The purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. There are no outstanding balance as the 52 weeks ended 29 June 2014. There have been no guarantees provided or received for any related party receivables or payables.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE 52 WEEKS ENDING 29 JUNE 2014

NOTE 18. RELATED PARTY DISCLOSURES (continued)

Compensation of key management personnel of the Group

	2014 \$'000	2013 \$'000
Total compensation	2,785	2,101

NOTE 19. INFORMATION RELATING TO SUBSIDIARIES

The consolidated financial statements of the Group include:

Name:

Home & Décor Pty Limited

Adairs Holdings Australia Pty Limited

Adairs Retail Group Pty Limited

Wiider Days Pty Limited

dusk Australasia Pty Limited

dusk Wholesale & Imports Pty Limited

dusk Europe Pty Limited

NOTE 20. EVENTS AFTER THE BALANCE SHEET DATE

No matters or circumstances have arisen since the balance date which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in the future financial years.