

Baby Investments Limited

ACN 128 533 693

Annual Report for the financial year ended 29 June 2014

Directors' Report

The directors of Baby Investments Limited ("the company") submit herewith the annual financial report of the company and its controlled entity ("the consolidated entity") for the financial year ended 29 June 2014. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

Mr Tom Cowan - Bachelor of Commerce, Independent Fund Manager

Mr Arnold G Nadelman - Former owner of the business

Mr Barry AE Saunders - Bachelor of Commerce, Associate of the Australian Society of Accountants. Former director of The Myer Emporium Ltd, Coles Myer Ltd, Woolworths Ltd, The Reject Shop Ltd

Mr Matthew Spencer - Bachelor of Business – Major in Accounting from Chisholm Institute of Technology Caulfield (Monash University)

Mr Michael Vukadinovic – Bachelor of Economics, CA, SIA

Mr Hamish Corlett – Alternate Director for Mr Tom Cowan

Mr Grant Nadelman – Alternate Director for Mr Arnold Nadelman

Principal activities

The principal activity of the consolidated entity during the financial year was the retailing of baby merchandise.

Review of operations

The profit of the consolidated entity for the financial year after providing for income tax amounted to \$4,064,003 (2013: \$1,838,334).

Changes in the state of affairs

There has been no material change in the state of affairs of the company or the consolidated entity during the year.

Subsequent events

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future developments

The directors have excluded from this report any further information on the likely developments in the operations of the consolidated entity and the expected results of these operations in future financial years, as the directors believe that it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

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

The company is a signatory to 'The Australian Packaging Covenant'. As a signatory to this covenant the company is committed to reducing the amount of used packaging going to landfill.

Baby Investments Limited

Directors' meetings held during the financial year

	Meetings Attended	Meetings Eligible to Attend
Tom Cowan	10	11
Arnold Nadelman	10	11
Barry Saunders	11	11
Matthew Spencer	11	11
Michael Vukadinovic	10	11

Dividends

No dividend was paid or proposed during the financial year.

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary, Mr Darin Hoekman, and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Proceedings on behalf of the company

No person has applied for Leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

Auditor's independence declaration

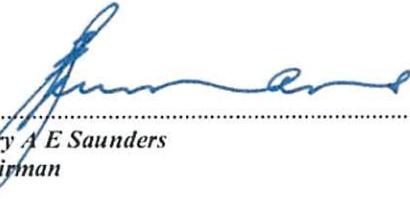
The auditor's independence declaration is included on page 3 of the annual report.

Rounding of Amounts

The Company is a kind referred to in Class Order 98/100, issued by the Australian Securities and Investment Commission, relating to the 'rounding off' of amounts in the directors' and financial reports. Amounts in these reports have been rounded off in accordance with that Class Order to the nearest thousand dollars, or unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors


.....
Barry A E Saunders
Chairman

Melbourne: 18th September 2014

18 September 2014

The Board of Directors
Baby Investments Limited
955 Taylors Rd
Dandenong South VIC 3175

Dear Board Members

Baby Investments Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Baby Investments Limited.

As lead audit partner for the audit of the financial statements of Baby Investments Limited for the financial year ended 29 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely


DELOITTE TOUCHE TOHMATSU



Rachel Smith
Partner
Chartered Accountants

Independent Auditor's Report to the Members of Baby Investments Limited

We have audited the accompanying financial report, being a special purpose financial report, of Baby Investments Limited, which comprises the statement of financial position as at 29 June 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company comprising Baby Investments Limited and the entities it controlled at the year's end or from time to time during the financial year, as set out on pages 6 to 23.

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 and have determined that the basis of preparation described in Note 2 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have 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 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 judgement, 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 control relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Baby Investments Limited would be in the same terms if given to the directors as at the time of this auditor's report.

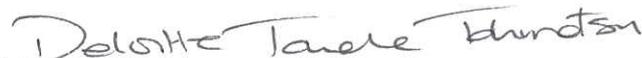
Opinion

In our opinion, the financial report of Baby Investments Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 29 June 2014 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note 2, and the *Corporations Regulations 2001*.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.


DELOITTE TOUCHE TOHMATSU



Rachel Smith
Partner
Chartered Accountants
Melbourne, 18 September 2014

DIRECTORS' DECLARATION

As detailed in Note 2 to the financial statements, the company is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the directors' reporting requirements under the Corporations Act 2001.

The directors declare that:

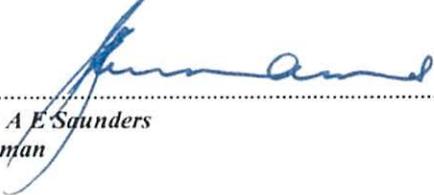
- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and consolidated entity.

At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in note 23 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the Directors


.....
Barry A E Saunders
Chairman

Melbourne: 18th September 2014

Baby Investments Limited

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the Financial Year Ended 29 June 2014

	Note	Consolidated		Company	
		2014 S'000	2013 S'000	2014 S'000	2013 S'000
Revenue	3	150,158	125,537	-	-
Cost of sales		<u>(100,221)</u>	<u>(86,402)</u>	<u>-</u>	<u>-</u>
Gross profit		49,937	39,135	-	-
Other revenue	3	20	886	-	-
Store expenses		(31,917)	(27,119)	-	-
Administrative expenses		(5,654)	(4,508)	-	-
Marketing expenses		(2,531)	(2,249)	-	-
Warehousing expenses		(3,275)	(2,651)	-	-
Finance costs	4	(1,146)	(1,127)	-	-
Change in fair value of interest rate swap		402	281	-	-
Profit before tax		<u>5,836</u>	<u>2,648</u>	<u>-</u>	<u>-</u>
Income tax (expense) / benefit	5	<u>(1,772)</u>	<u>(810)</u>	<u>-</u>	<u>-</u>
Profit after tax	20	<u>4,064</u>	<u>1,838</u>	<u>-</u>	<u>-</u>
Other comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>4,064</u>	<u>1,838</u>	<u>-</u>	<u>-</u>

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

Baby Investments Limited

STATEMENT OF FINANCIAL POSITION
As at 29 June 2014

	Note	Consolidated		Company	
		2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
CURRENT ASSETS					
Cash and cash equivalents	6	3,377	2,575	-	-
Other receivables	7	4,516	3,605	-	-
Inventories	8	27,895	23,305	-	-
Other assets	9	261	259	-	-
TOTAL CURRENT ASSETS		36,049	29,744	-	-
NON-CURRENT ASSETS					
Plant and equipment	10	11,227	9,776	-	-
Other receivables	7	-	-	44,922	43,323
Other financial assets	23	-	-	8,891	8,891
Goodwill	11	44,180	44,180	-	-
Deferred tax assets	12	1,970	1,387	-	-
TOTAL NON-CURRENT ASSETS		57,377	55,343	53,813	52,214
TOTAL ASSETS		93,426	85,087	53,813	52,214
CURRENT LIABILITIES					
Trade and other payables	13	16,024	12,139	-	-
Operating lease adjustment	13	159	232	-	-
Borrowings	14	8,050	-	-	-
Current tax liabilities	15	2,022	457	2,022	457
Provisions	16	1,101	887	-	-
Other financial liabilities	17	205	606	-	-
TOTAL CURRENT LIABILITIES		27,561	14,321	2,022	457
NON-CURRENT LIABILITIES					
Borrowings	14	-	9,100	-	-
Provisions	16	349	316	-	-
Operating lease adjustment	13	1,987	1,919	-	-
TOTAL NON-CURRENT LIABILITIES		2,336	11,335	-	-
TOTAL LIABILITIES		29,897	25,656	2,022	457
NET ASSETS		63,529	59,431	51,791	51,757
EQUITY					
Issued capital	18	53,538	53,538	53,538	53,538
Share based payment reserve	19	76	42	76	42
Retained earnings / (Accumulated losses)	20	9,915	5,851	(1,823)	(1,823)
TOTAL EQUITY		63,529	59,431	51,791	51,757

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

Baby Investments Limited

**STATEMENT OF CHANGES IN EQUITY
For the Financial Year Ended 29 June 2014**

Consolidated	Issued Capital	Retained Earnings	Reserves	Total Equity
	\$'000	\$'000	\$'000	\$'000
Balance at 01 July 2012	53,538	4,013	15	57,566
Profit for the year	-	1,838	-	1,838
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Issue of shares (Note 18)	-	-	-	-
Share based payment (Note 19)	-	-	27	27
Balance at 30 June 2013	<u>53,538</u>	<u>5,851</u>	<u>42</u>	<u>59,431</u>
Balance at 30 June 2013	53,538	5,851	42	59,431
Profit for the year	-	4,064	-	4,064
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Issue of shares (Note 18)	-	-	-	-
Share based payment (Note 19)	-	-	34	34
Balance at 29 June 2014	<u>53,538</u>	<u>9,915</u>	<u>76</u>	<u>63,529</u>
Company	Issued Capital	Accumulated Loss	Reserves	Total Equity
	\$'000	\$'000	\$'000	\$'000
Balance at 01 July 2012	53,538	(1,823)	15	51,730
Loss for the year	-	-	-	-
Issue of shares (Note 18)	-	-	-	-
Share based payment (Note 19)	-	-	27	27
Balance at 30 June 2013	<u>53,538</u>	<u>(1,823)</u>	<u>42</u>	<u>51,757</u>
Balance at 30 June 2013	53,538	(1,823)	42	51,757
Loss for the year	-	-	-	-
Issue of shares (Note 18)	-	-	-	-
Share based payment (Note 19)	-	-	34	34
Balance at 29 June 2014	<u>53,538</u>	<u>(1,823)</u>	<u>76</u>	<u>51,791</u>

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

Baby Investments Limited

STATEMENT OF CASH FLOWS
For the Financial Year Ended 29 June 2014

	Note	Consolidated		Company	
		2014 S'000	2013 S'000	2014 S'000	2013 S'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		149,259	125,355	-	-
Payments to suppliers and employees		(142,003)	(121,700)	-	-
Income tax paid		(790)	(382)	-	-
Interest received		20	17	-	-
Interest and other costs of finance paid		(1,106)	(1,108)	-	-
Net cash provided by operating activities	22(a)	<u>5,380</u>	<u>2,182</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for plant and equipment		(3,528)	(2,610)	-	-
Proceeds on sale of plant & equipment		-	570	-	-
Net cash used in investing activities		<u>(3,528)</u>	<u>(2,040)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	-	-	-
Proceeds from borrowings		-	300	-	-
Repayment of borrowings		(1,050)	-	-	-
Net cash (used in) / provided by financing activities		<u>(1,050)</u>	<u>300</u>	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		802	442	-	-
Cash and cash equivalents at beginning of the financial year		2,575	2,133	-	-
Cash and cash equivalents at end of the financial year	22(b)	<u>3,377</u>	<u>2,575</u>	<u>-</u>	<u>-</u>

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

Baby Investments Limited

Note 1: General Information

Baby Investments Limited is an unlisted public company, incorporated and operating in Australia. Its registered office and its principal place of business is:

955 Taylors Road
Dandenong South VIC 3175
Tel: (03) 8795 8100

The consolidated entity's principal activities are the retailing of baby merchandise and the entity is a for profit entity.

Note 2: Significant accounting policies

Financial reporting framework

The company is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the directors' reporting requirements under the Corporations Act 2001.

Statement of compliance

The financial report has been prepared in accordance with the Corporations Act 2001, the recognition and measurement requirements specified by all Accounting Standards and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 'Presentation of Financial Statements', AASB 107 'Statement of Cash Flows', AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' and AASB 1054 'Australian Additional Disclosures'.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The key assumptions used in the value in use calculations are as follows.

Budgeted sales growth	3.0% for comparable store growth.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period increased for expected efficiency improvements. The directors expect efficiency improvements of approximately 0.5% - 1.0% per year to be reasonably achievable.
Budgeted retail store expenses	Forecast consumer price indices during the budget period. The values assigned to the key assumption are consistent with external sources of information.
Pre-tax weighted average cost of capital	16.56%

The carrying amount of goodwill as at 30 June 2014 was \$44.18 million (2013: \$44.18 million).

Note 2: Significant accounting policies (continued)

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

(a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) in these financial statements. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the consolidated entity.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

(b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The consideration of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the consolidated entity in exchange for control of the business acquired. Acquisition related costs are recognised in the statement of profit or loss and other comprehensive income as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the consideration of the business combination over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the consolidated entity's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the consideration of the business combination, the excess is recognised immediately in the statement of profit or loss and other comprehensive income.

(c) Income Tax

The company is part of a tax consolidated group under Australian taxation law, of which Baby Investments Limited is the head entity. As a result Baby Investments Limited is subject to income tax through its membership of the tax consolidated group. The consolidated current and deferred tax amounts for the tax consolidated group are allocated to members of the tax consolidated group (including Baby Investments Limited) using the 'separate taxpayer within group' approach, with deferred taxes being allocated a reference to the carrying amounts in the financial statements of each member entity and the tax values applying under tax consolidation. Current tax liabilities and deferred tax assets arising from unused tax losses and relevant tax credits arising from this allocation process are then accounted for as immediately assumed by the head entity, as under Australian taxation law the head entity has the legal obligation (or right) to these amounts.

Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing arrangement with the head entity. Under the terms of the tax funding arrangement, Baby Bunting Pty Ltd has agreed to pay a tax equivalent payment to or from the head entity equal to the tax liability or asset assumed by the head entity for that period as noted above. Such amounts are reflected in amounts receivable from or payable to the head entity. Accordingly, the amount arising under the tax funding arrangement for each period is equal to the tax liability or asset assumed by the head entity for that period and no contribution from (or distribution to) equity participants arises in relation to income taxes.

Note 2: Significant accounting policies (continued)

(c) Income Tax (cont'd)

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Adjustments are made for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the group or that have a different tax consequence at the level of the group.

Deferred tax

Deferred tax is accounted for using the statement of financial position liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Adjustments are made for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the group or that have a different tax consequence at the level of the group.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

(e) Plant and Equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation. The depreciable amount of all fixed assets, are depreciated over their estimated useful lives. The estimated useful lives and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. The useful life for each class of asset is:

Class of fixed asset	Useful Life
Plant & equipment	3 - 10 years
Leasehold improvements	5 - 10 years

Note 2: Significant accounting policies (continued)

(f) Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

(g) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(h) Revenue

Revenue from the sale of goods is recognised at the point of sale. All revenue is stated net of the amount of goods and services tax (GST), returns and staff discounts. Revenue from lay by sales is recognised at the point of sale. This approach is taken as experience indicates that most lay by sales are consummated, the customer has paid a significant deposit and the goods are on hand, identified and ready for delivery to the customer. The balance owing on outstanding lay by sales is recognised as a receivable at balance date.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(i) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

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

(j) Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Note 2: Significant accounting policies (continued)

(k) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition.

Goodwill is subsequently measured at its cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the business combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or groups of cash-generating units) and then to the other assets of the cash generating units pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or groups of cash-generating units). An impairment loss recognised for goodwill is recognised immediately in the statement of profit or loss and other comprehensive income and is not reversed in a subsequent period.

(l) Financial assets

Financial assets are classified as follows depending on the nature and purpose of the financial assets and are determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Investments in subsidiaries

Investments in subsidiaries are measured at cost using the effective interest method less impairment.

(m) Trade Payables

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(n) Financial liabilities

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit & loss ('FVTPL') or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

Note 2: Significant accounting policies (continued)

(n) Financial liabilities (continued)

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of profit or loss and other comprehensive income.

Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(o) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest rate.

(q) Store opening costs

Costs associated in the setup of a new store are expensed in the period in which they are incurred.

(r) Comparative amounts

The comparative figures are for the period 2 July 2012 to 29 June 2013.

(s) Adoption of new and revised accounting standards

Baby Investments have adopted all new and revised standards in the current year and none of the standards or revised standards has materially affected any of the amounts recognised in the period.

Baby Investments Limited

	Consolidated		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Note 3: Revenue				
An analysis of the consolidated entity's revenue for the year, is as follows:				
Revenue from sale of goods	150,158	125,537	-	-
Other revenue				
Interest	20	17	-	-
Profit on sale of equipment	-	67	-	-
Bella Vista Compulsory Acquisition (i)	-	802	-	-
	<u>20</u>	<u>886</u>	<u>-</u>	<u>-</u>
	<u>150,178</u>	<u>126,423</u>	<u>-</u>	<u>-</u>

- (i) The consolidated entity was required to close one store in NSW during the year as the NSW Government chose to compulsorily acquire the site to construct a transport hub. As such the company received compensation for loss of future profit and closure costs. The figure disclosed represents loss of future profits.

Note 4: Profit / (loss) for the year

Profit / (loss) before income tax expense includes the following expenses:

Interest and finance charges paid/payable	1,146	1,127	-	-
Depreciation	2,013	1,857	-	-
Rental expenses relating to operating leases				
Minimum lease payments	10,265	8,736	-	-
Employee benefits expense	22,859	18,843	-	-
Loss on disposal of fixes assets	64	503		

Note 5: Income Tax

Income tax recognised in profit / (loss)

Tax (expense) / benefit comprises:

Current tax	2,362	713	-	-
Deferred tax	(590)	97	-	-
Total tax expense	<u>1,772</u>	<u>810</u>	<u>-</u>	<u>-</u>

The prima facie income tax expense on pre-tax accounting profit / (loss) from operations reconciles to the income tax (expense) / benefit in the financial statements as follows:

Profit / (loss) from continuing operations	5,836	2,648	-	-
Income tax (expense) / benefit calculated at 30%	(1,751)	(794)	-	-
Section 40-880 deductions	-	5	-	-
Non deductible expenditure	(21)	(21)	-	-
Income tax (expense) / benefit	<u>(1,772)</u>	<u>(810)</u>	<u>-</u>	<u>-</u>

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

Baby Investments Limited

	Note	Consolidated		Company	
		2014 S'000	2013 S'000	2014 S'000	2013 S'000
Note 6: Cash and cash equivalents					
Cash on hand	22(b)	45	42	-	-
Cash at bank	22(b)	3,332	2,533	-	-
		<u>3,377</u>	<u>2,575</u>	<u>-</u>	<u>-</u>
Note 7: Other receivables					
<i>Current</i>					
Lay by receivables		3,590	2,691	-	-
Other receivables		926	914	-	-
		<u>4,516</u>	<u>3,605</u>	<u>-</u>	<u>-</u>
<i>Non Current</i>					
Related party receivable (i)		-	-	44,922	43,323
		<u>-</u>	<u>-</u>	<u>44,922</u>	<u>43,323</u>
(i) The receivable is secured by assets and is non interest bearing and at call					
Note 8: Inventories					
Finished goods		<u>27,895</u>	<u>23,305</u>	<u>-</u>	<u>-</u>
Note 9: Other assets					
Prepayments		<u>261</u>	<u>259</u>	<u>-</u>	<u>-</u>
Note 10: Plant and equipment					
Plant & Equipment					
At cost		16,428	13,615	-	-
Less accumulated depreciation		(6,898)	(5,075)	-	-
Net Book Value		<u>9,530</u>	<u>8,540</u>	<u>-</u>	<u>-</u>
Leasehold improvements					
At cost		2,641	1,990	-	-
Less accumulated depreciation		(944)	(754)	-	-
Net Book Value		<u>1,697</u>	<u>1,236</u>	<u>-</u>	<u>-</u>
Total					
At cost		19,069	15,605	-	-
Less accumulated depreciation		(7,842)	(5,829)	-	-
Net Book Value		<u>11,227</u>	<u>9,776</u>	<u>-</u>	<u>-</u>

Baby Investments Limited

	Consolidated		Company	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000

Note 10: Plant and equipment (continued)

Movements in Carrying Amounts

Movements in the carrying amounts between the beginning and the end of the current financial year are as follows:

	Plant & Equipment Consolidated	Plant & Equipment Consolidated	Plant & Equipment Company	Plant & Equipment Company
Plant & Equipment				
Balance at beginning of the year	8,540	8,126	-	-
Additions	2,839	2,559	-	-
Disposals at WDV	(45)	(501)	-	-
Depreciation	(1,804)	(1,644)	-	-
Balance at end of the year	<u>9,530</u>	<u>8,540</u>	<u>-</u>	<u>-</u>
Leasehold Improvements				
Balance at beginning of the year	1,236	1,400	-	-
Additions	689	51	-	-
Disposals at WDV	(19)	(2)	-	-
Depreciation	(209)	(213)	-	-
Balance at end of the year	<u>1,697</u>	<u>1,236</u>	<u>-</u>	<u>-</u>
Total				
Balance at beginning of the year	9,776	9,526	-	-
Additions	3,528	2,610	-	-
Disposals at WDV	(64)	(503)	-	-
Depreciation	(2,013)	(1,857)	-	-
Balance at end of the year	<u>11,227</u>	<u>9,776</u>	<u>-</u>	<u>-</u>

Note 11: Goodwill

Net book value

At beginning of the year	44,180	44,180	-	-
At end of the year	<u>44,180</u>	<u>44,180</u>	<u>-</u>	<u>-</u>

Note 12: Deferred tax assets

The balance comprises temporary differences attributable to:

Employee benefits	435	361	-	-
Non deductible accruals	133	53	-	-
Non assessable lay by gross profit	128	(242)	-	-
Inventories	385	258	-	-
Gift vouchers	184	130	-	-
Operating lease adjustment	644	645	-	-
Interest rate swap	61	182	-	-
	<u>1,970</u>	<u>1,387</u>	<u>-</u>	<u>-</u>

Baby Investments Limited

	Consolidated		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Note 13: Payables				
<i>Current</i>				
Trade payables	12,380	9,667	-	-
Gift voucher payables	614	433	-	-
Sundry payables and accruals	3,030	2,039	-	-
	<u>16,024</u>	<u>12,139</u>	<u>-</u>	<u>-</u>
<i>Current</i>				
Operating lease adjustment	<u>159</u>	<u>232</u>	<u>-</u>	<u>-</u>
<i>Non - Current</i>				
Operating lease adjustment	<u>1,987</u>	<u>1,919</u>	<u>-</u>	<u>-</u>
Note 14: Borrowings				
<i>Current - Secured</i>				
Bank Loan	<u>8,050</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Non-Current - Secured</i>				
Bank Loan	<u>-</u>	<u>9,100</u>	<u>-</u>	<u>-</u>

The current loan facility arrangements with the National Australia Bank (“NAB”) are due to expire on the 31 December 2014. As the expiration date falls within 12 months of the 2014 financial year end, it is necessary to classify the secured Bank Loan as a “current” liability in the 2014 financial year. The directors wish to note that negotiations for a new facility are well advanced and they fully anticipate having a new facility in place prior to the expiration of the current facility. For further details on funding arrangements refer to note 24.

Note 15: Tax liabilities

<i>Current</i>				
Income tax	<u>2,022</u>	<u>457</u>	<u>2,022</u>	<u>457</u>

Note 16: Provisions

<i>Current</i>				
Employment benefits	<u>1,101</u>	<u>887</u>	<u>-</u>	<u>-</u>
<i>Non-Current</i>				
Employment benefits	<u>349</u>	<u>316</u>	<u>-</u>	<u>-</u>

Note 17: Other financial liabilities

Interest Rate Swap	<u>205</u>	<u>606</u>	<u>-</u>	<u>-</u>
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The company has in place an interest rate swap that has a floor of 6.50%. When interest rates fall below the floor, the company pays the National Australia Bank the difference between the floor rate and BBSY (BID) each quarter. These payments have been expensed each quarter and appear in the statement of profit or loss and other comprehensive income as part of finance costs.

In light of current interest rates which are in the order of 2.64%, the swap is out of the money at balance date. AASB 7 ‘Financial Instruments: Disclosures’ requires the company to expense the fair value of the swap arrangement at each reporting date. The out of the money position has improved since 2012 as a direct result of the amount swapped reducing and the reduced time to expiry. If interest rates rise from their current levels, this out of the money position will reduce. The interest rate swap expires on 8th December 2014.

Baby Investments Limited

	Consolidated		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Note 18: Issued capital				
95,659,943 (2013: 95,659,943) fully paid ordinary shares	53,538	53,538	53,538	53,538

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2014 Company		2013 Company	
	No. '000	\$000	No. '000	\$'000
Fully paid ordinary shares				
Balance at beginning of the year	95,660	53,538	49,252	39,214
Shares issued in lieu of management fee	-	-	1,505	979
Issue of shares	-	-	44,903	13,471
Cost of equity raising	-	-	-	(126)
Balance at end of the year	95,660	53,538	95,660	53,538

	Consolidated		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Note 19: Share based payment reserve				
Balance at beginning of the year	42	15	42	15
Fair value option expense	34	27	34	27
Balance at the end of the year	76	42	76	42

There are no further management fees payable to Blackwood Capital.

Note 20: Retained earnings / (Accumulated losses)

Balance at the beginning of the year	5,851	4,013	(1,823)	(1,823)
Net profit attributable to members	4,064	1,838	-	-
Balance at the end of the year	9,915	5,851	(1,823)	(1,823)

Baby Investments Limited

	Consolidated		Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Note 21: Commitments for expenditure				
Operating Lease Commitments				
Non - cancellable operating leases contracted for but not capitalised in the financial statements:				
Not later than one year	10,171	8,296	-	-
Later than one year and not later than five years	29,926	25,480	-	-
Later than five years	5,786	4,564	-	-
	<u>45,883</u>	<u>38,340</u>	<u>-</u>	<u>-</u>

The consolidated entity enters into operating leases for its retail outlets and related equipment such as forklifts.

Capital Commitments

The consolidated entity has capital commitments totalling \$220,532 (2013: \$560,914), all payable within one year. These costs all relate to plant and equipment for new stores.

Note 22: Notes to the statement of cash flows

(a) Reconciliation of profit / (loss) for the year to net cash flows from ordinary activities

Profit / (loss) after income tax	4,064	1,838	-	-
Non-cash flows in profit from ordinary activities				
Depreciation	2,013	1,857	-	-
Share based payments (Management Fee)	-	-	-	-
Share based payments (Options)	35	27	-	-
(Profit)/Loss on disposal of equipment	64	(67)	-	-
Changes in assets and liabilities:				
Decrease / (Increase) in other receivables	(911)	(537)	-	-
Decrease / (Increase) in prepayments	(2)	279	-	-
Decrease / (Increase) in inventories	(4,590)	(4,122)	-	-
Decrease / (Increase) in tax assets	(583)	97	-	-
Increase / (Decrease) in trade and other payables	3,885	2,789	-	-
Increase / (Decrease) in provisions	247	99	-	-
Increase / (Decrease) in income tax liability	1,565	414	-	-
Increase / (Decrease) in other financial liabilities	(402)	(281)	-	-
Increase / (Decrease) in operating lease adjustment	(5)	(211)	-	-
Net cash provided by operating activities	<u>5,380</u>	<u>2,182</u>	<u>-</u>	<u>-</u>

(b) Reconciliation of Cash and Cash equivalents

For the purposes of the statement cash flows, cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash on hand	45	42	-	-
Cash at bank	3,332	2,533	-	-
	<u>3,377</u>	<u>2,575</u>	<u>-</u>	<u>-</u>

Note 23: Subsidiaries

Baby Investments Limited has one 100% owned subsidiary, Baby Bunting Pty Ltd incorporated in Australia. The investment in this entity is \$8,891,700 which represents the issued capital of the entity, together with the value of non cash costs associated with the acquisition of the business. This wholly-owned subsidiary has entered into a deed of cross guarantee with Baby Investments Limited pursuant to ASIC Class Order 98/1418 and is relieved from the requirement to prepare and lodge an audited financial report. Baby Bunting Pty Ltd became a party to the deed of cross guarantee on 19 June 2008. All parties to the deed of cross guarantee are within the consolidated financial statements therefore, this information has not been repeated in this set of financial statements.

Baby Investments Limited

Note 24: Loan facilities

The ongoing funding requirements of the consolidated entity are provided by the National Australia Bank ('NAB'). The secured multi option facility matures on 31st December 2014. Security consists of a Deed of Charge and each member of the consolidated entity is a guarantor to the facility.

The total facility at balance date was \$18,000,000, consisting of \$14,000,000 market rate facility and \$4,000,000 bank guarantee facility. The market rate facility can be drawn to the lesser of \$14,000,000 or 2.70 times the last 12 months historical rolling EBITDA.

For the avoidance of doubt, EBITDA is calculated after adding back non cash management fees and non cash interest rate adjustments. Total borrowings are calculated net of cash on hand.

The current facility does not require the consolidated entity to amortise borrowings.

	2014		2013	
	Limit	Utilised	Limit	Utilised
	\$'000	\$'000	\$'000	\$'000
Market Rate Facility	14,000	8,050	11,503	8,800
Bank Guarantee Facility	4,000	2,520	1,971	1,971
Total Facility	18,000	10,570	13,474	10,771

The consolidated entity is in compliance with its facility agreement at 29 June 2014.

Note 25: Remuneration of auditors

During the year the following services were paid to Deloitte Touche Tohmatsu as the auditor of the parent entity and its wholly owned subsidiary:

	Consolidated		Company	
	2014	2013	2014	2013
	\$	\$	\$	\$
Audit of the financial report				
Half year review	18,500	18,000	-	-
Audit work	62,500	59,000	-	-
	81,000	77,000	-	-
Tax and Consulting Services				
Tax compliance	14,175	13,500	-	-
Tax advice	-	23,083	-	-
Other advisory services	-	19,228	-	-
Total remuneration	95,175	132,756	-	-

Note 26: Segment information

Baby Investments Limited operates within with the one geographic segment (Australia) and the one business segment (retailing of baby merchandise).

Note 27: Subsequent events

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.