

## AFTERPAY HOLDINGS LIMITED

(ASX: AFY)

### ASX Announcement

15 May 2017

### Afterpay / Touchcorp Merger: Afterpay Scheme Booklet

As announced earlier today, Afterpay Holdings Limited (ACN 606 589 520) (ASX:AFY) (**Afterpay**) and Touchcorp Limited (ARBN 603 731 184) (ASX:TCH) (**Touchcorp**) are proceeding with their proposed merger under a new Australian holding company called Afterpay Touch Group Limited (ACN 618 280 649) to be implemented by inter-conditional schemes of arrangement (**Merger**).

The following documents are attached to this announcement:

- Afterpay Scheme Booklet, containing the Notice of Afterpay Scheme Meeting; and
- Sample Proxy Form.

Afterpay shareholders with questions in relation to the Afterpay Scheme should contact their financial, legal, taxation or other professional adviser.

Afterpay shareholders can also call the Shareholder Information Line on 1300 560 339 (within Australia) or +61 2 8011 0354 (outside Australia) between Monday and Friday from 9.00am to 5.00pm (AEST).

**-ENDS**

For further information please contact:

Anthony Eisen  
**Afterpay Holdings Limited**  
Executive Chairman  
[ant@afterpay.com.au](mailto:ant@afterpay.com.au)



Afterpay Holdings Limited  
ACN 606 589 520

# Scheme Booklet

In relation to a proposal from Afterpay Touch Group  
to exchange all your Afterpay Shares for  
Afterpay Touch Group Shares on a 1-for-1 basis

## Vote in Favour

The Directors **unanimously recommend** that you **vote in favour** of the Scheme in the absence of a superior proposal

**This is an important document and requires your immediate attention. You should read it carefully and in its entirety before deciding whether or not to vote in favour of the Scheme.** If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser. If you have recently sold all your Afterpay Shares, please ignore this Scheme Booklet. Afterpay has established a Shareholder Information Line which you should call if you have any questions in relation to the Scheme or the Merger. The telephone number for the Shareholder Information Line is 1300 560 339 (within Australia) and +61 2 8011 0354 (outside Australia). The Shareholder Information Line is open between Monday and Friday from 9.00am to 5.30pm.

**Baker  
McKenzie.**

Legal adviser

## Important Notices

### General

Afterpay Shareholders are encouraged to read this Scheme Booklet in its entirety before making a decision as to how to vote on the resolution to be considered at the Scheme Meeting.

### Purpose of Scheme Booklet

The purpose of this Scheme Booklet is to explain the terms of the Merger, and in particular, the Afterpay Scheme and the manner in which the Scheme will be considered and implemented (if approved) and to provide such information as is prescribed or otherwise material to the decision of Shareholders whether or not to approve the Scheme.

This Scheme Booklet includes the explanatory statement required to be sent to Shareholders under Part 5.1 of the Corporations Act in relation to the Scheme.

### Responsibility for information

The information contained in this Scheme Booklet other than the Touchcorp Information, Afterpay Touch Group Information, the Independent Experts' Report and the Independent Limited Assurance Report has been prepared by Afterpay and is the responsibility of Afterpay. None of Touchcorp or Afterpay Touch Group, or their directors, officers or advisers assume any responsibility for the accuracy or completeness of the Afterpay Information.

The Touchcorp Information has been provided by Touchcorp and is the responsibility of Touchcorp. To the maximum extent permitted by law, none of Afterpay or Afterpay Touch Group, or their directors, officers or advisers assume any responsibility for the accuracy or completeness of the Touchcorp Information.

The Afterpay Touch Group Information has been prepared by and is the responsibility of Afterpay Touch Group. To the maximum extent permitted by law, Afterpay does not assume responsibility for the accuracy or completeness of the Afterpay Touch Group Information. Afterpay, Touchcorp and their directors and officers do not assume any responsibility for the accuracy or completeness of this information except to the extent that Afterpay or Touchcorp has provided Afterpay Touch Group with information for the purpose of Afterpay Touch Group preparing information on the Merged Group following implementation of the Merger.

LEA has prepared the Independent Expert's Report in relation to the Afterpay Scheme contained in Annexure A and takes responsibility for that report. None of Afterpay, Touchcorp, Afterpay Touch Group and their respective directors, officers and advisers assume any responsibility for the accuracy or completeness of the Independent Expert's Report.

Ernst & Young Transaction Advisory Services Limited has prepared the Independent Limited Assurance Report contained in Annexure B and takes responsibility for that report.

### ASIC and ASX

A copy of this Scheme Booklet was provided to ASIC for review in accordance with section 411(2) of the Corporations Act and registered with ASIC for the purposes of section 412(6). Neither ASIC nor its officers take any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been lodged with ASX. Neither ASX nor its officers take any responsibility for the contents of this Scheme Booklet.

### Court order under subsection 411(1) of Corporations Act

The fact that under subsection 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has approved the Scheme Booklet required to accompany the Notice of Scheme Meeting does not mean that the Court:

- (a) has formed any view as to the merits of the proposed Scheme or as to how Afterpay Shareholders should vote (on this matter Shareholders should reach their own decision); or
- (b) has prepared, or is responsible for the content of, the Scheme Booklet.

### Notice of Second Court Hearing

The Scheme is subject to Shareholder approval by the requisite majorities and approval of the Court on the Second Court Date. Afterpay Shareholders have the right to appear at the Second Court Hearing and oppose the approval of the Scheme by the Court and be heard, including in opposition to the approval of the Scheme. The Second Court Hearing is expected to be held on 28 June 2017 at the Federal Court of Australia, Queens Square, Sydney, before Justice Yates.

Any Afterpay Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing

with the Court and serving on Afterpay a notice of appearance in the prescribed form together with any affidavit that the Shareholder proposes to rely on.

### Future matters and intentions

Certain statements in this Scheme Booklet relate to the future. These statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of Afterpay to be materially different from future results, performance or achievements expressed or implied by those statements. Such risks, uncertainties, assumptions and other important factors include, among other things, general economic conditions, exchange rates, interest rates, the regulatory environment, competitive pressures, selling price and market demand. These statements only reflect views held as at the date of this Scheme Booklet.

Other than as required by law neither Afterpay, Touchcorp, Afterpay Touch Group nor any other person gives any representation, assurance or guarantee that the events expressed or implied in any forward looking statements in this Scheme Booklet will actually occur. You are cautioned about relying on any such forward looking statements in this Scheme Booklet. Additionally, statements of the intentions of Afterpay Touch Group reflect Afterpay Touch Group's present intentions as at the date of this Scheme Booklet and may be subject to change.

### No investment advice

This Scheme Booklet does not constitute financial product advice and has been prepared without reference to the investment objectives, financial situation and particular needs of individual Afterpay Shareholders. This Scheme Booklet should not be relied upon as the sole basis for any investment decision in relation to the Merger, the Scheme or your Shares. Before making an investment decision in relation to the Scheme or your Afterpay Shares, including any decision to vote for or against the Scheme, you should consider, with or without the assistance of a financial adviser, whether that decision is appropriate in the light of your particular investment needs, objectives and financial circumstances. If you are in any doubt about what you should do, you should consult your legal, financial or other professional adviser before making any investment decision in relation to the Scheme or your Afterpay Shares.

### Shareholders outside Australia

This Scheme Booklet complies with the disclosure requirements applicable in Australia, which may be different to those in other countries.

The historical financial information of Afterpay and Touchcorp included in this Scheme Booklet has been prepared in accordance with recognition and measurement requirements of Australian Accounting Standards (AAS) and is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act.

The pro forma historical financial information of Afterpay Touch Group has been prepared in accordance with recognition and measurement requirements of AAS, other than it includes adjustments prepared in a manner consistent with AAS that reflect the (i) the exclusion of certain transactions that occurred in the relevant period and (ii) the impact of certain transactions as if they had occurred on 1 January 2016 in the pro forma historical consolidated income Statement or on 31 December 2016 in the pro forma historical consolidated statement of financial position.

Australian disclosure requirements and AAS may differ from those applicable in other jurisdictions.

This Scheme Booklet and the Scheme do not in any way constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

Shareholders who are Ineligible Foreign Shareholders (which, as at the date of this Scheme Booklet, are expected to comprise those Shareholders with registered addresses in jurisdictions outside Australia and its external territories, New Zealand, and any other jurisdiction which Afterpay and Afterpay Touch Group reasonably determine) will not be issued with new Afterpay Touch Group Shares but will receive a cash payment.

### Taxation implications of the Scheme

Section 8 provides a general outline of the Australian income tax, capital gains tax, GST and stamp duty consequences for Afterpay Shareholders who dispose of their Shares to Afterpay Touch Group in accordance with the Scheme. It does not purport to be a complete analysis or to identify all potential tax consequences nor is it intended to replace the need for

specialist tax advice in respect of the particular circumstances of individual Afterpay Shareholders.

Afterpay Shareholders who are subject to taxation outside Australia should also consult their tax adviser as to the applicable tax consequences of the Merger and the Afterpay Scheme in the relevant jurisdiction.

### Privacy

Computershare (being the share registry for each of Afterpay, Touchcorp and Afterpay Touch Group) may collect personal information in the process of implementing the Merger. The personal information may include the names, addresses, contact details and security holdings of Afterpay Shareholders and the names of persons appointed by Afterpay Shareholders as proxies, attorneys or corporate representatives at the Scheme Meeting. The collection of some of this personal information is required or authorised by the Corporations Act.

The primary purpose of collecting this personal information is to assist Afterpay in the conduct of the Scheme Meeting and to enable the Scheme to be implemented by Afterpay in the manner described in this Scheme Booklet. The personal information may be disclosed to Computershare, print and mail service providers, authorised securities brokers, any other service provider, and to ASX and other regulatory authorities, and in any case, where disclosure is required by law or allowed by law or where the relevant individual has consented, to the extent necessary to effect the Merger (including the Afterpay Scheme).

If the information outlined above is not collected, Afterpay and Touchcorp may be hindered in, or prevented from, conducting their respective scheme meetings and implementing their respective schemes and the Merger.

Shareholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them. Such individuals should contact the Share Registry if they wish to exercise these rights.

The Privacy Policy of Afterpay is available at [www.afterpay.com.au](http://www.afterpay.com.au).

### Notice of meeting

The Notice of Scheme Meeting is set out in Annexure E.

### Afterpay and Touchcorp websites

The content of Afterpay and Touchcorp Group's respective websites do not form part of this Scheme Booklet and Afterpay Shareholders should not rely on their content.

Any references in this Scheme Booklet to a website is a textual reference for information only and no information in any website forms part of this Scheme Booklet.

### Supplementary information

Afterpay has established a Shareholder Information Line which you should call if you have any questions or require further information. The telephone number is 1300 560 339 (within Australia) and +61 2 8011 0354 (outside Australia). The Shareholder Information Line is open between Monday and Friday from 9.00am to 5.30pm. Afterpay Shareholders should consult their legal, financial or other professional adviser before making any decision regarding the Scheme and Merger.

In certain circumstances, Afterpay may provide additional disclosure to Shareholders in relation to the Scheme and the Merger, after the date of this Scheme Booklet. To the extent applicable, Afterpay Shareholders should have regard to any such supplemental information in determining how to vote in relation to the Scheme.

### Interpretation

Capitalised terms and certain abbreviations used in this Scheme Booklet have the meanings set out in the Glossary at the back of this Scheme Booklet. The documents reproduced in the annexures to this Scheme Booklet may have their own defined terms, which are sometimes different from those in the Glossary.

Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Scheme Booklet. All numbers are subject to the effect of rounding.

Unless otherwise specified, all references to \$, A\$, AUD and cents are references to Australian currency.

All references to times in this Scheme Booklet are references to time in Melbourne, Australia unless otherwise stated.

### Date

This Scheme Booklet is dated 12 May 2017.

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## Key dates relating to the Merger

17 June 2017, 10.00am	Latest time and date for receipt of proxy forms for Scheme Meeting
17 June 2017, 7.00pm	Time and date for determining eligibility to vote at the Scheme Meeting
19 June 2017, 10.00am	<b>Scheme Meeting</b> – Afterpay Shareholders' meeting to vote on the Afterpay Scheme
19 June 2017, 11.00am	<b>Touchcorp Scheme Meeting</b> – Touchcorp Shareholders' meeting to vote on the Touchcorp Scheme
<b>If the Afterpay Scheme is approved by Afterpay Shareholders and the Touchcorp Scheme is approved by Touchcorp Shareholders</b>	
23 June 2017	Second Court Hearing for approval of the Touchcorp Scheme
28 June 2017	Second Court Hearing for approval of the Afterpay Scheme
28 June 2017	<b>Effective Date</b> – Afterpay Scheme and Touchcorp Scheme take effect Last day of trading in Afterpay Shares on ASX Last day of trading in Touchcorp Shares on ASX
28 June 2017	Suspension of Afterpay Shares from trading on ASX Suspension of Touchcorp Shares from trading on ASX
29 June 2017	Afterpay Touch Group Shares commence trading on ASX on a deferred settlement basis
3 July 2017, 7.00pm	Record Date for determining entitlement to receive Afterpay Touch Group Shares, being the Scheme Consideration
6 July 2017	<b>Implementation Date</b> – Implementation of the Scheme
7 July 2017	Dispatch of holding statements and certificates for Afterpay Touch Group Shares
10 July 2017	Commencement of normal trading of Afterpay Touch Group Shares

All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and other Regulatory Authorities. Any changes to the above timetable (which may include an earlier Second Court Hearing) will be announced through ASX and notified on [www.afterpay.com.au](http://www.afterpay.com.au). All references to time in this Scheme Booklet are references to Melbourne, Australia time.

## Letter from the Chairmain of Afterpay

Dear Shareholders,

On 23 February 2017 Afterpay and Touchcorp announced their intention to merge and subsequently entered into a Merger Implementation Agreement (MIA) on 30 March 2017.

Under the terms of the MIA, Afterpay and Touchcorp will undertake two inter-conditional schemes of arrangement whereby both companies will become, subject to Afterpay and Touchcorp shareholder approval, subsidiaries of Afterpay Touch Group.

Afterpay Shareholders will receive 1 Afterpay Touch Group Share for each Afterpay Scheme Share and, in aggregate, Afterpay Shareholders and holders of Afterpay Employee Rights will collectively hold approximately 64% of Afterpay Touch Group on a fully diluted basis (or 60.7% on an undiluted basis). Afterpay Touch Group will apply for listing on the ASX and Afterpay will cease to be listed if the Merger becomes effective.

**The independent expert, Lonergan Edwards, has concluded the Afterpay Scheme is fair and reasonable and in the best interests of Afterpay shareholders,**

in the absence of a superior proposal. The Lonergan Edwards report is included in Annexure A to this Scheme Booklet. The directors of Touchcorp have commissioned a separate independent expert's report from RSM, which concluded that the Touchcorp Scheme is fair and reasonable, and in the best interests of Touchcorp Shareholders, who are receiving a premium for control. In contrast, Lonergan Edwards has not assessed the Merger and Afterpay Scheme as involving a control premium for Afterpay Shareholders as the transaction is not a control transaction from the perspective of Afterpay Shareholders. Further, the two experts have come to a materially different conclusion on the assessment of certain assets of Touchcorp and there is a difference in the value attributed to these assets by the experts. Refer to section 3.8 for more information.

Your Directors unanimously support the Merger and recommend that, in the absence of a superior offer, shareholders vote in favour of it at the shareholder meeting on 19 June 2017.

Afterpay is changing the way people shop in Australia and the value we are creating for consumers and retailers alike is illustrated by our rapid growth across all key aspects of our business. More relevantly, the opportunity to further significantly expand the Afterpay business is now clearly apparent and Afterpay has considerably developed its internal capabilities to embrace this opportunity.

Having now achieved an initial leading presence in the Australian market, the Board of Afterpay has concentrated on how best to position the Company for the future and how best to maximise the opportunities that exist in Australia and international markets. The rationale for the Merger is compelling as it brings together the complementary skills of Afterpay and Touchcorp and will facilitate a rapid and robust future growth agenda.

Afterpay has enjoyed a strong relationship with Touchcorp since inception. Afterpay originally commissioned Touchcorp to develop its technology and to process Afterpay's transactions on its behalf. This relationship has served both entities well, with significant shareholder value having been created as a result. Afterpay has sound contractual rights with Touchcorp as it relates to the ownership and operation of the Afterpay System and if the merger does not proceed, this relationship would continue to be governed under our existing contractual arrangements. However, if the merger does not proceed, Afterpay management would not have an ability to directly add value across all aspects of its business and would not unlock combined entity revenue, cost and operational synergies that the Afterpay Board believes will ultimately be of greater benefit to Afterpay and Touchcorp shareholders.

Details of the Afterpay Scheme are set out in this Scheme Booklet and we urge you read it carefully. If the Scheme is approved by Afterpay shareholders then, subject to satisfaction of various conditions (including approval of the Touchcorp Scheme by Touchcorp shareholders), it will become binding on all Afterpay shareholders.

In deciding how to vote, you should consider the reasons to vote in favour of the Merger and the Scheme, set out in detail in section 1.1. As with all transactions of this nature, the Merger and Scheme also have a number of disadvantages and risks involved that may result from the implementation of the Merger and holding Afterpay Touch Group Shares. The disadvantages of the Merger and the Scheme to Afterpay Shareholders may include exposure to any potential downside that may result from being a shareholder of Afterpay Touch Group which will own both Afterpay and Touchcorp (including taking on additional risks associated with the Touchcorp business that Afterpay Shareholders would not otherwise be exposed to), tax consequences of transferring Afterpay Shares under the Scheme which may not be optimal for you, and the conditional nature of the Scheme (for example, the listing approval for Afterpay Touch Group to be obtained from ASX). In addition, Afterpay Shareholders may not agree with the Independent Expert and your Directors that the Scheme is in the best interests of Shareholders. These disadvantages and risks of the Merger and Afterpay Scheme are set out in sections 1.2 and 7.

If you are unable to attend the Scheme Meeting, you are encouraged to vote by completing the proxy for enclosed with the Scheme Booklet and returning it as soon as possible to Afterpay's share registry in the reply paid envelope provided by not later than 17 June 2017.

If you are in doubt as to the action you should take in relation to the Merger, you should consult your legal, financial or other professional adviser without delay.

Yours faithfully



**Anthony Eisen**  
Executive Chairman



## Overview

### What is the Merger?

The Merger involves Afterpay Touch Group, a newly incorporated Australian holding company, acquiring all of the Afterpay Shares, and the Touchcorp Shares, resulting in the merger of Afterpay and Touchcorp under the ownership of Afterpay Touch Group. Under the Merger, you will receive 1 Afterpay Touch Group Share for each Afterpay Share you own at the Record Date.

At the completion of the Merger, on a fully-diluted basis Afterpay Touch Group will be owned approximately 56.5% by Afterpay Scheme Shareholders and 36.5% by Touchcorp Scheme Shareholders (or 60.7% and 39.3% respectively on an undiluted basis). The balance of the fully-diluted position will be comprised of replacement Afterpay Touch Group Employee Rights issued in exchange for Afterpay Employee Rights under the Afterpay Touch Group Incentive Plan. Refer to section 3 for further details.

As the Afterpay Scheme and Touchcorp Scheme are inter-conditional, this means that the Afterpay Scheme cannot occur unless the Touchcorp Scheme is also approved. Accordingly, for the Merger to proceed, both the Afterpay Scheme and the Touchcorp Scheme must be approved and become Effective.

### What is the Scheme?

The Afterpay Scheme is a scheme of arrangement between Afterpay and the Scheme Shareholders. If the Scheme becomes Effective, Afterpay Touch Group will acquire all Afterpay Shares (other than those held by the Excluded Shareholders) and Afterpay will become an indirectly wholly-owned Subsidiary of Afterpay Touch Group.

A “scheme of arrangement” is a statutory procedure that can be used to enable one company to acquire another company. It requires a vote in favour of the Scheme by a Requisite Majority of Afterpay Shareholders at a meeting of Shareholders as well as Court approval.

If you are an Afterpay Shareholder on the Record Date, you will receive 1 Afterpay Touch Group Share for each Afterpay Share you own if the Merger proceeds.

The resolution approving the Scheme must be passed by Afterpay Shareholders by the Requisite Majority, being:

- a majority in number (more than 50%) of Shareholders who are present and voting (either in person, by proxy, under power of attorney or, in the case of a corporate holder, by duly appointed corporate representative; and
- at least 75% of the total number of votes cast on the resolution to approve the Afterpay Scheme.

The Scheme is also subject to the satisfaction or waiver of the conditions summarised in section 9.10 and set out in full in the Merger Implementation Agreement (a copy of which was announced to ASX on 30 March 2017), and approval by the Court.

The terms of the Scheme are set out in full in Annexure C.

### What is the Touchcorp Scheme?

The Touchcorp Scheme is a scheme of arrangement between Touchcorp and the Touchcorp Scheme Shareholders. If the Touchcorp Scheme becomes Effective, Afterpay Touch Group will acquire all Touchcorp Shares and Touchcorp will become a wholly-owned Subsidiary of Afterpay Touch Group.

Each Touchcorp Scheme Shareholder (other than an Ineligible Foreign Shareholder) on the Record Date will receive 0.64 Afterpay Touch Group Shares for each Touchcorp Share that Touchcorp Scheme Shareholder owns if the Merger proceeds.

The resolution approving the Touchcorp Scheme must be passed by Touchcorp Scheme Shareholders by the requisite majority under the Companies Act of Bermuda, being:

- a majority in number (more than 50%) of Touchcorp Scheme Shareholders who are present and voting (either in person, by proxy, under power of attorney or, in the case of a corporate holder, by duly appointed corporate representative) at the Touchcorp Scheme Meeting; and
- at least 75% in value of the Touchcorp Shareholders who are present and voting (either in person, by proxy, under power of attorney or, in the case of a corporate holder, by duly appointed corporate representative) at the Touchcorp Scheme Meeting.



## Overview (continued)

### What should I do?

You should read this Scheme Booklet carefully in its entirety and then vote by attending the Scheme Meeting or by appointing a proxy to vote on your behalf. Full details of who is eligible to vote and how to vote are set out on the following page.

Answers to various frequently asked questions are set out in section 2. If you have any additional questions in relation to this Scheme Booklet, the Merger or the Afterpay Scheme please consult your legal, financial or other professional adviser or call the Shareholder Information Line on 1300 560 339 (within Australia) or +61 2 8011 0354 (outside Australia), between Monday and Friday from 9.00am to 5.30pm.

### How do I vote?

If you are registered on the Register at 7.00pm on Saturday, 17 June 2017 as an Afterpay Shareholder, you will be entitled to vote on the resolution to approve the Scheme at the Scheme Meeting.

You can vote in any of the following ways:

- attending the Scheme Meeting in person, by attorney or by corporate representative (if you are a corporate shareholder) at 10.00am on Monday, 19 June 2017 at the offices of Baker McKenzie, Level 19, CBW, 181 William Street, Melbourne VIC 3000;
- appointing a proxy by completing the enclosed proxy form and returning it to the Share Registry by:
  - mail addressed to Computershare Investor Services Pty Limited, GPO Box 242 Melbourne Victoria 3001 Australia; or
  - fax to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or
  - hand delivering to Computershare Investor Services Pty Limited, 452 Johnston Street, Melbourne Victoria 3067 Australia; or
- lodging a proxy online with the Share Registry via [www.investorvote.com.au](http://www.investorvote.com.au).

Proxy forms, together with any power of attorney or authority under which the proxy form is signed, must be received no later than 10.00am on Saturday, 17 June 2017 (48 hours prior to commencement of the Scheme Meeting). Proxy forms received after this time will be invalid.

### What is the Directors' recommendation?

Your Directors believe that the Merger and the Afterpay Scheme is in the best interests of Afterpay Shareholders and **unanimously recommend** that, in the absence of a superior proposal, **Shareholders vote in favour of the Scheme** at the Scheme Meeting.

In reaching their recommendation, your Directors have assessed the Scheme having regard to the reasons to vote for, or against, the Scheme, as set out in this Scheme Booklet.

Each of your Directors intends to vote the Afterpay Shares that they own or control, and will direct any proxies placed at their discretion in favour of the Scheme in the absence of a superior proposal.

If a superior proposal emerges after the date of this Scheme Booklet, your Directors will carefully reconsider the Scheme and advise you of their recommendation.

**The Independent Expert, LEA, has concluded that the Scheme is fair and reasonable and in the best interests of Afterpay Shareholders,** in the absence of a superior proposal.

The directors of Touchcorp have commissioned a separate independent expert's report from RSM, which concluded that the Touchcorp Scheme is fair and reasonable, and in the best interests of Touchcorp Shareholders, who are receiving a premium for control. In contrast, LEA has not assessed the Merger and Afterpay Scheme as involving a control premium for Afterpay Shareholders as the transaction is not a control transaction from the perspective of Afterpay Shareholders. Further, the two experts have come to a materially different conclusion on the assessment of certain assets of Touchcorp and there is a difference in the value attributed to these assets by the experts. Refer to section 3.8 for more information.

## 1. Key considerations relevant to your vote

### Reasons to vote for the Merger and the Afterpay Scheme



Your Directors unanimously recommend that you vote in favour of the Merger and the Afterpay Scheme in the absence of a superior proposal.



The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Afterpay Shareholders, in the absence of a superior proposal.



Your Directors believe the Merger will facilitate a rapid and robust future growth agenda for the Afterpay business.



Your Directors believe the Merger will unlock revenue, cost, operational, Intellectual Property and investment synergies that will provide incremental shareholder value to Afterpay shareholders over time.



No superior proposal has emerged as at the date of this Scheme Booklet.

**Reasons to vote for the Merger and the Afterpay Scheme are discussed in more detail in section 1.1 of this Scheme Booklet.**

1. Key considerations relevant to your vote  
(continued)

### Reasons not to vote for the Merger and the Afterpay Scheme



You may disagree with the Independent Expert and your Directors and believe that the Afterpay Scheme is not in the best interests of Afterpay Shareholders.



If the Afterpay Scheme and Merger proceed, you will own shares in Afterpay Touch Group and be exposed to any potential downside that may result from being a shareholder of an entity which owns both Afterpay and Touchcorp.



The tax consequences of transferring your Shares pursuant to the Scheme may not be optimal for your financial position.



You may consider that there is potential for a superior proposal to be made.



The Merger and Afterpay Scheme may be subject to conditions that you consider unacceptable.

**Reasons why you may not want to vote for the Merger and Afterpay Scheme are discussed in more detail in section 1.2 of this Scheme Booklet.**

## 1.1

### Reasons to vote for the Merger and the Afterpay Scheme

**(a) Your Directors unanimously recommend that you vote for the Merger and the Afterpay Scheme in the absence of a superior proposal**

Your Directors believe that the Merger and the Afterpay Scheme are in the best interests of Afterpay Shareholders and unanimously recommend that, in the absence of a superior proposal, Shareholders vote in favour of the Scheme at the Scheme Meeting.

In reaching their recommendation, your Directors have assessed the Merger and the Afterpay Scheme having regard to the reasons to vote for, or against, the Merger and the Afterpay Scheme, as set out in this Scheme Booklet and Afterpay's current strategic plans.

Each of your Directors intend to vote the Afterpay Shares that they own or control, and will direct any proxies placed at their discretion in favour of the Scheme in the absence of a superior proposal.

If a superior proposal emerges after the date of this Scheme Booklet, your Directors will carefully reconsider the Merger and the Afterpay Scheme and advise you of their recommendation.

The interests of your Directors and the number and description of Afterpay Shares held by or on behalf of your Directors are set out in section 9.2.

In considering whether to vote for the Merger and the Afterpay Scheme, your Directors encourage you to:

- carefully read the whole of this Scheme Booklet (including the Independent Expert's Report);
- consider the choices available to you as outlined in section 3.9;
- have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; and
- consult your legal, financial or other professional adviser.

**(b) The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of Shareholders, in the absence of a superior proposal**

The Independent Expert, LEA, has concluded that "the terms of the Merger are fair and reasonable to, and in the best interests of, Afterpay Shareholders, in the absence of a superior proposal".

The Independent Expert evaluated the Afterpay Scheme as a merger using a relative value contribution approach, rather than a change of control transaction. The Independent Expert concluded that Afterpay Shareholders will have a collective interest in the Merged Group which is

slightly greater than their relative contribution to underlying value. Accordingly, in the Independent Expert's view the terms of the Merger are fair and reasonable to Afterpay Shareholders.

The Independent Expert also concluded that the advantages of the Merger outweigh the disadvantages, and as a result the Merger is in the best interests of Afterpay Shareholders. A copy of the Independent Expert's Report is included in Annexure A. Your Directors encourage you to read the Independent Expert's Report in its entirety.

The directors of Touchcorp have commissioned a separate independent expert's report from RSM, which concluded that the Touchcorp Scheme is fair and reasonable, and in the best interests of Touchcorp Shareholders. Refer to section 3.8 for more information.

**(c) Your Directors believe the Merger will facilitate a rapid and robust future growth agenda for the Afterpay business and unlock revenue, cost, operational, Intellectual Property and investment synergies that will provide incremental shareholder value to Afterpay shareholders over time**

Expected benefits of the Merger include:

- Accelerate the growth of the Afterpay business in Afterpay Touch Group while maintaining the positive net transaction margin performance illustrated to date. A vertically integrated structure will allow the management team to add value across all aspects of the Afterpay business and provides a robust platform to embark on the next stage of growth. Additional technology development resources will be dedicated towards the Afterpay product and market development activities to rapidly capture the expansion opportunities that have become apparent since inception;
- Enhance Touchcorp's recurring revenue streams that are complementary to Afterpay. Focusing on areas of alignment with Afterpay will allow Afterpay Touch Group management to more effectively leverage the combined skills and productivity of the merged entity. Touchcorp's presence in some markets and customer relationships will advantage the Afterpay product as it further penetrates new verticals and geographies. Likewise, Afterpay's sales force, product packaging and go to market activities are expected to increase revenue opportunities over time for key Touchcorp products;
- Streamline and enhance transaction integrity and data capabilities of Afterpay Touch Group. Both Touchcorp and Afterpay maintain a core focus on developing transaction integrity and

## 1. Key considerations relevant to your vote (continued)

data capabilities to underpin various aspects of its businesses and this is the key ingredient to direct innovation and additional customer centric services in the future. In addition to having access to a broader and international data set, the merged entity has the opportunity to streamline and coordinate its transaction integrity and data related activities to increase the productivity of its resources, develop its intellectual property base and enhance future related business opportunities;

- The Merged Group will focus on developing proprietary, profitable, transaction based products that are scalable in their markets and add to the transaction integrity and data capabilities of the combined group, and will not devote resources to new activities that would not further those objectives;
- Improve margins in both Afterpay and Touchcorp businesses by utilising combined scale benefits to reduce variable costs and other product delivery costs. The prospective Afterpay Touch Group management team has already identified several areas where efficiencies can be garnered for the benefit of the combined group; and
- Reduce merged entity overheads with an immediate focus being the removal of duplicative activities. A vertically integrated structure and approach will reduce the support activities and expenditure required to operate the combined business.

### (d) No superior proposal has emerged as at the date of this Scheme Booklet

On the date the execution of the Merger Implementation Agreement was announced 30 March 2017, the Afterpay Board stated that it would facilitate any proposal which it believes is in the best interests of Shareholders. As at the date of this Scheme Booklet, no other proposal has emerged. However, there remains the possibility that a third party may make a superior proposal prior to the Scheme Meeting.

## 1.2

### Possible reasons not to vote for the Merger and the Afterpay Scheme

#### (a) You may disagree with the Independent Expert and your Directors and believe that the Afterpay Scheme is not in the best interests of Shareholders.

You may hold a different view to your Directors and the Independent Expert and believe that the Share Consideration is inadequate.

You may hold a different view to the Independent Expert on its valuation of Touchcorp's contribution to the Merger from the perspective of Afterpay Shareholders. RSM, the independent expert commissioned by Touchcorp for the benefit of Touchcorp Shareholders, attributed a value to the Touchcorp business (excluding Touchcorp's shareholding in Afterpay) that is materially lower than the value attributed to the same Touchcorp business by LEA even taking into account that Touchcorp Shareholders are receiving a control premium. RSM has also concluded that the Touchcorp Scheme is fair and reasonable, and in the best interests of Touchcorp Shareholders. Refer to section 3.8 for more information.

#### (b) If the Afterpay Scheme and Merger proceed, you will own shares in Afterpay Touch Group and be exposed to any potential downside that may result from being a shareholder of an entity which owns both Afterpay and Touchcorp.

There is a risk that the Merged Group's success and profitability could be adversely affected if Afterpay's business is not integrated effectively with Touchcorp's business. The integration of Afterpay and Touchcorp into the Merged Group may encounter unexpected challenges or issues. These include (but are not limited to) a failure to obtain necessary consents or unexpected delays, challenges, liabilities and costs in relation to, but not limited to, integrating operating and management systems such as IT, information or accounting systems, or that it diverts management attention or does not deliver the expected benefits (including synergy benefits) and this may affect the Merged Group's operating and financial performance.

There is a risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated (see section 6.10) for further information on synergies that may result from the Merger). Any failure to achieve targeted synergies may impact on the financial performance and position of the Merged Group and the future price of Afterpay Touch Group Shares.

**(c) The tax consequences of transferring your Afterpay Shares pursuant to the Scheme may not be optimal for your financial position.**

Implementation of the Scheme may have tax consequences for you. A general guide to the taxation implications of the Scheme is set out in section 8 of this Scheme Booklet. This guide is expressed in general terms and you should seek professional advice regarding the tax consequences applicable to your circumstances.

**(d) You may consider that there is potential for a superior proposal to be made.**

You may believe that there is a possibility that a superior proposal could emerge in the foreseeable future. However, for the reasons noted below, your Directors consider that the possibility of a superior proposal emerging is low:

- Since the initial announcement of the intention to pursue a Merger on 23 February 2017 and up to the date of this Scheme Booklet, the Directors have not received or become aware of any superior proposal.
- The Merger and Afterpay Scheme is a result of an engagement process with Touchcorp involving the provision of publicly available presentation materials, as well as an exclusive due diligence period. During the course of this process no alternative proposals were received by Afterpay. The Merger Implementation Agreement prohibits Afterpay from soliciting any competing transaction, although Afterpay may respond to a competing transaction if the Directors determine, acting in good faith, that failing to do so would be likely to constitute a breach of their fiduciary or legal duties, as discussed in section 9.10 of this Scheme Booklet.

**(e) The Scheme may be subject to conditions that you consider unacceptable**

The implementation of the Merger and the Afterpay Scheme is subject to a number of conditions, summarised in section 9.10 and set out in the Merger Implementation Agreement. The status of the conditions is discussed in section 9.10 of this Scheme Booklet.

## 1.3

### Other relevant considerations

**(a) The Merger and Afterpay Scheme may be implemented even if you vote against it.**

You should be aware that even if you do not vote, or vote against the Scheme, the Scheme may still be implemented if it is approved by the Requisite Majority of Afterpay Shareholders and the Court (and if the Touchcorp Scheme is also approved). If this occurs, your Afterpay Shares will be transferred to Afterpay Touch Group and you will receive 1 Afterpay Touch Group Share for each Afterpay Share you own at the Record Date even though you did not vote on, or voted against, the Scheme.

**(b) Deemed warranties by Scheme Shareholders about their Scheme Shares**

If the Scheme is implemented, each Scheme Shareholder will be deemed to have warranted to Afterpay Touch Group that their Scheme Shares are transferred to Afterpay Touch Group on the Implementation Date free from charges, encumbrances, security interests, and other third party interests, whether legal or otherwise, and restrictions on transfer of any kind. See section 9.10 for further detail.

**(c) Break fee**

A break fee of \$750,000 is payable by Afterpay to Touchcorp and a break fee of \$750,000 is payable by Touchcorp to Afterpay in certain circumstances. However, no break fee is payable by Afterpay merely for the reason that Afterpay Shareholders do not approve the Scheme at the Scheme Meeting. See section 9.10 for further detail.

**(d) Costs**

Afterpay has incurred costs in relating to the proposed Merger to the point that it is capable of being submitted to Afterpay Shareholders as a scheme of arrangement for their consideration. These costs include negotiations with Touchcorp and Afterpay Touch Group, retention of advisers, provision of information to Touchcorp and Afterpay Touch Group, facilitating Touchcorp and Afterpay Touch Group's access to due diligence, engagement of the Independent Expert and preparation of this Scheme Booklet.

If the Merger is not Implemented and if no superior proposal emerges and becomes effective, Afterpay expects to incur total costs of approximately \$1.1 million which will be paid in the 2017 financial year.

## 2. Frequently Asked Questions





## 2. Frequently Asked Questions

This Scheme Booklet contains detailed information regarding the Afterpay Scheme. The following section provides summary answers to some questions you may have and will assist you to locate further detailed information in this Scheme Booklet.

Question	Answer
<b>1</b> What is the Merger?	<p>The Merger involves Afterpay Touch Group, a newly incorporated Australian holding company, acquiring all of the Afterpay Shares (other than the Afterpay Shares held by the Excluded Shareholder), and the Touchcorp Shares, resulting in the merger of Afterpay and Touchcorp under the ownership of Afterpay Touch Group. If the Merger proceeds:</p> <ul style="list-style-type: none"> <li>• Afterpay Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive 1 Afterpay Touch Group Share for each Afterpay share they own as at the Record Date; and</li> <li>• Ineligible Foreign Shareholders will receive the net sale proceeds from the sale of the Afterpay Touch Group Shares to which they would otherwise have been entitled, after deducting any applicable brokerage, stamp duty and other taxes.</li> </ul>
<b>2</b> What is the rationale for the Merger?	<p>The Merger will:</p> <ul style="list-style-type: none"> <li>• Provide additional scope for accelerating the growth profile of the Afterpay business within the Afterpay Touch Group business through new verticals and geographies, leveraging off the core technology and team that currently exists</li> <li>• Allow the leadership team of Afterpay to be enhanced with key Touchcorp executives and for the combined management team to direct all aspects of the Afterpay Touch Group businesses</li> <li>• Benefit Afterpay Touch Group shareholders from growth in recurring revenue streams in the Touchcorp business because they are synergistic to Afterpay's existing merchants and activities</li> <li>• Enhance the intellectual property profile and transaction integrity capability of the Merged Group through access to a broader data set and a streamlined approach to data analytics</li> <li>• Enhance the core Touchcorp recurring revenue streams through focused business development and a strong sales platform</li> <li>• Generate synergies through combined platform benefits, operational cost savings and a singular strategic focus</li> <li>• The expanded skill set, vertically integrated structure, and enhanced resources of Afterpay Touch Group compared to the stand alone position of Afterpay or Touchcorp will result in a more resilient entity that is better positioned to maintain a rapid growth profile and withstand competitive forces going forward</li> </ul>
<b>3</b> Who is Afterpay Touch Group?	<p>Afterpay Touch Group is a newly incorporated Australian company which did not carry on business prior to signing the Merger Implementation Agreement. Afterpay Touch Group was incorporated to enable the Merger of Afterpay and Touchcorp under the ownership of Afterpay Touch Group and to become listed on ASX.</p> <p>The Afterpay Touch Group Board will comprise four directors from the Afterpay Board and two directors from the Touchcorp Board.</p>
<b>4</b> When will Afterpay Touch Group Shares start trading on ASX?	<p>It is anticipated that Afterpay Touch Group Shares will commence trading on a deferred settlement basis on ASX on 29 June 2017 and on a normal settlement basis on 10 July 2017.</p>
<b>5</b> What is the Scheme?	<p>The Afterpay Scheme is a scheme of arrangement between Afterpay and the Scheme Shareholders. If the Scheme becomes Effective, Afterpay Touch Group will acquire all Scheme Shares (other than those held by the Excluded Shareholders) and Afterpay will become an indirectly wholly-owned Subsidiary of Afterpay Touch Group.</p> <p>A "scheme of arrangement" is a statutory procedure that can be used to enable one company to acquire another company. It requires a vote in favour of the Scheme by the Requisite Majority of Afterpay Shareholders at a meeting of Shareholders and Court approval.</p> <p>The terms of the Scheme are set out in full in Annexure C.</p>

## 2. Frequently Asked Questions

(continued)

Question	Answer
<b>6</b> Why is Touchcorp excluded from the Afterpay Scheme?	<p>Touchcorp and any Subsidiary of Touchcorp, being the Excluded Shareholders, are excluded from the Afterpay Scheme as Afterpay Touch Group will indirectly acquire the Afterpay Shares held by the Excluded Shareholders if the Merger completes.</p> <p>As at the date of this Scheme Booklet, Touchcorp and its Subsidiaries hold approximately 27.7% of Afterpay Shares on issue.</p>
<b>7</b> What do your Directors recommend?	<p>Your Directors unanimously consider that the Scheme is in the best interests of Afterpay Shareholders and recommend that you vote in favour of the Scheme in the absence of a superior proposal. The basis for this recommendation is set out in section 1.1.</p> <p>Section 1.2 includes a summary of the possible reasons not to vote for the Scheme.</p>
<b>8</b> How do your Directors intend to vote?	<p>Each Director who owns or controls Afterpay Shares intends to vote in favour of the Scheme in the absence of a superior proposal.</p>
<b>9</b> What is the Independent Expert's conclusion?	<p>The Independent Expert has concluded that, in the absence of a superior proposal, the Scheme is fair and reasonable and in the best interests of Afterpay Shareholders.</p> <p>The Independent Expert concluded that Afterpay Shareholders will have a collective interest in the Merged Group which is slightly greater than their relative contribution to underlying value. Accordingly, in the Independent Expert's view the terms of the Merger are fair and reasonable to Afterpay Shareholders.</p> <p>The Independent Expert also concluded that the advantages of the Merger outweigh the disadvantages, and as a result the Merger is in the best interests of Afterpay Shareholders.</p> <p>The Independent Expert's Report is set out in full in Annexure A.</p> <p>The directors of Touchcorp have commissioned their own independent expert's report from RSM for the benefit of Touchcorp Shareholders in relation to the Touchcorp Scheme. The RSM Report concluded that the Touchcorp Scheme is fair and reasonable, and in the best interests of, Touchcorp Shareholders. In reaching this conclusion, RSM attributed a value to the Touchcorp business (excluding Touchcorp's shareholding in Afterpay) that is materially lower than the value attributed to the same Touchcorp business by LEA and accordingly, there is a material difference in valuation between the two expert's reports. Refer to section 3.8 for more information.</p> <p>Afterpay Directors recommend that Afterpay Shareholders read LEA's Independent Expert's Report in Annexure A as it specifically considers Afterpay Shareholders' interests and was prepared for the purposes of the Afterpay Scheme.</p>
<b>10</b> Am I obliged to follow the recommendation of the Directors or the conclusions of the Independent Expert?	<p>No. While the Directors and Independent Expert consider that the Scheme is in the best interests of Afterpay Shareholders in the absence of a superior proposal, Afterpay Shareholders are not obliged to follow the recommendation of the Directors or the conclusions of the Independent Expert.</p>
<b>11</b> What are the prospects of receiving a superior proposal?	<p>Since the proposed Merger was initially announced on 23 February 2017, no superior proposal has emerged. Given the time that has elapsed since the proposed Merger was announced, your Directors' view is that a superior proposal is unlikely to emerge prior to the Scheme Meeting.</p>
<b>12</b> What should I do?	<p>You should read this Scheme Booklet carefully in its entirety and then vote by attending the Scheme Meeting or by appointing a proxy to vote on your behalf. Full details of who is eligible to vote and how to vote are summarised in the 'how do I vote' section above and set out in detail in the Notice of Scheme Meeting in Annexure E.</p>

Question	Answer																				
13 What will I receive if the Scheme becomes Effective?	<p>If the Scheme is approved and implemented, you will receive 1 Afterpay Touch Group Share for each Afterpay Share you hold on the Record Date (unless you are an Ineligible Foreign Shareholder).</p> <p>Ineligible Foreign Shareholders will not receive Afterpay Touch Group Shares. The Afterpay Touch Group Shares which they would otherwise have been entitled to will be sold and the net sale proceeds, after deducting any applicable brokerage, stamp duty and other taxes, will be remitted to them.</p>																				
14 Why is the merger ratio different for Afterpay Shares and Touchcorp Shares?	Both Afterpay and Touchcorp shareholders (other than Ineligible Foreign Shareholders) will receive Afterpay Touch Group Shares if the Merger becomes Effective. Following commercial negotiation prior to the announcement of the proposed Merger on 23 February 2017, the Afterpay Board and Touchcorp Board agreed that the Merger ratio would be 1 Afterpay Touch Group Share for each Afterpay Share and 0.64 Afterpay Touch Group shares for each Touchcorp Share.																				
15 What is the expected share capital of Afterpay Touch Group following implementation of the Merger?	<p>Immediately post the Merger the share structure of Afterpay Touch Group will look as follows:</p> <table><tr><th>Type of security pre-Merger</th><th>Number of Afterpay Touch Group Shares held on a fully diluted basis</th><th>% of total Afterpay Touch Group Shareholding – undiluted</th><th>% of total Afterpay Touch Group Shareholding – fully diluted</th></tr><tr><td>Afterpay Scheme Shareholders</td><td>130,337,038</td><td>60.7%</td><td>56.5%</td></tr><tr><td>Touchcorp Scheme Shareholders</td><td>84,418,284</td><td>39.3%</td><td>36.5%</td></tr><tr><td>Afterpay employee rights on issue pre-Merger</td><td>16,220,000</td><td>0%</td><td>7.0%</td></tr><tr><td>TOTAL</td><td>230,975,322</td><td>100.0%</td><td>100.0%</td></tr></table> <p>Fully diluted basis means the number of Afterpay Touch Group Shares that would be on issue following completion of the Merger if all Afterpay Employee Rights were vested and exercised.</p>	Type of security pre-Merger	Number of Afterpay Touch Group Shares held on a fully diluted basis	% of total Afterpay Touch Group Shareholding – undiluted	% of total Afterpay Touch Group Shareholding – fully diluted	Afterpay Scheme Shareholders	130,337,038	60.7%	56.5%	Touchcorp Scheme Shareholders	84,418,284	39.3%	36.5%	Afterpay employee rights on issue pre-Merger	16,220,000	0%	7.0%	TOTAL	230,975,322	100.0%	100.0%
Type of security pre-Merger	Number of Afterpay Touch Group Shares held on a fully diluted basis	% of total Afterpay Touch Group Shareholding – undiluted	% of total Afterpay Touch Group Shareholding – fully diluted																		
Afterpay Scheme Shareholders	130,337,038	60.7%	56.5%																		
Touchcorp Scheme Shareholders	84,418,284	39.3%	36.5%																		
Afterpay employee rights on issue pre-Merger	16,220,000	0%	7.0%																		
TOTAL	230,975,322	100.0%	100.0%																		
16 What will I receive if the Scheme is not approved by the Requisite Majority at the Scheme Meeting?	If the Afterpay Scheme is not approved by the Requisite Majority, you will not receive any Afterpay Touch Group Shares and the Merger will not proceed.																				
17 When will I receive the Afterpay Touch Group Shares?	If you hold Afterpay Shares on the Record Date, and you are not an Ineligible Foreign Shareholder, you will be issued your Afterpay Touch Group Shares on the Implementation Date.																				
18 What are the tax consequences of the Scheme?	<p>Section 8 provides a general outline of the Australian income tax, capital gains tax and stamp duty consequences for Scheme Shareholders who dispose of their Scheme Shares in accordance with the Scheme.</p> <p>You should consult with your own tax adviser regarding the tax consequences of disposing of your Scheme Shares in accordance with the Scheme in light of current tax laws and your particular circumstances.</p>																				
19 Will I have to pay brokerage fees or stamp duty?	No brokerage fees or stamp duty will be payable on the transfer of Scheme Shares under the Scheme.																				
20 When and where will the Scheme Meeting be held?	The Scheme Meeting will be held at 10.00am on Monday, 19 June 2017 at the offices of Baker McKenzie, Level 19, CBW, 181 William Street, Melbourne VIC 3000.																				
21 Am I entitled to vote at the Scheme Meeting?	If you are registered as an Afterpay Shareholder on the Share Register at 7.00pm on Saturday, 17 June 2017, you will be entitled to vote at the Scheme Meeting.																				

## 2. Frequently Asked Questions (continued)

Question	Answer
<b>22</b> What vote is required to approve the Scheme?	<p>For the Afterpay Scheme to proceed, votes “in favour of” the resolution to approve the Scheme at the Scheme Meeting must be received from a Requisite Majority of Afterpay Shareholders. A Requisite Majority is:</p> <ul style="list-style-type: none"> <li>(a) a majority in number (more than 50%) of Shareholders, who are present and voting either in person or by proxy, attorney or, in case of corporate Shareholders, by corporate representative); and</li> <li>(b) at least 75% of the total number of votes cast on the resolution to approve the Scheme.</li> </ul> <p>It is also necessary for the Court to approve the Afterpay Scheme (and for the Touchcorp Scheme to be approved in accordance with Bermuda law) before it can become Effective.</p> <p>Under Bermuda law, the resolution approving the Touchcorp Scheme must be passed by Touchcorp Scheme Shareholders by the requisite majority under the Companies Act of Bermuda, being:</p> <ul style="list-style-type: none"> <li>(a) a majority in number (more than 50%) of Touchcorp Scheme Shareholders who are present and voting (either in person, by proxy, under power of attorney or, in the case of a corporate holder, by duly appointed corporate representative) at the Touchcorp Scheme Meeting; and</li> <li>(b) at least 75% in value of the Touchcorp Shareholders who are present and voting (either in person, by proxy, under power of attorney or, in the case of a corporate holder, by duly appointed corporate representative) at the Touchcorp Scheme Meeting.</li> </ul> <p>It is also necessary for the Bermuda Court to sanction the Touchcorp Scheme before it can become effective.</p>
<b>23</b> What choices do I have as an Shareholder?	<p>As an Afterpay Shareholder you have the following choices:</p> <ul style="list-style-type: none"> <li>• you can vote in person or by proxy at the Scheme Meeting;</li> <li>• you can elect not to vote at the Scheme Meeting;</li> <li>• you can sell your Afterpay Shares on ASX. If you sell your Shares on ASX you may incur brokerage costs; or</li> <li>• you can do nothing.</li> </ul>
<b>24</b> Should I vote?	<p>Voting is not compulsory. However, your Directors believe that the Afterpay Scheme is important to you as a Shareholder and your Directors unanimously recommend that you vote in favour of the Scheme in the absence of a superior proposal.</p>
<b>25</b> How do I vote?	<p>You may vote by:</p> <ul style="list-style-type: none"> <li>• attending the Scheme Meeting in person, by attorney or by corporate representative (if you are a corporate shareholder) at 10.00am on Monday, 19 June 2017 at the offices of Baker McKenzie, Level 19, CBW, 181 William Street, Melbourne VIC 3000;</li> <li>• appointing a proxy by completing the enclosed proxy form and returning it to the Share Registry by: <ul style="list-style-type: none"> <li>– mail addressed to Computershare Investor Services Pty Limited, GPO Box 242 Melbourne Victoria 3001 Australia; or</li> <li>– fax to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or</li> <li>– hand delivering to Computershare Investor Services Pty Limited, 452 Johnston Street, Melbourne Victoria 3067 Australia; or</li> </ul> </li> <li>• lodging a proxy online with the Share Registry via <a href="http://www.investorvote.com.au">www.investorvote.com.au</a>.</li> </ul> <p>Proxy forms, together with any power of attorney or authority under which the proxy form is signed, must be received no later than 10.00am on Saturday, 17 June 2017 (48 hours prior to commencement of the Scheme Meeting). Proxy forms received after this time will be invalid.</p>

Question	Answer
<b>26</b> What happens if I do not vote, or I vote against the Scheme?	<p>The Afterpay Scheme may not be approved at the Scheme Meeting. If this occurs the Scheme will not proceed, you will not receive Afterpay Touch Group Shares and you will remain an Afterpay Shareholder.</p> <p>However, if the Scheme is approved (and you are not an Ineligible Foreign Shareholder) and implemented your Shares will be transferred to Afterpay Touch Group and you will receive the Scheme Consideration (being Afterpay Touch Group Shares), even if you did not vote or you voted against the Scheme.</p> <p>Ineligible Foreign Shareholders will receive the net sale proceeds from the sale of the Afterpay Touch Group Shares to which they would otherwise have been entitled, after deducting any applicable brokerage, stamp duty and other taxes.</p>
<b>27</b> What happens if the Scheme is not approved at the Scheme Meeting or is not approved by the Court?	<p>If the Afterpay Scheme is not approved by a Requisite Majority of Afterpay Shareholders at the Scheme Meeting or the Scheme is not approved by the Court:</p> <ul style="list-style-type: none"> <li>• Afterpay will remain listed on ASX;</li> <li>• you will retain your Shares;</li> <li>• you will not receive any Afterpay Touch Group Shares; and</li> <li>• you will remain exposed to the risks of Afterpay, as discussed in section 7.1.</li> </ul> <p>Before the Scheme Meeting, Afterpay estimates that it will have incurred or committed transaction costs of approximately \$1.1 million in relation to the Scheme. Those costs will be payable by Afterpay regardless of whether or not the Scheme is approved and becomes Effective.</p> <p>If the Scheme does not proceed, you will retain your Afterpay Shares. Your Directors intend to continue to operate Afterpay as a listed public company carrying on the existing Afterpay business under the leadership of the current senior management. Other than as set out in section 3.21, the Afterpay Board has not formed any plans to make any significant changes to the business of Afterpay, redeploy any of its operating assets or change or affect the future employment of the present employees of Afterpay.</p> <p>Section 3.21 provides further details on Afterpay's future prospects in the event that the Scheme does not proceed.</p>
<b>28</b> How do I oppose the Scheme?	<p>If Afterpay Shareholders approve the Scheme at the Scheme Meeting and you wish to oppose Court approval of the Scheme, you should lodge a notice of intention to appear at the Second Court Hearing, attend the hearing and indicate opposition to the Scheme.</p>
<b>29</b> What happens if the Scheme is approved at the Scheme Meeting but the Touchcorp Scheme is not approved?	<p>If the Afterpay Scheme is approved, but the Touchcorp Scheme is not approved at the Touchcorp Scheme Meeting, the Afterpay Scheme will not proceed.</p> <p>If the Afterpay Scheme does not proceed, you will retain your Shares. The same consequences will apply as discussed in question 27 above.</p>
<b>30</b> When will the result of the Scheme Meeting be known?	<p>The results of the Scheme Meeting will be available shortly after the conclusion of the Scheme Meeting and will be announced to ASX once available. The results will also be published on <a href="http://www.afterpay.com.au">www.afterpay.com.au</a> soon after the Scheme Meeting.</p>
<b>31</b> Can I keep my Shares?	<p>If the Scheme is implemented, your Afterpay Shares will be transferred to Afterpay Touch Group. This will happen even if you did not vote or you voted against the Scheme.</p>
<b>32</b> What happens if a superior proposal emerges?	<p>If a superior proposal is received, this will be announced to ASX and your Directors will carefully consider the proposal and advise you of their recommendation.</p>

## 2. Frequently Asked Questions (continued)

Question	Answer
<b>33</b> Are any other approvals required for the Scheme?	<p>If the Afterpay Scheme is approved by a Requisite Majority of Afterpay Shareholders at the Scheme Meeting and the Touchcorp Scheme is approved by Touchcorp Shareholders and the sanctioned by the Bermuda Court, Afterpay will apply to the Court for approval of the Afterpay Scheme. As the Afterpay Scheme and Touchcorp Scheme are inter-conditional, this means that the Afterpay Scheme cannot occur unless the Touchcorp Scheme is also approved.</p> <p>The Afterpay Scheme must be approved by the Court in addition to being approved by a Requisite Majority of Afterpay Shareholders. The Court hearing is expected to be held on Wednesday, 28 June 2017 (although this may change). Further details of the approval process are set out in section 3.6.</p>
<b>34</b> Is the Merger or the Afterpay Scheme subject to any conditions?	<p>Implementation of the Scheme is subject to a number of conditions, some of which have already been satisfied. Conditions which have not yet been satisfied relate to (among other things), shareholder and Court approval, prescribed occurrences, material adverse change and warranties. If the conditions are not satisfied or waived then the Scheme will not proceed.</p> <p>Conditions to the Afterpay Scheme and the Merger are summarised in section 9.10 and set out in full in the Merger Implementation Agreement. A full copy of the Merger Implementation Agreement is available on ASX's website at <a href="http://www.asx.com.au">www.asx.com.au</a> and on Afterpay's website at <a href="http://www.afterpay.com.au">www.afterpay.com.au</a>.</p>
<b>35</b> Do I need to do or sign anything to transfer my Shares?	<p>No. If the Scheme becomes Effective, Afterpay will automatically have authority to sign a transfer document on behalf of Scheme Shareholders, who will then receive Afterpay Touch Group Shares (or, in the case of Ineligible Foreign Shareholders, the net sale proceeds from the sale of the Afterpay Touch Group Shares to which they would otherwise have been entitled, after deducting any applicable brokerage, stamp duty and other taxes).</p> <p>You should be aware that, if you are a Scheme Shareholder, you will be deemed to have warranted to Afterpay, and authorised Afterpay to warrant to Afterpay Touch Group on your behalf, that</p> <ul style="list-style-type: none"> <li>(a) all of your Afterpay Shares are fully paid and free from all encumbrances (for example, mortgages or other security interests); and</li> <li>(b) you have full power and capacity to transfer your Afterpay Shares to Afterpay Touch Group.</li> </ul>
<b>36</b> What if I have further questions about the Afterpay Scheme or Merger?	<p>If you have any further questions about the Afterpay Scheme or the Merger, please call the Shareholder Information Line on 1300 560 339 (within Australia) or +61 2 8011 0354 (outside Australia) between 9.00am to 5.30pm (Melbourne time) Monday to Friday, or visit the website <a href="http://www.afterpay.com.au">www.afterpay.com.au</a>.</p>

### **3. Details of the Merger and the Afterpay Scheme**





## 3. Details of the Merger and the Afterpay Scheme

### 3.1

#### Overview of the Scheme

On 23 February 2017, Touchcorp and Afterpay announced an initial intention to merge. On 30 March 2017, Afterpay announced that it had entered into a Merger Implementation Agreement with Touchcorp and Afterpay Touch Group under which, subject to the satisfaction or waiver of a number of conditions, Afterpay agreed to propose the Scheme to Afterpay Shareholders (other than the Excluded Shareholders) and Touchcorp agreed to propose the Touchcorp Scheme to Touchcorp Shareholders. A summary of the key terms of the Merger Implementation Agreement is included in section 9.10 of this Scheme Booklet.

The Scheme is a scheme of arrangement between Afterpay and all Shareholders other than the Excluded Shareholders, which if implemented, will result in Afterpay Touch Group acquiring all Afterpay Shares on issue (other than those held by the Excluded Shareholders).

The Excluded Shareholders (being Touchcorp and any subsidiary of Touchcorp) are excluded from the Afterpay Scheme as Afterpay Touch Group will indirectly acquire the Afterpay Shares held by the Excluded Shareholders if the Merger completes. As at the date of this Scheme Booklet, Touchcorp and its subsidiaries hold approximately 27.7% of Afterpay Shares on issue.

### 3.2

#### The Merger and Touchcorp Scheme

The Merger involves the acquisition by Afterpay Touch Group of:

- (a) all of the Afterpay Shares (other than the Shares held by the Excluded Shareholders) following the implementation of the Afterpay Scheme; and
- (b) all of the Touchcorp Shares following the implementation of the Touchcorp Scheme.

The Touchcorp Scheme is a scheme of arrangement between Touchcorp and all Touchcorp Shareholders, which if implemented, will result in Afterpay Touch Group acquiring all Touchcorp Shares on issue. The Touchcorp Scheme and the Afterpay Scheme are inter-conditional. This means that the Afterpay Scheme cannot occur unless the Touchcorp Scheme is also approved. Accordingly, for the Afterpay Scheme to proceed, the Touchcorp Scheme must also become Effective.

The Afterpay Scheme (and therefore the Touchcorp Scheme) was also previously conditional on Afterpay Shareholder approval of the issue of Afterpay Touch Group Employee Rights under the Afterpay Touch Group Incentive Plan. However, Afterpay Touch Group intends to make these grants with Afterpay Touch Group Shareholder approval following implementation of the Merger and Afterpay Shareholder approval is not separately required. Accordingly, this condition has been waived by Afterpay and Touchcorp, and is therefore no longer required. See section 3.25 for further information.

If the Afterpay Scheme and the Touchcorp Scheme are implemented, completion of the Merger will occur. The effect of the Merger is that both Afterpay and Touchcorp will become wholly-owned subsidiaries of Afterpay Touch Group and members of the Merged Group with Afterpay Touch Group as the holding company.

At the completion of the Merger, on a fully-diluted basis Afterpay Touch Group will be owned approximately 56.5% by Afterpay Scheme Shareholders and 36.5% by Touchcorp Scheme Shareholders (or 60.7% and 39.3% respectively on an undiluted basis). The balance of the fully-diluted position will be comprised of replacement Afterpay Touch Group Employee Rights issued in exchange for Afterpay Employee Rights under the Afterpay Touch Group Incentive Plan.

### 3.3

#### Scheme Consideration

If the Scheme is implemented, Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive 1 Afterpay Touch Group Share for each Afterpay Share they own as at the Record Date (**Scheme Consideration**). You will receive the Afterpay Touch Group Shares on the Implementation Date.

### 3.4

#### Key steps to implement the Afterpay Scheme and the Merger

The key steps to implement the Merger and the Afterpay Scheme are as follows:

- (1) Touchcorp Shareholders vote on whether to approve the Touchcorp Scheme.
- (2) Afterpay Shareholders vote on whether to approve the Scheme at the Scheme Meeting.
- (3) Bermuda Court sanctions the Touchcorp Scheme at the second court hearing for the Touchcorp Scheme.
- (4) Subject to approval of the Scheme, and approval of the Touchcorp Scheme by Touchcorp Shareholders and the Bermuda Court (and satisfaction or waiver of all conditions to the Scheme other than Court approval and lodgement of Court orders with ASIC), Afterpay applies to the Court for approval of the Scheme.
- (5) If the Court approves the Scheme, Afterpay lodges with ASIC a copy of the Court orders approving the Scheme. The date on which this occurs is the Effective Date for the Scheme and is the last day for trading of Afterpay Shares on ASX.
- (6) On the Implementation Date, Afterpay Touch Group acquires all of the Afterpay Shares (other than those held by the Excluded Shareholders) and provides the Scheme Consideration.
- (7) Following implementation of the Scheme, Afterpay applies for suspension of trading in Afterpay Shares, followed by removal of Afterpay from the official list of ASX.
- (8) Afterpay Touch Group Shares issued as Scheme Consideration start trading on ASX on 10 July 2017 on a deferred settlement basis.

### 3.5

#### Scheme Meeting

On 12 May 2017, the Court ordered that Afterpay convene the Scheme Meeting in accordance with the Notice of Scheme Meeting and appointed Anthony Eisen to chair the meeting. The Court order does not constitute an endorsement of, or any other expression of opinion on, the Scheme or this Scheme Booklet.

The purpose of the Scheme Meeting is for Afterpay Shareholders to consider whether to approve the Scheme and the Merger. Shareholders who are registered on the Afterpay Register at 7.00pm on Saturday, 17 June 2017 are entitled to vote at the Scheme Meeting.

Instructions on how to attend and vote at the Scheme Meeting are summarised in section 3.10 and set out in full in the Notice of Scheme Meeting in Annexure E.

### 3.6

#### Approvals required from Shareholders and the Court

The Afterpay Scheme will only become Effective if it is approved by:

- (a) the Requisite Majorities of Afterpay Shareholders (other than the Excluded Shareholders) at the Scheme Meeting; and
- (b) the Court on the Second Court Date.

The Scheme will be approved if Afterpay Shareholders (other than the Excluded Shareholders) vote in favour of the Scheme by the following Requisite Majorities:

- (a) a majority in number (more than 50%) of Shareholders present and voting at the Scheme Meeting; and
- (b) at least 75% of the total number of votes cast on the resolution approving the Scheme at the Scheme Meeting by Shareholders.

The resolution for the Scheme will be voted on by way of poll.

In the event that:

- (a) the Afterpay Scheme is approved by the Requisite Majority at the Scheme Meeting;
- (b) the Touchcorp Scheme is approved at the Touchcorp Scheme Meeting and the Bermuda Court sanctions the Touchcorp Scheme; and
- (c) all other Conditions Precedent to the Afterpay Scheme having been satisfied or remain capable of being satisfied, or (where applicable) waived (other than the Condition Precedent relating to Court approval),

Afterpay will apply to the Court for an order approving the Afterpay Scheme.

Afterpay Shareholders may oppose the approval by the Court of the Afterpay Scheme. If you wish to oppose the approval of the Scheme at the Second Court Hearing, you may do so by filing with the Court and serving on Afterpay, an affidavit setting out the reasons for your opposition. Such affidavit evidence must be filed in advance of the Second Court Hearing. You will be entitled to attend and make representations, either through Counsel or in person, at the Second Court Hearing in support of your evidence.

Alternatively, you may appear at the Second Court Hearing and make representations and give evidence to the Court as to why you oppose the approval of the Scheme. The date for the Second Court Hearing is currently scheduled to be Wednesday, 28 June 2017, although this date is subject to change. Any change to this date will be announced through ASX.

### 3. Details of the Merger and the Afterpay Scheme (continued)

#### 3.7

##### Recommendation of Directors

The Directors consider that the Afterpay Scheme and the Merger is in your best interests as an Afterpay Shareholder and unanimously recommend that you vote in favour of the Scheme in the absence of a superior proposal for the reasons set out in section 1.1. The Directors consider that the reasons for Afterpay Shareholders to vote in favour of the Scheme outweigh the reasons to vote against the Scheme. As at the date of this Scheme Booklet, no other competing proposal for Afterpay has emerged.

Each Afterpay Director intends to vote the Afterpay Shares that they own or control, and will direct any proxies placed at their discretion in favour of the Scheme in the absence of a superior proposal.

In making their recommendation and determining how to vote on the Scheme, the Directors have considered the following:

- (a) the reasons for Shareholders to vote in favour of the Scheme, as set out in section 1.1;
- (b) the reasons for Shareholders not to vote in favour of the Scheme as set out in section 1.2;
- (c) the risks associated with the Scheme, as set out in section 7; and
- (d) the report of the Independent Expert, which has concluded that the Scheme is fair and reasonable and in the best interests of Afterpay Shareholders, in the absence of a superior proposal, a full copy of which is included in Annexure A.

Before making your decision in relation to the Scheme, the Directors encourage you to read this Scheme Booklet in its entirety, having regard to your investment objectives, financial situation, tax position or particular needs. If you have any questions in relation to this Scheme Booklet or the Scheme, you should call the Shareholder Information Line on 1300 560 339 (within Australia) and +61 2 8011 0354 (outside Australia) between 9.00am to 5.30pm (Melbourne time), Monday to Friday, or visit the website [www.afterpay.com.au](http://www.afterpay.com.au). Alternatively, you should contact your financial, legal, taxation or other professional adviser.

The interests of Afterpay Directors are disclosed in section 9.2.

#### 3.8

##### Independent Expert's conclusion

The Directors have engaged LEA to consider whether the Scheme is in the best interests of Afterpay Shareholders and prepare a report with its findings and conclusions.

The Independent Expert has concluded that the Scheme is fair and reasonable and in the best

interests of Afterpay Shareholders, in the absence of a superior proposal.

The Independent Expert evaluated the Afterpay Scheme as a merger using a relative value contribution approach, rather than a change of control transaction. The Independent Expert concluded that Afterpay Shareholders will have a collective interest in the Merged Group which is slightly greater than their relative contribution to underlying value. Accordingly, in the Independent Expert's view the terms of the Merger are fair and reasonable to Afterpay Shareholders.

The Independent Expert summarised its views on the likely advantages and disadvantages of the Scheme for Shareholders as follows:

##### "Advantages

In our opinion, there are also a number of advantages of the Merger:

- (a) in our view, the Merged Group is likely to be more attractive to potential investors as all intellectual property will be owned by the one company
- (b) Afterpay and Touchcorp are highly complementary businesses and the combination of both companies should, in our view, benefit both groups of shareholders in the long term (compared to their status quo position as standalone companies). In particular, in our view, the Merged Group is likely to be better placed to commercialise the business opportunities available to the group
- (c) the Merged Group expects to be able to generate cost savings due to the Merger.

##### Disadvantages

In our opinion, there are no material disadvantages for Afterpay Shareholders arising from the Merger. However, we note that Ineligible Foreign Shareholders will be unable to receive shares in the Merged Group and will instead receive a cash payment.

Consequently, in our opinion, the advantages of the Merger outweigh the disadvantages. As a result, in our opinion, the Merger is also in the best interests of Afterpay Shareholders."

A copy of the Independent Expert's Report (which sets out further details about the Independent Expert's conclusions) is set out in Annexure A. Shareholders are encouraged to read this report in its entirety.

##### Comparison with Touchcorp's independent expert's report

The directors of Touchcorp have commissioned their own independent expert's report from RSM (**RSM Report**) for the benefit of Touchcorp Shareholders in relation to the Touchcorp Scheme. The RSM Report assesses the Merger and the Touchcorp Scheme on a different basis and for a different purpose to LEA's

Independent Expert's Report for Afterpay Shareholders. A full copy of the RSM Report is available on the ASX website at [asx.com.au](http://asx.com.au) as part of the Touchcorp Scheme Booklet.

The differences between the RSM Report for Touchcorp Shareholders and LEA's Independent Expert's Report for Afterpay Shareholders include:

- the RSM Report assesses the Merger and the Touchcorp Scheme on the basis that the Merger is a change of control transaction for Touchcorp Shareholders, and that Touchcorp Shareholders receive a premium for control. Given that RSM concludes that the Touchcorp Scheme is fair and reasonable, and in the best interests of Touchcorp Shareholders, Touchcorp Shareholders will be receiving a control premium in connection with the Merger. In contrast, LEA's Independent Expert's Report assesses the Merger and the Afterpay Scheme as a merger from the perspective of Afterpay Shareholders rather than a change of control transaction and Afterpay Shareholders do not receive a control premium in connection with the Merger; and
- RSM values the total assets of Touchcorp on a controlling interest basis (other than its shareholding in Afterpay which is valued on a portfolio basis), determining that the net asset value of Touchcorp ranges between a low of approximately \$159 million and a high of approximately \$175 million. Notwithstanding that the valuation was on a controlling basis (and therefore would be expected to be higher than if the valuation were on a minority or portfolio basis), this assessment of Touchcorp by RSM is sufficiently materially different that it results in a lower value than the value of Touchcorp determined by LEA on a portfolio interest basis, being a low of approximately \$198 million and a high of \$225 million. The reason for this difference in valuation between the two experts, RSM and LEA, is due to the difference in opinion as to what Touchcorp is contributing to the Merged Group.

After assessing the value of Touchcorp on a controlling interest basis, the RSM Report concludes that the Touchcorp Scheme is fair and reasonable, and in the best interests of Touchcorp Shareholders.

Afterpay Directors recommend that Afterpay Shareholders read LEA's Independent Expert's Report in Annexure A as it specifically considers Afterpay Shareholders' interests and was prepared for the purposes of the Afterpay Scheme.

## 3.9

### Your choices as a Shareholder

As a Shareholder you have the following choices:

- you can vote at the Scheme Meeting in person, by attorney or by proxy;
- you can elect not to vote at the Scheme Meeting;
- you can sell your Afterpay Shares on ASX. If you sell your Shares on ASX you may incur brokerage costs. If the Scheme becomes Effective, Afterpay Shares will cease trading on ASX at close of trading on the Effective Date. Accordingly, you can sell your Shares on market at any time before the close of trading on the day that the Scheme becomes Effective. This is expected to occur on Wednesday, 28 June 2017; or
- you can do nothing.

## 3.10

### How to vote

Shareholders can vote in either of two ways:

- by attending the Scheme Meeting and voting in person or by attorney or, in the case of corporate shareholders, by corporate representative; or
- by appointing a proxy to attend and vote on their behalf.

See the Notice of Scheme Meeting in Annexure E for full details on how to vote.

## 3.11

### Eligibility to vote

The time for determining eligibility to vote at the Scheme Meeting is 7.00pm on 17 June 2017. Only those Afterpay Shareholders entered on the Register at that time will be entitled to attend and vote at the Scheme Meeting.

## 3.12

### What happens if the Afterpay Scheme proceeds?

If the Scheme is approved by Afterpay Shareholders by the Requisite Majorities and the Court at the Second Court Hearing, all Shareholders (other than the Excluded Shareholders) who hold Afterpay Shares as at the Record Date, being Scheme Shareholders, will participate in the Scheme, regardless of their voting decision.

Once the Court approves the Scheme, Afterpay will lodge with ASIC a copy of the Court orders approving the Scheme. On the date that this lodgement occurs (**Effective Date**), the Scheme will become Effective.

### 3. Details of the Merger and the Afterpay Scheme (continued)

After the Scheme becomes Effective, a Scheme Shareholder must not dispose of or purport or agree to dispose of, any Scheme Shares or any interest in them after the Record Date. Afterpay will disregard any such disposal and any attempt to do so will have no effect.

Afterpay will notify ASX and apply for Afterpay Shares to be suspended from trading from close of trading on the Effective Date. Following the Implementation Date, Afterpay will apply for termination of the official quotation of Shares and removal from the official list of ASX.

If approved and implemented, the Afterpay Scheme and the Merger will result in:

- (a) each Scheme Shareholder receiving the Scheme Consideration;
- (b) the transfer of all Scheme Shares to Afterpay Touch Group.

#### 3.13

##### **Determination of persons entitled to the Scheme Consideration**

To establish the identity of the Scheme Shareholders, dealings in Afterpay Shares will only be recognised by Afterpay if:

- (a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Afterpay Register as the holder of the relevant Shares on or before 5.00pm on the Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00pm on the Record Date at the place where the Register is kept.

Subject to the Corporations Act, ASX Listing Rules and the Afterpay constitution, Afterpay must register any registrable transmission applications or transfers of the Afterpay Shares received on or before 5.00pm on the Record Date. Afterpay will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Shares received after the Record Date.

For the purpose of determining entitlements to the Scheme Consideration, Afterpay will maintain the Afterpay Register until Afterpay Touch Group has been entered in the Register as the holder of all Afterpay Shares (other than those held by the Excluded Shareholders). The Register in this form will solely determine Shareholders' entitlements to the Afterpay Touch Group Shares.

#### 3.14

##### **Scheme Record Date**

Those Afterpay Shareholders (other than the Excluded Shareholders) on the Register on the Record Date, being 5.00pm on the third Business Day following the Effective Date, will be entitled to receive the Scheme Consideration in respect of the Shares they hold as at the Record Date.

With effect from the Record Date:

- (a) all statements of holding in respect of Scheme Shares cease to have effect as documents of title in respect of such Scheme Shares; and
- (b) each entry on the Afterpay Register will cease to be of any effect other as evidence of entitlement to Scheme Consideration.

#### 3.15

##### **Implementation of the Afterpay Scheme**

If the Scheme becomes Effective, Afterpay Touch Group will acquire all of the Scheme Shares and will provide Scheme Shareholders with the Scheme Consideration on the Implementation Date, currently expected to be 6 July 2017.

On the Implementation Date, in consideration for the transfer of each Scheme Share to Afterpay Touch Group:

- (a) Afterpay Touch Group will issue to each Scheme Shareholder such number of new Afterpay Touch Group Shares as that Scheme Shareholder is entitled to as Scheme Consideration;
- (b) Afterpay Touch Group will issue to a Sale Nominee such number of new Afterpay Touch Group Shares that would otherwise have been issued to the Ineligible Foreign Shareholders; and
- (c) Afterpay Touch Group will procure the entry in the Afterpay Touch Group Register of the name and address of:
  - (i) each Scheme Shareholder who is not an Ineligible Foreign Shareholder in respect of the new Afterpay Touch Group Shares issued to them; and
  - (ii) the Sale Nominee appointed by Afterpay Touch Group in respect of those new Afterpay Touch Group Shares that would otherwise be issued to each Scheme Shareholder who is an Ineligible Foreign Shareholder.

Holding statements, or confirmation for CHESS holdings, detailing the issue of new Afterpay Touch Group Shares are expected to be dispatched to Shareholders within five Business Days after the Implementation Date.



## 3.16

### Pro forma capital structure of Afterpay Touch Group

Following implementation of the Merger the share structure of Afterpay Touch Group will look as follows:

Type of security pre-Merger	Number of Afterpay Touch Group Shares held on a fully diluted basis	% of total Afterpay Touch Group Shareholding on an undiluted basis	% of total Afterpay Touch Group Shareholding on a fully diluted basis
Afterpay Scheme Shareholders (other than Ineligible Foreign Shareholders)	130,337,038	60.7%	56.5%
Touchcorp Scheme Shareholders (other than Ineligible Foreign Shareholders)	84,418, 284	39.3%	36.5%
Afterpay Employee Rights on issue pre-Merger	16,220,000	0.0%	7.0%
TOTAL	230,975,322	100.0%	100.0%

Fully diluted basis means the number of Afterpay Touch Group Shares that would be on issue following completion of the Merger if all Afterpay Employee Rights were vested and exercised.

The pro forma capital structure of Afterpay Touch Group set out above does not include the proposed future issue of up to 12 million Afterpay Touch Group Employee Rights under the Afterpay Touch Group Incentive Plan.

Following implementation of the Merger, the following directors will hold Afterpay Touch Group Shares:

	Number of Afterpay Touch Group Shares held	% of Afterpay Touch Group Shareholding
Anthony Eisen	25,000,000	11.65%
Nicholas Molnar	25,000,000	11.65%
Michael Jefferies	4,323,226	2.02%
David Hancock	2,500,000	1.17%
Clifford Rosenberg	1,000,000	0.47%
Elana Rubin	21,567	0.01%

## 3.17

### Ineligible Foreign Shareholders

A Scheme Shareholder whose address as recorded on the Afterpay Register as at the Record Date is a place outside Australia and its external territories, New Zealand or any other jurisdiction which Afterpay and Afterpay Touch Group reasonably determine, will not be entitled to receive any Afterpay Touch Group Shares under the Scheme unless Afterpay and Afterpay Touch Group determine that:

- it is lawful and not unduly onerous or impracticable to issue that Scheme Shareholder with Afterpay Touch Group Shares if the Scheme becomes Effective; or
- it is lawful for that Scheme Shareholder to participate in the Scheme by the law of the relevant place outside Australia and its external territories,

each such person being an **Ineligible Foreign Shareholder** for the purposes of the Scheme.

Ineligible Foreign Shareholders will not be issued Afterpay Touch Group Shares under the Scheme. Instead, the Afterpay Touch Group Shares that would otherwise have been issued to them under the Scheme will be issued to a Sale Nominee appointed by Afterpay Touch Group on the Implementation Date.

Under the terms of the Scheme, Afterpay Touch Group is required, as soon as reasonably practicable after the Implementation Date (and in any event within 15 Business Days) to procure the Sale Nominee to:

- sell those Afterpay Touch Group Shares on ASX (in such manner and at such price and on such other terms as the Sale Nominee determines); and
- pay the net sale proceeds received, after deducting any applicable brokerage, stamp duty and other taxes, to the Ineligible Foreign Shareholders.

### 3. Details of the Merger and the Afterpay Scheme (continued)

Afterpay, Afterpay Touch Group and the Sale Nominee give no assurance as to the price that will be achieved for the sale of Afterpay Touch Group Shares described above. The proceeds that Ineligible Foreign Shareholders will receive may be more or less than the market value of Afterpay Touch Group Shares as at the date of this Scheme Booklet. Sale of the Afterpay Touch Group Shares by the Sale Nominee may result in a significant number of Afterpay Touch Group Shares being offered for sale at the same time, which may have the effect of reducing the sale price of those shares.

Full details of this process are contained in clauses 4.6 to 4.8 of the Scheme, which is set out in Annexure C.

#### 3.18

##### **Deemed warranty on transfer of Shares to Afterpay Touch Group**

Under the terms of the Afterpay Scheme each Scheme Shareholder is deemed to have warranted to Afterpay Touch Group and appointed and authorised Afterpay as its attorney and agent to warrant to Afterpay Touch Group that all of their Afterpay Shares will, at the date of the transfer, be fully paid and free from all encumbrances (such as mortgages and other security interests) and that they have full power and capacity to transfer their Afterpay Shares (including any rights and entitlements attaching to those Shares) to Afterpay Touch Group. See clause 7.4 of the Scheme in Annexure C. Afterpay undertakes that it will provide the warranty to Afterpay Touch Group as agent and attorney of each Afterpay Shareholder. You should ensure that your Shares are free of any such mortgages or security interests.

#### 3.19

##### **Afterpay Deed Poll**

A summary of the key terms of the Deed Poll is set out in section 9.12 of this Scheme Booklet. A copy of the Deed Poll is also included in Annexure D.

#### 3.20

##### **Taxation implications**

A general guide to the taxation implications of the Scheme for Afterpay Shareholders is set out in section 8 of this Scheme Booklet. This guide is expressed in general terms and is not intended to provide taxation advice in respect of the particular circumstances of any Shareholder.

#### 3.21

##### **What happens if the Scheme does not proceed?**

If the Scheme is not approved at the Scheme Meeting or all of the Conditions Precedent to the Scheme are not satisfied or waived, the Afterpay Scheme and the Merger will not proceed, and:

- (a) Afterpay will continue to operate as an independent entity listed on ASX;
- (b) Shareholders will continue to hold their Afterpay Shares and share in any benefits and risks of Afterpay's ongoing business; and
- (c) Shareholders will not receive the Scheme Consideration.

Depending on the reasons why the Afterpay Scheme does not proceed, Afterpay may be liable to pay a break fee of \$750,000 to Touchcorp. See section 9.10 for further details on the break fee.

It is difficult to predict the effect on the Afterpay Share price if the Scheme does not proceed. Despite the confidence of the Afterpay Directors in the future of Afterpay as an independent entity, the Directors consider that the Scheme and the Merger is in the best interests of Afterpay Shareholders, in the absence of a superior proposal.

#### 3.22

##### **Suspension of trading**

Afterpay will apply to ASX for suspension of trading in Afterpay Shares on ASX after close of trading on the day the Scheme becomes Effective. Following final implementation of the Scheme, Afterpay will request ASX to remove it from the official list of ASX.

#### 3.23

##### **Listing of Afterpay Touch Group on ASX and trading**

In conjunction with the implementation of the Merger, Afterpay Touch Group is seeking a listing for Afterpay Touch Group Shares on ASX.

Afterpay Touch Group will seek confirmation from ASX that, from the Business Day after the Effective Date (or such other date as ASX requires), the Afterpay Touch Group Shares issued as Scheme Consideration will be quoted on ASX. New Afterpay Touch Group Shares are expected to trade on a deferred settlement basis from the commencement of trading on this date.

It is the responsibility of each new Afterpay Touch Group Shareholder to confirm their holding before trading in Afterpay Touch Group Shares to avoid the risk of selling shares that they do not own. Holders of new Afterpay Touch Group Shares who sell their shares before they receive their holding statement or confirm



their uncertificated holdings of Afterpay Touch Group Shares (as applicable) do so at their own risk.

Trading on ASX on a normal settlement basis of Afterpay Touch Group Shares issued as Scheme Consideration is expected to commence on the Business Day after the Implementation Date.

### 3.24

#### Afterpay Employee Rights

Afterpay operates the Afterpay Employee Option Plan and the Afterpay Employee Incentive Plan (**Afterpay Employee Plans**) under which it made grants of Performance Rights and Options, which are subject to vesting conditions based on continuation of employment and performance criteria. In addition, Afterpay has granted Loan Shares to certain employees of Touchcorp who service Afterpay, to incentivise them.

As at the date of this Scheme Booklet, there were 155,000 outstanding Performance Rights and 16,065,000 outstanding Options issued under the Afterpay Employee Plans, and 250,000 outstanding Loan Shares.

It is a condition of the Merger Implementation Agreement that prior to 8.00am on the Second Court Date, arrangements are in place so that all Afterpay Employee Rights are either cancelled by Afterpay or acquired by Afterpay Touch Group, in exchange for the issue of Afterpay Touch Group Employee Rights.

Afterpay will seek to enter into an Exchange of Options / Rights Deed with all holders of Performance Rights and Options under which their Performance Rights and/or Options (as applicable) are exchanged on a one-for-one basis for the same number of performance rights and/or Options (as applicable) in Afterpay Touch Group, to be granted in accordance with the Afterpay Touch Group Incentive Plan and on terms the same in all respects (including exercise price, expiry date and vesting conditions) as the terms of the Afterpay Performance Rights and/or Options (as applicable) being replaced.

All holders of Loan Shares will participate in the Scheme as Scheme Shareholders and will be asked to agree to amend the terms of the limited recourse loan agreement applicable to their Loan Shares such that the loan and associated security applies to the Afterpay Touch Group Shares which they will receive as Scheme Consideration.

### 3.25

#### Intended grant of Afterpay Touch Group Employee Rights following Merger

Following implementation of the Merger, Afterpay Touch Group intends to grant to senior executives up to a total of 12 million Employee Rights in the form of limited recourse loan shares under the terms of the Afterpay Touch Group Incentive Plan, with an issue price at a premium to the Afterpay share price at the time of announcement of the Merger. The rules of the Afterpay Touch Group Incentive Plan are summarised in section 6.6.

Afterpay Touch Group Employee Rights are intended to be granted to each of Anthony Eisen (or his nominee) and Nicholas Molnar (or his nominee) in order to appropriately remunerate and incentivise them to remain with the Merged Group and align their interests with the long term interests of all Afterpay Touch Group Shareholders. However, as they will be directors of Afterpay Touch Group, any such proposed awards will be subject to shareholder approval which would be sought at a separate general meeting of Afterpay Touch Group after implementation of the Merger, such as at the company's Annual General Meeting to be held later in 2017, at which time full details of the proposed grants (including issue price and vesting conditions) would be provided to shareholders of Afterpay Touch Group for consideration.

Given the above, Afterpay Shareholder approval of the issue of Afterpay Touch Group Employee Rights to Anthony Eisen and Nicholas Molnar is not required prior to implementation of the Merger or the Afterpay Scheme.

### 3.26

#### Further information

If you have any questions or require further information about the Scheme, you should contact the Shareholder Information Line on 1300 560 339 (within Australia) and +61 2 8011 0354 (outside Australia) between 9.00am to 5.30pm (Melbourne time), Monday to Friday, or visit the website [www.afterpay.com.au](http://www.afterpay.com.au). You should seek independent financial, legal, taxation or other professional advice before making any decision regarding this Scheme.

## 4. Information on Afterpay



## 4. Information on Afterpay

### 4.1

#### Background and history

Afterpay is an Australian incorporated company. The Afterpay Group operates a technology driven payments business which commenced activities in the first half of calendar 2015.

Afterpay listed on the ASX in May 2016, and trades under the ASX code AFY.

### 4.2

#### Overview of operations

Afterpay focusses on applying its technology to provide a retail centric, omni channel retail service that facilitates commerce between retail merchants and their end-customers.

Afterpay delivers this by providing a platform that allows retail merchants to offer their end-customers the ability to buy products on a “buy now, receive now, pay later” basis without the end-customer having to:

- Apply for or enter into a traditional loan;
- Pay any additional amount (by way of interest or upfront fees to Afterpay) for the merchant’s products if instalment payments are made on time; or
- Provide extensive personal information that could cause delay or failure to complete a purchase.

For online transactions, Afterpay is typically positioned on the merchant’s product page and offers a fast and frictionless process resulting in reduced abandoned online “shopping carts”. For in-store transactions, Afterpay offers an easily generated mobile phone barcode for use at the merchant’s Point of Sale terminal.

Instalment payment terms are presented to end customers for a maximum of 56 days. The purchase value is recouped by Afterpay from the end-customer usually in four equal, fortnightly instalments.

Retail merchants benefit from providing the Afterpay service to their end-customers because:

- End-customers are more inclined to make a purchase and/or increase the value of their purchase because of the affordability and flexibility attributes of the Afterpay service; and
- Afterpay pays the retail merchant upfront and assumes all end-customer payment collection responsibilities.

The Afterpay payment option can be integrated into a retail merchant’s existing e-commerce infrastructure and sits alongside traditional end-customer payment options.

### 4.3

#### The Afterpay System

Afterpay’s technology platform (the Afterpay System) comprises two key components:

- The Transaction Integrity Engine
- The Afterpay Operating Platform

At the core of the Afterpay System is its Transaction Integrity Engine, which conducts end-customer fraud and repayment capability assessments in real-time, allowing Afterpay to make real-time, automated decisions as to whether or not to provide instalment payment terms to any potential end-customer. The Transaction Integrity Engine is activated every time an end-customer selects Afterpay as the payment method for a purchase from a retail merchant.

Selecting Afterpay as the payment method does not automatically guarantee that the transaction will be approved. By integrating Afterpay into the merchant’s website, the approval request is automatically passed online to the Transaction Integrity Engine for real time assessment and processing. The system uses a range of attributes relating to the particular transaction, the end-customer and his or her payment history and current amounts outstanding, the merchant, and other factors that can be garnered directly from the particular transaction and payment request. The relevance and weighting given to the different factors is constantly being updated based on accumulated transaction data across the Afterpay platform, and this proprietary database of inputs is a key element of the value of the Afterpay System. The analysis is performed automatically and in real time by the system, and does not involve any external checking of credit reporting agencies.

Undertaking this assessment based only on the factors available to the system in real time and with limited inputs does involve some degree of risk of fraud or non-payment by the end-customer. Afterpay has designed the system with the intention that these risks will diminish over time as the Transaction Integrity Engine and the rules it applies become more effective at minimising these risks. However, the risk of both fraud and non-payment cannot be entirely eliminated if transactions are to be undertaken in a commercial volume, and there will always be a component of bad debt expenses applicable to Afterpay’s results. These kinds of transaction losses should be seen as a normal cost of doing business for Afterpay.

Afterpay has also developed an end-to-end, largely automated, operating platform (the Afterpay Operating Platform) that allows retail merchants to integrate, manage and monitor the way Afterpay is performing on their web sites and for end-customers

## 4. Information on Afterpay (continued)

to monitor and manage their Afterpay transactions and accounts.

Afterpay's technology was built and continues to be developed by Touchcorp under a Software Development and Licence Agreement. Touchcorp has extensive experience in Australian and international markets in relation to providing payments related services to large consumer facing organisations.

Afterpay also outsources the processing of all Afterpay transactions to Touchcorp on its behalf in return for an ongoing transaction fee, which is set on a 'favoured nation' pricing basis relative to Touchcorp's other customers.

### 4.4

#### Business model

Afterpay receives its revenue primarily from transaction fees paid by its retail merchant clients (Merchant Fees) in relation to underlying Afterpay sales on their web sites.

Merchant Fees are generated on each discrete, approved order placed by the end-customer through the Afterpay system. Merchant Fees are predominantly based on a percentage of the end-customer order value plus a fixed per transaction fee. Merchant Fees represented approximately 83% of Afterpay's revenues for the six month period ending 31 December 2016, with the remainder principally represented by late fees charged to end-customers who do not make their agreed instalment payments on time.

Increasing Merchant Fees are a function of the number of Afterpay retail merchant clients that provide the Afterpay service to their end-customers as well as the proportion of end-customers associated with each retail merchant client that choose to use Afterpay as a method of online payment. Seasonality will also impact Afterpay transaction revenue in any given period, which is a function of consumer buying patterns at different times of the calendar year.

Afterpay employs capital to fund the period between paying its retail merchant clients upfront and the time it takes to recoup full payment from the end-customer. Afterpay aims to fully recoup the value of any discrete transaction within a maximum of 56 days.

Afterpay's business model aims to recycle capital efficiently and to drive higher potential transaction volumes. The average duration to recoup end-customer payments during the 6 month period ended 31 December 2016 was less than 30 days. Past performance, however, is not necessarily an indicator of future performance.

### 4.5

#### Growth in merchant numbers and transactions

Afterpay has been growing strongly since it commenced offering its services to Australian based online retail merchants in the first half of calendar 2015.

Significant retail merchant and other customers include Myer, Telstra, Country Road, Officeworks, Optus, Kookai, Rebel, Athletes Foot, Mimco, Adore Beauty, Ezibuy, BCF Australian, Best & Less and Toys R Us.

As at 13 April 2017, Afterpay had over 3,700 live retail merchants, and over 575,000 unique registered end-customers.

Total underlying retail merchant sales through the Afterpay platform since inception is now more than \$325 million, including \$144.9 million achieved in Q3 FY2017.

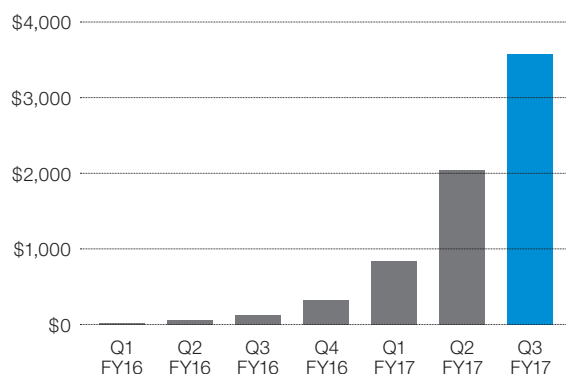
### 4.6

#### Funding the business

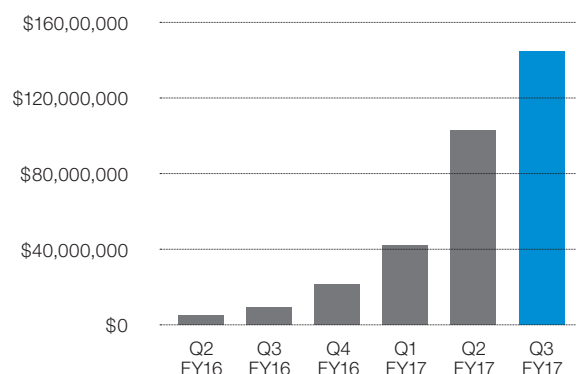
Afterpay's business of funding purchases by end-customers requires funding capital which can be paid to retail merchant clients in advance of collection of the purchase price instalments from those end-customers. Afterpay initially relied on equity capital to provide this funding, raising \$25 million in its initial public offering in May 2016 and a further approximately \$36 million in a placement of new shares in October 2016 (in each case before costs of the offer).

In November 2016, Afterpay announced its partnership with the National Australia Bank (NAB) to fund a Secured Receivables Funding Facility, with NAB initially committing \$20 million to the facility. The funding facility commenced operation in December 2016 and provides Afterpay with a structurally efficient and low transaction cost model to support Afterpay's strong growth profile. Afterpay recently announced that NAB has approved an additional \$20 million increase to the funding facility. This is in line with Afterpay's strategy to progressively increase the size of the funding facility as the business grows. The Secured Receivables Funding Facility is capable of significant expansion beyond this point based on the strong equity position Afterpay has already established.

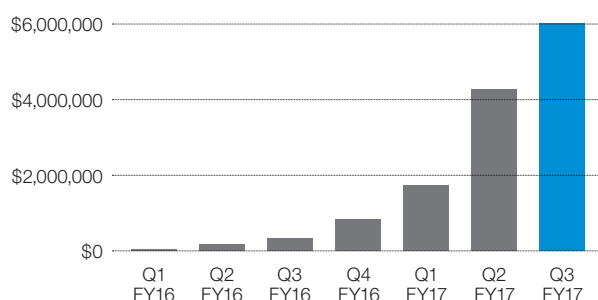
Integrated retail merchants



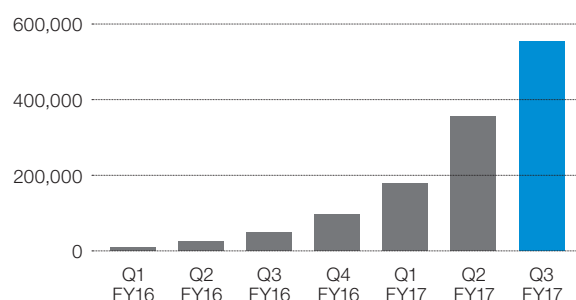
Underlying quarterly merchant sales



Afterpay quarterly merchant fees



Unique Afterpay end-customers



## 4.7

### Regulatory environment

Afterpay's business is not currently subject to legal requirements to have an Australian Credit Licence (**ACL**) or an Australian Financial Services Licence (**AFSL**). This is, in part, due to the nature of the current Afterpay product, which does not involve charging interest or credit fees to end-customers. Afterpay is, however, subject to other legal and industry compliance requirements including privacy laws, data protection laws and contractual conditions.

Afterpay obtained an ACL in August 2016, however there is no current intention to offer a different or licensed product in the near term.

## 4.8

### Afterpay's intellectual property

Afterpay's core intellectual property asset is the Afterpay System (see above) and the accumulating transaction data, rules and end-customer insights generated from end-customers using the Afterpay System.

Under the Software Development and Licence Agreement (**SDLA**) with Touchcorp, all intellectual property in the Afterpay System which was created or brought into existence by Touchcorp and its contractors in connection with the SDLA vested in Afterpay with payment of the Development Fee. In addition, Afterpay holds a perpetual, royalty-free licence to reproduce and modify Touchcorp's intellectual property rights that are embedded in the Afterpay System for the purpose of operating the Afterpay System.

## 4. Information on Afterpay (continued)

Afterpay's intellectual property is protected under Australian laws relating to copyright, trade marks, and contractual confidentiality obligations. As at the date of the Scheme Booklet, Afterpay does not hold any patents in relation to these rights, however, Afterpay has applied for a patent on its in-store instalment payment system and a patent is pending on this system.

Afterpay also holds a registered domain name and registered trademarks which are used for its business in Australia, and certain trademarks in other countries. However, expansion into certain new markets outside Australia may risk conflict with registered trademarks of another unrelated company with a similar name, and in that case Afterpay may have to consider rebranding its offering in those new markets.

### 4.9

#### Directors and senior management

The current directors of Afterpay are:

**ANTHONY EISEN,**  
EXECUTIVE CHAIRMAN

Anthony has over 20 years' experience in investing, public company directorships and providing corporate advice across a variety of sectors. Prior to co-founding Afterpay, he was the Chief Investment Officer at Guinness Peat Group (GPG). He was actively involved in a number of financial services, software and technology companies in which GPG was a major shareholder. Before joining GPG, Anthony was involved in investment banking, specialising in mergers and acquisitions. He is currently also a director of Foundation Life (N.Z) Limited.

**NICHOLAS MOLNAR,**  
MANAGING DIRECTOR

Nicholas has extensive experience in online retail, having launched the leading American online jeweller, Ice.com, into Australia under the local brand Iceonline.com.au. Nicholas successfully grew Ice in Australia to become the largest online-only jewellery and watch retailer. Prior to launching Ice, Nicholas was an Investment Analyst at venture capital fund M. H. Carnegie & Co., where he was primarily responsible for growth stage investment opportunities in the technology sector. Nicholas holds a Bachelor of Commerce from Sydney University.

**DAVID HANCOCK,**  
NON-EXECUTIVE DIRECTOR

David was appointed an independent non-executive director in March 2016. David has over 25 years of broad experience in financial services. This experience includes being Executive General Manager at the Commonwealth Bank of Australia, with a variety of roles including capital markets, fixed income and equities. Prior to that he served in senior investment banking roles at JPMorgan where he was a Managing Director with responsibilities in New Zealand, Australia and Asia across various operations in Debt and Equity Markets. He has served on a number of boards and is currently a director and advisor to Tower Insurance Limited and a board member of the Insurance Council of New Zealand.

**CLIFFORD ROSENBERG,**  
NON-EXECUTIVE DIRECTOR

Clifford has spent more than 20 years working at digital companies leading innovation and change in the industry both as an entrepreneur and senior executive. Clifford has been a senior executive at LinkedIn for six and half years and currently serves as the Managing Director of LinkedIn for South East Asia, Australia and New Zealand. Prior to LinkedIn, Clifford was Managing Director at Yahoo Australia and New Zealand, and previously the founder and Managing Director of iTouch Australia and New Zealand, one of the biggest mobile content and application service providers in Australia. Prior to iTouch Clifford was the head of strategy for Vodafone Australasia. Clifford is also a non-executive director of ASX listed companies Nearmap Ltd and Pureprofile Ltd.

The current senior managers of Afterpay are:

- Matthew Walton, Chief Financial Officer
- Barry Odes, Chief Operating Officer
- Sophie Karzis, Company Secretary

If the Scheme does not proceed, the current senior management of Afterpay will remain. If the Scheme is approved, the intentions of Afterpay Touch Group in relation to employees generally is set out in section 6.4.

## 4.10

### Afterpay Shares

As at 31 December 2016 there were 180,337,038 Afterpay Shares on issue. In addition there are a total of 16,065,000 options with varying terms and 155,000 performance rights. The fully diluted number of Afterpay shares on issue including the options and performance rights is 196,557,038.

## 4.11

### Financial information

#### (a) Basis of preparation

The following section contains certain historical financial information of Afterpay. Afterpay's historical financial information includes:

- The summary historical consolidated income statements for Afterpay for the six months ended 31 December 2015 and 31 December 2016, for the year ended 30 June 2016 and for the 12 months ended 31 December 2016;
- The historical consolidated statements of financial position for Afterpay as at 30 June 2016 and 31 December 2016; and
- The historical statements of cash flows for the year ended 30 June 2016 and the six months ended 31 December 2016.

(together, the Afterpay Historical Financial Information)

Afterpay has a 30 June financial year end. Afterpay's historical consolidated income statement for the 12 months ended 31 December 2016 is presented for the purposes of preparing the Afterpay Touch Group Pro Forma Consolidated Income Statement and has been derived by adding Afterpay's historical consolidated income statement for the six months ended 31 December 2016 to Afterpay's historical consolidated income statement for the year ended 30 June 2016 and subtracting Afterpay's historical consolidated income statement for the six months ended 31 December 2015.

The directors of Afterpay are responsible for the preparation of the Afterpay Historical Financial Information. The Afterpay Historical Financial Information included in this Scheme Booklet is intended to provide shareholders with information to assist them in understanding the historical financial performance, cash flows and financial position of Afterpay.

The Afterpay Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in Australian Accounting Standards ("AAS") issued by the Australian Accounting Standards Board, which is consistent with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

The Afterpay Historical Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation, disclosures, statements and comparative information required by AAS applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The Afterpay Historical Financial Information has been derived from the general purpose financial statements of Afterpay for the year ended 30 June 2016 and from the interim consolidated financial statements for the six months ended 31 December 2016. The general purpose financial statements of Afterpay for the year ended 30 June 2016 were audited by Ernst & Young in accordance with Australian Auditing Standards, and on which an unqualified audit opinion was issued. The interim consolidated financial statements of Afterpay for the six months ended 31 December 2015 and 2016 was reviewed by Ernst & Young and an unqualified limited assurance conclusion was issued.

General purpose financial statements for Afterpay for the financial year ended 30 June 2016 and interim financial statements for the six months ended 31 December 2015 and 2016 are available on [www.afterpay.com.au](http://www.afterpay.com.au).



#### 4. Information on Afterpay (continued)

##### (b) Historical consolidated income statements of Afterpay

Below is a summary of Afterpay's historical consolidated statements income statements for the six months ended 31 December 2015 and 31 December 2016, and for the year ended 30 June 2016 and 12 months ended 31 December 2016.

	6 months ended 31-Dec-15	6 months ended 31-Dec-16	Year ended 30-Jun-16	12 months ended 31-Dec-16 (note 1)
Revenue	220,261	6,011,227	1,383,241	7,174,207
Cost of sales	(30,459)	(1,178,732)	(258,389)	(1,406,662)
<b>Gross profit</b>	<b>189,802</b>	<b>4,832,496</b>	<b>1,124,852</b>	<b>5,767,545</b>
Other income	46,281	1,197,662	289,422	1,440,803
Employee benefits expense	(231,941)	(1,888,055)	(1,228,647)	(2,884,761)
Bad and doubtful debts expense	(189,565)	(1,904,634)	(567,481)	(2,282,550)
Other operating expenses	(261,866)	(2,920,376)	(1,305,871)	(3,964,381)
Interest	57,387	180,244	168,751	291,608
Depreciation and amortisation	(867,510)	(1,364,483)	(2,171,143)	(2,668,116)
<b>Loss before tax</b>	<b>(1,257,412)</b>	<b>(1,867,146)</b>	<b>(3,690,117)</b>	<b>(4,299,852)</b>
Income tax benefit	–	477,799	137,789	615,588
<b>Net loss after tax</b>	<b>(1,257,412)</b>	<b>(1,389,347)</b>	<b>(3,552,328)</b>	<b>(3,684,264)</b>

Note:

1. Afterpay has a 30 June financial year end. Afterpay's historical consolidated income statement for the 12 months ended 31 December 2016 is presented for the purposes of preparing the Afterpay Touch Group Pro Forma Consolidated Income Statement and has been derived by adding Afterpay's historical consolidated income statement for the six months ended 31 December 2016 to Afterpay's historical consolidated income statement for the year ended 30 June 2016 and subtracting Afterpay's historical consolidated income statement for the six months ended 31 December 2015.

**(c) Historical consolidated statements of financial position of Afterpay**

Below is a summary of Afterpay's consolidated statement of financial position as at 30 June 2016 and 31 December 2016.

	As at 30-Jun-16	As at 31-Dec-16
Cash and cash equivalents	19,723,472	27,740,034
Trade receivables	7,229,936	38,798,289
Other current assets	567,861	5,768,250
<b>Total current assets</b>	<b>27,521,269</b>	<b>72,306,573</b>
Deferred tax assets	609,400	1,555,695
Property, plant and equipment	28,193	71,360
Intangible assets	10,833,333	10,936,820
<b>Total non-current assets</b>	<b>11,470,926</b>	<b>12,563,875</b>
<b>TOTAL ASSETS</b>	<b>38,992,195</b>	<b>84,870,448</b>
Trade and other payables	(870,986)	(4,545,446)
Employee provisions	(57,427)	(115,317)
Interest bearing borrowings	–	(8,094,560)
<b>Total current liabilities</b>	<b>(928,413)</b>	<b>(12,755,322)</b>
Long service leave provision	(2,945)	(10,945)
<b>Total non-current liabilities</b>	<b>(2,945)</b>	<b>(10,945)</b>
<b>TOTAL LIABILITIES</b>	<b>(931,358)</b>	<b>(12,766,267)</b>
<b>NET ASSETS</b>	<b>38,060,837</b>	<b>72,104,181</b>
Issued capital	41,506,567	76,513,415
Accumulated losses	(3,599,168)	(4,988,515)
Reserves	153,438	579,281
<b>TOTAL EQUITY</b>	<b>38,060,837</b>	<b>72,104,181</b>

**(d) Historical consolidated statements of cash flow of Afterpay**

Below is a summary of Afterpay's consolidated statement of cash flows for the year ended 30 June 2016 and for the six month period ended 31 December 2016.

	Year ended Jun-16	6 months ended Dec-16
Receipts from customers (inclusive of GST)	27,327,113	102,161,922
Payments to employees	(1,214,529)	(1,541,511)
Payments to merchants and suppliers (inclusive of GST)	(34,420,348)	(131,973,208)
<b>Net cash flows used in operating activities</b>	<b>(8,307,764)</b>	<b>(31,352,797)</b>
Interest received	74,966	303,509
Purchase of intangibles	(3,000,000)	(161,000)
Purchase of plant and equipment	(32,669)	(51,838)
Increase in other financial asset	–	(3,254,221)
<b>Net cash flows used in investing activities</b>	<b>(2,957,703)</b>	<b>(3,163,550)</b>
Advance from/(repayment to) directors	(49,800)	–
Interest-bearing liabilities	–	8,094,500
Proceeds from issue of shares	33,000,000	36,000,000
Capital raising expenses	(1,965,046)	(1,561,651)
<b>Net cash flows from financing activities</b>	<b>30,985,154</b>	<b>42,532,909</b>
<b>Net increase in cash and cash equivalents</b>	<b>19,719,687</b>	<b>8,016,562</b>
Cash and cash equivalents at beginning of the period/year	3,785	19,723,472
<b>Cash and cash equivalents at end of the period/year</b>	<b>19,723,472</b>	<b>27,740,034</b>

## 4. Information on Afterpay (continued)

### 4.12

#### **Material changes in Afterpay's financial position**

To the knowledge of Afterpay's Directors, and except as disclosed elsewhere in this Scheme Booklet, the financial position of Afterpay has not materially changed since 31 December 2016.

### 4.13

#### **Recent share price history**

The latest recorded price of Afterpay Shares on ASX before the initial public announcement of the proposed Merger on 23 February 2017 was \$2.46. The latest recorded closing price of Afterpay Shares on ASX before the announcement of the execution of the Merger Implementation Agreement on 30 March 2017 was \$2.19. The current price of Afterpay Shares on ASX can be obtained from the ASX website ([www.asx.com.au](http://www.asx.com.au)) or [www.afterpay.com.au](http://www.afterpay.com.au).

### 4.14

#### **Publicly available information**

As an ASX listed company and a "disclosing entity" for the purposes of section 111AC(1) of the Corporations Act Afterpay is subject to regular reporting and disclosure obligations. Broadly these require it to announce price sensitive information to ASX as soon as it becomes aware of the information, subject to exceptions for certain confidential information. Afterpay's most recent announcements are available from its website [www.afterpay.com.au](http://www.afterpay.com.au). Further announcements concerning Afterpay will continue to be made available on this website after the date of this Scheme Booklet.

ASX maintains files containing publicly available information about entities listed on their exchange. Afterpay's files are available for inspection at ASX during normal business hours and are available on the ASX website ([www.asx.com.au](http://www.asx.com.au)).

Additionally copies of documents lodged with ASIC in relation to Afterpay may be obtained from or inspected at an ASIC service centre. Please note ASIC may charge a fee in respect of such services.

The following documents are available for inspection free of charge prior to the Scheme Meeting during normal business hours at the registered office of Afterpay:

- constitution of Afterpay
- Afterpay's annual report for the financial year ended 30 June 2016 and financial report for the half-year ended 31 December 2016; and
- Afterpay's public announcements.

The annual and interim reports and public announcements are also available at [www.afterpay.com.au](http://www.afterpay.com.au) and on the ASX's website at [asx.com.au](http://asx.com.au). Copies of the financial report for the half-year ended 31 December 2016 will be provided free of charge to any Shareholder who requests a copy.

## 5. Information on Touchcorp



## 5. Information on Touchcorp

### 5.1

#### Introduction

Touchcorp has designed, built, owns and operates a proprietary software platform that is called the Touch System Platform. This Touch System Platform enables consumers to quickly and simply purchase products both in-store, directly via secure self-service methods, and across mobile device applications, web sites, interactive voice recognition (IVR) systems and a variety of other methods.

The Touch System Platform is designed to minimise friction for merchant retailers and enhance the shopping experience for consumers. This allows merchant retailers to operate, and consumers to purchase, goods and services without unnecessary processes while having confidence that transaction services are consistently operational – with 100% uptime capability.

The Touch System Platform provides customers with competitive performance and cost advantages with sophisticated strategic and tactical fraud management capability. The Touch System Platform provides merchant retailers with the capacity to maximise transaction acceptance while minimising the cost of fraud to those merchant retailers. In some cases Touchcorp accepts fraud risk for merchant retailers.

Transactions conducted through the Touch System Platform are monitored in real-time, recorded and reviewed, and data in relation to the interaction between the merchant retailer and consumer is captured and stored securely. This data is utilised to develop business intelligence and provide insightful information about purchase habits of consumers, transaction integrity and anti-fraud assessments.

Touchcorp has offices in Melbourne, Croatia, Singapore and Bermuda. The Touchcorp international business started in 2005 and in 2016 it offered services in primarily to the convenience store retail sector.

Touchcorp listed on the ASX in March 2015 and is a company incorporated in Bermuda and registered as a foreign company in Australia under the Corporations Act.

### 5.2

#### The Touch System

Touchcorp generates revenue from transaction fees for the delivery of transactions, integration fees for the connection of new customers to the Touch System Platform, and integration fees for granting existing customers with access to additional services.

Touchcorp operates across three business units: Mobility and Payments, Health and Government and Retail Services, with each business unit offering a wide range of services to its customers. The technology solutions Touchcorp provides across each of these business units use the Touch System Platform and Touchcorp has developed bespoke solutions to meet the specific requirements of each of these markets. These bespoke solutions and hardware comprise the Touch System Platform:

- (a) TouchPoint Technology – a suite of software technologies through which Touchcorp integrates with existing point-of-sale devices, payment terminals or practice management systems used by practitioners, used by merchant retailers or medical practitioners. The particular software used to connect with a particular supplier or merchant retailer varies depending on the existing systems and requirements of that supplier or merchant retailer.
- (b) eServices platform – a business-to-business connection point for merchant retailers, that serves as the management and supply channel between the Touch System Platform and the product / service suppliers. Merchant retailers connect their systems to the eServices platform to allow them to sell or provide electronic goods or services to consumers.
- (c) Mobility platform – a business-to-consumer connection point that enables suppliers to distribute electronic products directly to consumers through a number of channels such as websites, mobile sites, mobile applications and IVR systems. The mobility platform contains connections to multiple payment gateways that enable payments to be made directly from consumers to suppliers, and distributes those electronic products in real-time, and is supported by a transaction integrity filter that facilitates real-time transaction integrity control and fraud management for all transactions processed by the Touch System Platform.

(d) Integration platform – allows suppliers to connect to the Touch System Platform. The Integration Platform allows electronic products provided by suppliers to be transacted by merchant retailers via the eServices Platform, as well as directly to consumers via the mobility platform. This platform controls the flow of electronic products to multiple systems, reducing the costs of integration for suppliers, while simultaneously increasing the number of distribution channels of those electronic products.

(e) Data Centres – the hardware in five data centres across Australia and Europe that support the Touch System Platform. While Touchcorp owns the supporting infrastructure and hardware, those data centres are owned by third-party providers. Data centre providers are contractually required to ensure facilities remain operational in the event of failure in the various systems comprising the data centre's service, thus ensuring the operational integrity of the Touch System Platform.

Figure 1 provides a diagrammatic representation of the Touch System Platform.

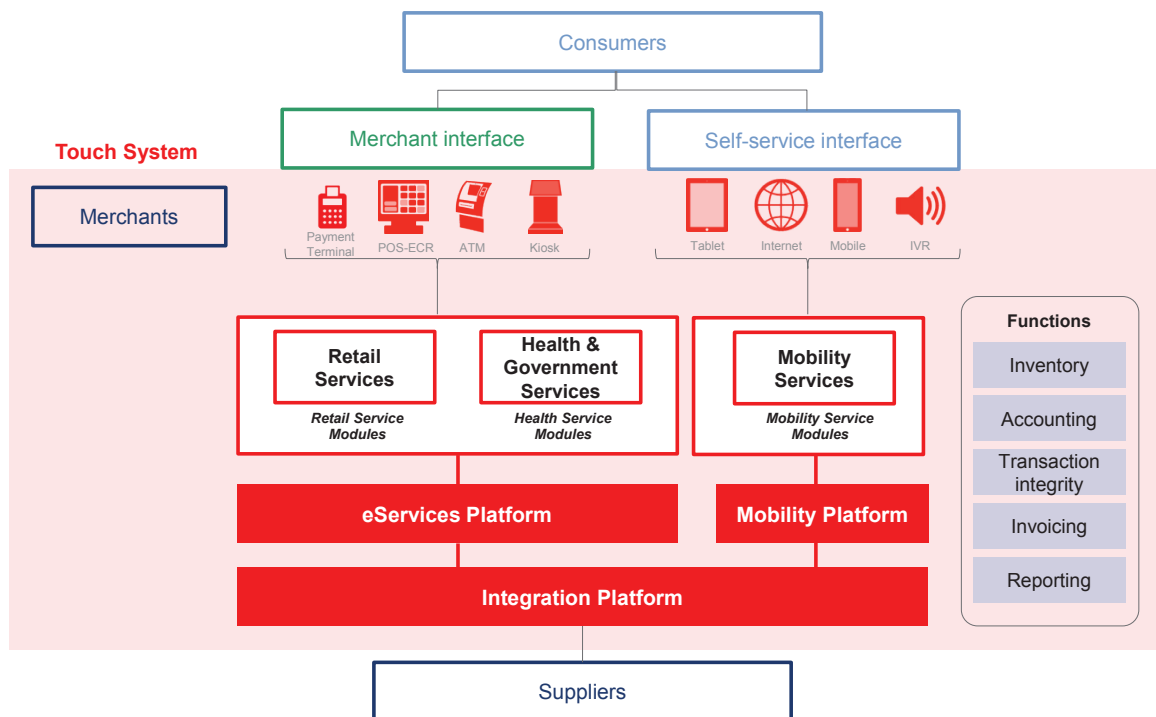


FIGURE 1  
A DIAGRAMMATIC REPRESENTATION OF THE TOUCH SYSTEM PLATFORM

## 5. Information on Touchcorp (continued)

### 5.3

#### Overview of operations

##### (a) Mobility and payments

The Touch System Platform enables merchant retailers in particular to sell goods and services via any consumer channel including in-store, IVR, website and mobile applications, as well as self-service methods.

Touchcorp provides solutions for clients in an environment where security for online transactions and business efficiency are becoming increasingly important in a competitive retail business environment. The Touch System Platform allows the identification of consumers and the establishment, registration, activation, and operation of consumer accounts including formal accounts requiring compliance with anti-money laundering (“AML”) or anti-terrorist (“ATL”) protocols to meet know your customer (“KYC”) requirements in multiple jurisdictions.

Touchcorp seeks to enhance the consumer experience by simplifying the process steps and reducing the time required to complete a transaction, and by providing more payment options. Consumer satisfaction is an important driver of consumer loyalty to specific suppliers and is often measured by a supplier’s net promoter scores. Touchcorp works closely with merchant retailers and suppliers to

enhance the consumer experience, largely through the delivery of high quality, reliable and effective self-service methods that reduce the times to complete transactions. Touchcorp also provides real-time processing and data analytics to suppliers and merchant retailers to enhance sales insights and performance.

Figure 2 illustrates an example of a completed transaction in the mobility services business unit.

This scenario outlines the process of a mobility services transaction. A consumer is seeking to purchase a mobile phone prepaid recharge voucher. The consumer accesses a Touchcorp-enabled mobile application downloaded on the consumer’s mobile device. The consumer elects to recharge using a selected payment option. The Touch System Platform receives this request and performs a series of transaction integrity checks before automatically crediting the consumer’s account with the mobile network operator for the purchased amount of credit. The Touch System Platform delivers confirmation of the mobile phone prepaid recharge to the consumer and informs the mobile network operators systems that the requested transaction has been completed to enable the mobile network operator’s inventory to be updated accordingly.

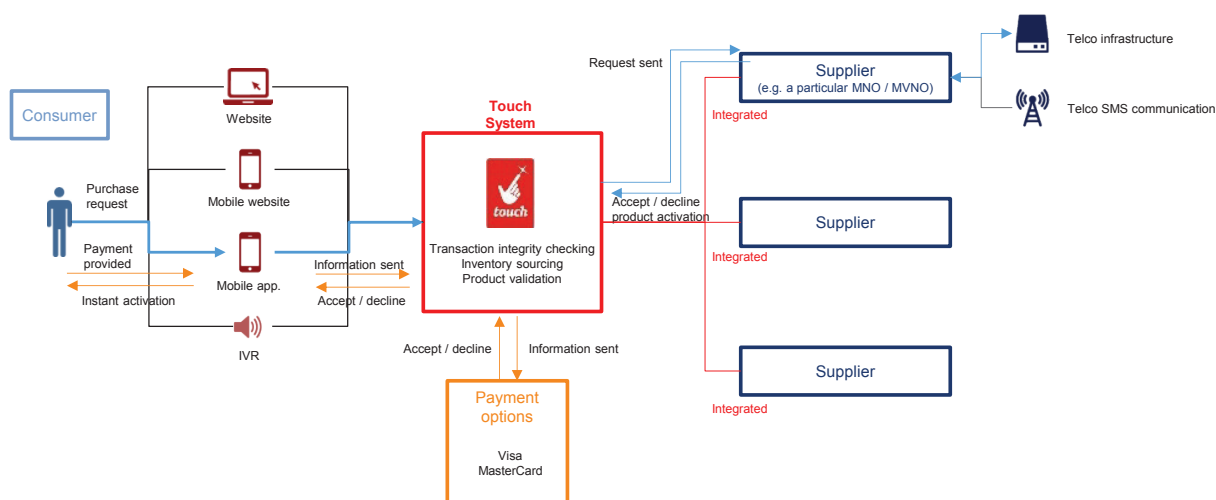


FIGURE 2  
ILLUSTRATES AN EXAMPLE OF A COMPLETED TRANSACTION  
IN THE MOBILITY SERVICES BUSINESS UNIT



## (b) Health and Government

Health and Government is an Australian focused part of Touchcorp's business. The Touch System Platform is used by the major banks such as NAB HICAPS, Commonwealth Bank, Suncorp and ANZ, in addition to Medicare and private health insurers.

The Touch System Platform enables a range of Medicare and private health insurer electronic claiming solutions which streamline the health claiming and payment processing for patients using Electronic Funds Transfer Point of Sale (EFTPOS) terminals.

The Touch System Platform is designed to streamline processing and payments of health insurance claims originating in medical and allied health practices in real-time at the point of service provision, using existing Electronic Funds Transfer Point of Sale (EFTPOS) payment terminals or practice management systems used by medical practitioners.

Figure 3 illustrates an example of a completed real-time transaction in the health and government services business unit.

This scenario outlines the process of a health and government services transaction. Following treatment, the consumer (ie. patient) is requested to pay for the services provided by the practitioner, and is also entitled to a Medicare rebate. The consumer presents a Medicare card and the transaction is processed on practice management system infrastructure that

is connected to the Touch System Platform through TouchPoint Technology. The Touch System Platform communicates directly with Medicare Australia, which assesses and then accepts the entitlement request and the Touch System Platform informs the bank to pay the Medicare rebate into the claimant's account.

## (c) Retail services

The Touch System Platform enables point of sale devices commonly found in merchant retail stores such as Electronic Funds Transfer Point of Sale ("EFTPOS") payment terminals, Electronic Cash Registers and self-service kiosks, to process and deliver transactions.

The types of transactions most commonly offered are electronic products such as mobile phone and data recharge vouchers, calling cards, iTunes cards, road tolls, transport tickets, gaming cards and fishing licences.

The Touch System Platform can be integrated with the merchant retailer's technology infrastructure to inform the merchant retailer's inventory management and accounting systems, in real-time, of any transactions conducted on the point-of-sale devices. Touchcorp can also perform transaction integrity services, and provide data analysis and reporting functions as required.

Figure 4 illustrates an example of a completed transaction in the retail services business unit.

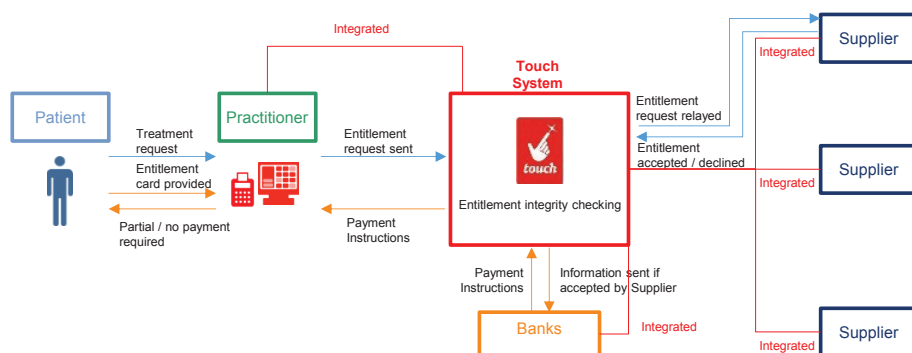


FIGURE 3  
ILLUSTRATES AN EXAMPLE OF A COMPLETED REAL-TIME TRANSACTION  
IN THE HEALTH AND GOVERNMENT SERVICES BUSINESS UNIT

## 5. Information on Touchcorp (continued)

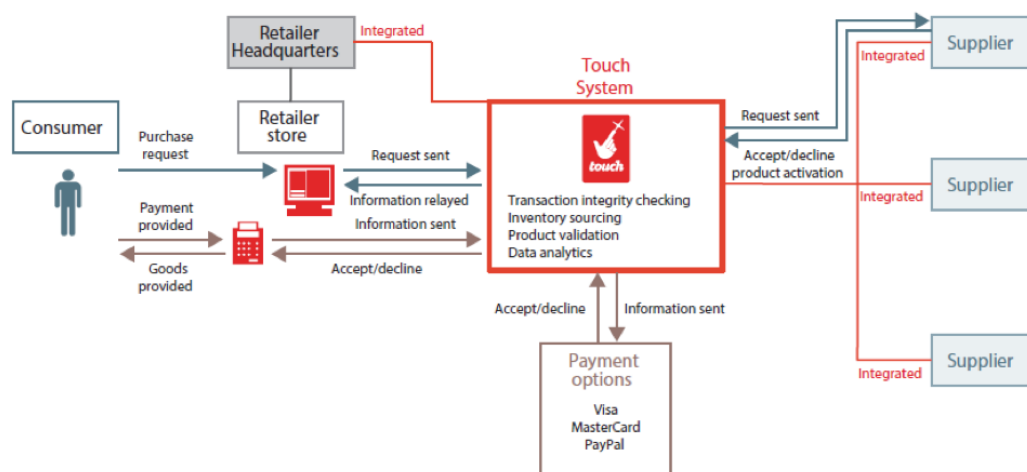


FIGURE 4  
ILLUSTRATES AN EXAMPLE OF A COMPLETED TRANSACTION  
IN THE RETAIL SERVICES BUSINESS UNIT

A consumer enters a merchant retailer's store, for example 7-Eleven, and requests to purchase an electronic product, for example a mobile phone recharge voucher, that is provided by a supplier, for example SingTel Optus Telecommunications in Australia. The merchant retailer selects the mobile phone recharge product on the point of sale device, the consumer pays the merchant retailer for the mobile phone recharge and the transaction between the consumer, merchant retailer and supplier is managed by Touchcorp.

As illustrated below, Touchcorp's retail services customers include a number of well-known convenience merchant retailers in Australia and Europe:

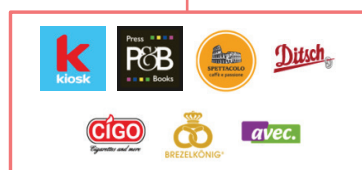
Touchcorp also has operations in Europe that provide electronic sale solutions for employment

insurance and money transfers, including supporting know your customer requirements, data collection and processing.

In order to support the supply programs managed through the Touch System Platform, Touchcorp has obtained, supports and maintain, a number of domestic and international certifications. For example, within the supply and management of health and government services transactions in Australia, Touchcorp requires the ongoing certification with the Information Security Registered Assessors Program ("IRAP"), meaning it must adhere to the Australian government's policies and guidelines as provided by the Australian Signals Directorate ("ASD") on information and communications technology ("ICT") services in support of Australian security. As at December 2015, Touchcorp meets these policies and guidelines through Touchcorp's continuous



valora



logistik consulting

tobaccoland

Reitangruppen



adherence to its ongoing, regular and independently audited compliance program. Touchcorp's compliance status is regularly audited by external, accredited IRAP auditors. By way of further example, Touchcorp also maintains PCI-DSS Level 1 Service Provider version 3.2 compliance for online payment processing on behalf of Touchcorp and its customers.

## 5.4

### Business model

Touchcorp generates revenue from four main sources:

- Transaction fees for the delivery of completed transactions;
- Integration fees for the connection of new customers to the Touch System Platform; and
- Integration fees for granting existing customers access to additional service models.
- Infrastructure fees for providing a bespoke Touch platform.

Touchcorp also generates additional revenue from marketing and advertising services, mostly from the sale of advertising space in the Touchcorp magazine, and providing other direct and indirect communications to merchant retailers and consumers.

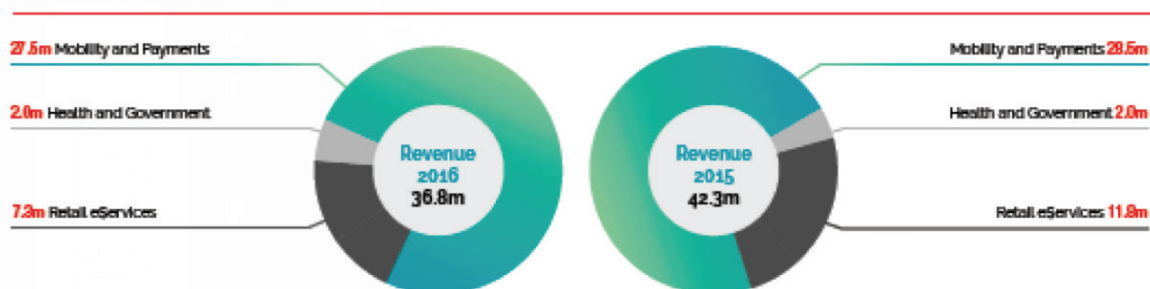
Touchcorp's expenses include:

- (a) cost of sales – includes direct expenses paid to third-party providers (such as banks, payment gateways, point-of-sale software providers or

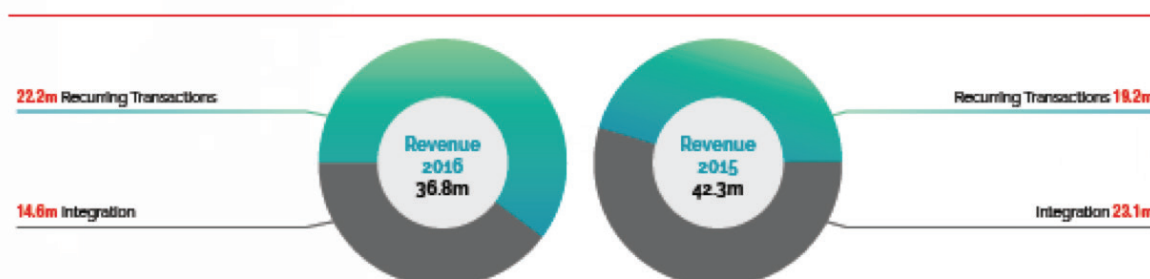
practice management software providers) that are paid a fee per transaction to allow the transaction to traverse their system, or who process one or more aspects of the Touchcorp transaction;

- (b) employee benefits expenses – associated with payments to Touchcorp's staff, including wages and salaries;
- (c) overheads and other indirect expenses – includes rent on premises, travel, accommodation, board costs, compliance, insurance and other similar expenses;
- (d) customer development expenses – those access fees or rebates paid to parties with whom Touchcorp seeks to co-operate to increase the number of transactions carried; and
- (e) depreciation and amortisation expenses – relate to the depreciation of computer hardware and infrastructure and amortisation of Touchcorp's intellectual property. Depreciation relates to writing-off physical plant and equipment according to Touchcorp's adopted accounting policies. Typically, the plant and equipment is written off either at purchase or over three or five years, depending on its useful life and initial purchase cost. The amortisation expense is the recognition of the write-down of the capitalised intellectual property on a five-year straight-line basis. Both the depreciation and amortisation expenses are expected to increase in absolute terms over time as a result of growth in Touchcorp's business.

#### REVENUE BY BUSINESS UNIT



#### REVENUE BY BUSINESS SERVICE



## 5. Information on Touchcorp (continued)

Over the year ended 31 December 2016, Touchcorp processed 72.8 million consumer self-service transactions.

### 5.5

#### Business strategic focus

Touchcorp believes that the market for a platform that securely processes transactions and enables the sale of products and services is large, and continues to grow, as companies expand their traditional retail footprint with their online business to increase their consumer market, reduce product distribution costs, as well as offer purchase point choices that meet the needs of the consumer.

Touchcorp's objective is to deliver long-term returns to shareholders in the form of strong revenue growth and profitability by increasing the number of completed payment transactions enabled by our payment processing capabilities. We will achieve this outcome by:

- Supporting organic growth in the businesses we currently serve - as existing customers generate large numbers of paying transactions.
- Increasing the number of customers and countries in which Touchcorp operates – for which we will also receive integration fees and transaction fees.
- Supporting innovative new businesses with our technology – for which we will receive integration fees and transaction fees that will grow over time.
- Consistently innovating to ensure we develop at the pace at which both customers and their consumers are evolving. This is particularly important to support the growing need for security protections and the desire for revenue assurance.

### 5.6

#### Growth in Touchcorp

In May 2000, a Touchcorp predecessor entity commenced operations to provide flexible payment and electronic product delivery solutions through a network of touchscreen kiosks for a major service station retailer. Since 2000, Touchcorp has invested significantly into research and development in order to develop its technical capabilities and satisfy the demands of its merchant retailers and end-consumers.

In 2003, Touchcorp began forming relationships with major Australian retail banks and integrated with their EFTPOS payment systems to enable merchant retailers to sell electronic products in-store, including electronic products supplied by major Australian telecommunications providers that were also integrated with the Touch System.

In 2006, Touchcorp established its health and government services business unit to enable medical and allied health practitioners to digitalise their payment claiming process in real-time and the point of service provision. Touchcorp now processes Medicare Easyclaim transactions on behalf of four Medicare Easyclaim approved Authorised Deposit-Taking Institutions with the Department of Human Services.

In 2010, Touchcorp established its mobility services business unit to enable consumer self-service payment processing methods.

Touchcorp's European operations commenced in 2005.

In 2014, Touchcorp began implementing the eServices platform in to a newly formed relationship with the Reitan Group in Scandinavia, with the first country implementation beginning in Reitan Norway. Touchcorp also developed the systems to support Afterpay.

In 2015, Touchcorp launched its internal platform that ties key data attributes from core Touch Systems and allows an opinion-based transaction integrity check to be performed against all transactions in real-time.

In 2016, Touchcorp launched its first online payments solution with Cornercard Bank, allowing consumers to reload their Cornercard accounts attached to both Swatch Bellamy watches and ApplePay accounts.

## 5.7

### Directors and senior management

The current directors of Touchcorp are:

**MICHAEL JEFFERIES,**  
EXECUTIVE CHAIRPERSON AND INTERIM  
CHIEF EXECUTIVE OFFICER

Michael Jefferies was appointed as the Non-Executive Chairperson of Touchcorp in June 2004. On 2 November 2016, Michael was also appointed as the Acting Chief Executive Officer and Managing Director of Touchcorp.

Michael is a chartered accountant with extensive experience in finance and investment including more than 20 years as an executive of Guinness Peat Group plc, an international investment group listed on the major stock exchanges in London, Australia and New Zealand. He is also a Non-Executive Director of Homeloans Limited, Ozgrowth Limited and is a Non-Executive Chairperson of Pantoro Limited, and has been a director of a number of listed public companies in Australia and New Zealand and has over 30 years of public company and finance experience. Michael was also a Non-Executive Director of Afterpay from 26 August 2015 until 6 April 2017.

**DUNCAN SAVILLE,**  
NON-EXECUTIVE DIRECTOR

Duncan Saville was appointed to the Touchcorp Board in October 2011.

Duncan is a chartered accountant and is currently Chairperson of ICM Limited, an international fund manager. In addition, he is Chairperson of Vix Technology Limited, Non-Executive Director of Cue Energy Resources Limited, New Zealand Oil and Gas Limited, Somers Limited and West Hamilton Holdings Limited. He was previously a Non-Executive Director of a number of listed entities. Due to Duncan's significant shareholding in Touchcorp, he is not considered independent.

Duncan has in excess of 30 years of public company and finance experience.

**ELANA RUBIN,**  
NON-EXECUTIVE DIRECTOR

Elana Rubin was first appointed to the Touchcorp Board in January 2015. Elana has been a longstanding director of a number of public and private companies, with extensive experience in property and financial services. Elana is currently a Non-Executive Director of Mirvac Limited and several unlisted companies. Elana was previously a Non-Executive Director of TAL Life Limited and was a Director of Bravura Solutions. Elana was the former Chair of AustralianSuper and the Victorian WorkCover Authority. Elana has over 20 years' experience in the property and financial services sector.

The current senior managers of Touchcorp are:

**NADINE LENNIE,**  
CHIEF FINANCIAL OFFICER

Nadine Lennie joined as the Chief Financial Officer of Touchcorp in January 2017. Prior to this Nadine was the Chief Financial Officer at Australia Pacific Airports Corporations which owns both Melbourne and Launceston Airports. Ms Lennie is a highly accomplished finance and governance leader with extensive experience and expertise in the development, implementation and communication of financial strategy. Ms Lennie has 20 years' experience in funds management and professional services sectors and holds a degree in economics (Actuarial Studies) from Macquarie University.

**MATHEW CAGNEY,**  
SALES AND MARKETING DIRECTOR AUSTRALIA PACIFIC

Mathew Cagney is the Sales and Marketing Director – Australia Pacific for Touchcorp, responsible for the sales and marketing strategy, client value and revenue. Mat brings to Touchcorp over five years of global sales experience and over a decade of sales management experience.

Prior to joining Touchcorp in 2016, Mat served as General Manager Sales and Marketing, General Manager EMEA (Europe Middle East and Africa), and General Manager Product. During this time, he drove sales and brand growth within Australia, New Zealand and beyond into Europe and Asia. Mat established global partnerships with a number of large software companies to scale internationally and also led a direct sales teams in Australia, Asia and the United Kingdom.

## 5. Information on Touchcorp (continued)

### **KEITH CLEEVE,** GENERAL MANAGER BUSINESS SOLUTIONS

Keith Cleeve founded Touchcorp with his brother Adrian and has been in his current position since 2013.

At Touchcorp, Keith is the business solutions and system architect where he assists in the development of a wide range of solutions that now constitute the Touch System Platform.

Keith started his career at Mobil Oil Australia initially as a programmer and subsequently has gained more than 38 years' experience across a wide range of technical and business roles.

Keith has a Bachelor of Science Degree from the University of Melbourne, a post graduate Information Technology Degree from Monash University and a Diploma of the Securities Institute of Australia.

If the Touchcorp Scheme does not proceed, the current senior management of Touchcorp will remain. If the Touchcorp Scheme is approved, the intentions of Afterpay Touch Group in relation to employees generally is set out in section 6.7.

## 5.8

### **Touchcorp Shares**

As at 24 April 2017, there were 131,903,568 Touchcorp Shares on issue.

## 5.9

### **Financial information**

#### **(a) Basis of preparation**

The following section contains certain historical financial information of Touchcorp. Touchcorp's historical financial information includes:

- The historical consolidated statements of comprehensive income for Touchcorp for the years ended 31 December 2014, 31 December 2015 and 31 December 2016;
- The historical consolidated statements of financial position for Touchcorp as at 31 December 2014, 31 December 2015 and 31 December 2016; and
- The historical consolidated statements of cash flows for Touchcorp for the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

(together, the "**Touchcorp Historical Financial Information**").

The directors of Touchcorp are responsible for the preparation of the Touchcorp Historical Financial Information. The Touchcorp Historical Financial Information included in this Scheme Booklet is intended to provide Touchcorp Shareholders with information to assist them in understanding the historical financial performance, cash flows and financial position of Touchcorp.

The Touchcorp Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in AAS issued by the Australian Accounting Standards Board, which is consistent with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

The Touchcorp Historical Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation, disclosures, statements and comparative information required by AAS applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The Touchcorp Historical Financial Information has been derived from the general purpose financial statements of Touchcorp for the years ended 31 December 2014, 31 December 2015 and 31 December 2016. The general purpose financial statements of Touchcorp for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 were audited by Ernst & Young in accordance with Australian Auditing Standards, and on which unqualified audit opinions were issued on these financial statements.

All amounts disclosed in the Touchcorp Historical Financial Information are presented in Australian dollars.

General purpose financial statements for Touchcorp for the financial years ended 31 December 2014, 31 December 2015 and 31 December 2016 are available free of charge on [www.touchcorp.com](http://www.touchcorp.com).

**(b) Historical consolidated statements of comprehensive income**

Below is Touchcorp's historical consolidated statements of comprehensive income for Touchcorp for the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16</b>
Rendering of Services	24,770,074	42,296,734	36,817,162
<b>Revenue</b>	<b>24,770,074</b>	<b>42,296,734</b>	<b>36,817,162</b>
Cost of sales	(5,478,120)	(6,993,220)	(10,816,220)
<b>Gross profit</b>	<b>19,291,954</b>	<b>35,303,514</b>	<b>26,000,942</b>
Other income	104,943	47,250	399,030
Government grants	1,589,740	111,776	62,615
<b>Total other income</b>	<b>1,694,683</b>	<b>159,026</b>	<b>461,645</b>
Employee benefits expense	(6,142,946)	(6,019,471)	(8,501,594)
Contractor expenses	(657,825)	(559,624)	(721,068)
Advertising expenses	(498,125)	(820,679)	(519,102)
Customer development expenses	(1,410,321)	(5,646,000)	(5,646,000)
Capital raising expenses	—	(3,569,033)	—
Travel & accommodation expenses	(980,359)	(942,190)	(742,242)
General & administrative expenses	(3,800,791)	(4,521,061)	(5,764,540)
Doubtful debts expense	(44,120)	(45,986)	(52,222)
Depreciation & amortisation expense	(818,240)	(1,216,937)	(3,851,833)
<b>Operating profit</b>	<b>6,633,910</b>	<b>12,121,559</b>	<b>663,986</b>
Interest expense	(321)	(4,240)	—
Interest revenue	67,367	161,726	146,233
Share of gain (loss) from an associate	—	(3,772,167)	14,261,392
<b>Profit before tax</b>	<b>6,700,956</b>	<b>8,506,878</b>	<b>15,071,611</b>
Income tax (expense) benefit	6,842,006	880,583	(3,499,228)
<b>Profit after tax</b>	<b>13,542,962</b>	<b>9,387,461</b>	<b>11,572,383</b>
Other comprehensive income	—	—	—
<b>Total comprehensive income</b>	<b>13,542,962</b>	<b>9,387,461</b>	<b>11,572,383</b>



## 5. Information on Touchcorp

(continued)

### (c) Historical consolidated statements of financial position

Below is a summary of the historical consolidated statements of financial position for Touchcorp as at 31 December 2014, 31 December 2015 and 31 December 2016.

	Dec-14	Dec-15	Dec-16
Cash and cash equivalents	2,653,602	9,496,095	27,745,731
Trade receivables	9,687,958	13,095,586	11,867,144
Other current assets	5,854,326	9,571,750	9,474,375
<b>Total current assets</b>	<b>18,195,886</b>	<b>32,163,431</b>	<b>49,087,250</b>
Deferred tax assets	6,842,006	7,722,589	4,223,361
Property, plant and equipment	1,667,267	2,099,552	2,893,953
Intangible assets	5,024,622	10,796,103	16,134,503
Investment in an associate	–	6,227,833	20,489,222
Financial assets	–	–	5,000,000
Prepayments	–	–	1,625,000
<b>Total non-current assets</b>	<b>13,533,895</b>	<b>26,846,077</b>	<b>50,366,039</b>
<b>TOTAL ASSETS</b>	<b>31,729,781</b>	<b>59,009,508</b>	<b>99,453,289</b>
Trade and other payables	(17,269,635)	(13,778,905)	(16,080,844)
Employee provisions	(792,491)	(1,141,287)	(1,147,654)
<b>Total current liabilities</b>	<b>(18,062,126)</b>	<b>(14,920,192)</b>	<b>(17,228,498)</b>
Long service leave provision	(119,084)	(70,307)	(96,224)
<b>Total non-current liabilities</b>	<b>(119,084)</b>	<b>(70,307)</b>	<b>(96,224)</b>
<b>TOTAL LIABILITIES</b>	<b>(18,181,210)</b>	<b>(14,990,499)</b>	<b>(17,324,722)</b>
<b>NET ASSETS</b>	<b>13,548,571</b>	<b>44,019,009</b>	<b>82,128,567</b>
Issued capital	37,212,869	58,491,021	83,439,656
Accumulated losses	(23,935,574)	(14,548,113)	(2,975,730)
Reserves	271,276	76,101	1,664,641
<b>TOTAL EQUITY</b>	<b>13,548,571</b>	<b>44,019,009</b>	<b>82,128,567</b>

**(d) Historical consolidated statements of cash flows**

Below is the historical consolidated statements of cash flows for the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

	<b>Dec-14</b>	<b>Dec-15</b>	<b>Dec-16</b>
Receipts from customers (inclusive of GST)	240,201,610	283,527,764	268,799,578
Payments to employees	(5,197,975)	(6,189,906)	(6,484,993)
Payments to suppliers (inclusive of GST)	(231,799,597)	(280,702,707)	(259,129,183)
<b>Net cash flows from / (used in) operating activities</b>	<b>3,204,038</b>	<b>(3,364,849)</b>	<b>3,185,402</b>
Interest received	67,367	161,726	146,233
Payments for recognised intangibles	(4,849,142)	(6,030,479)	(7,942,839)
Purchase of plant and equipment	(1,267,618)	(1,390,224)	(2,041,795)
<b>Net cash flows used in investing activities</b>	<b>(6,049,393)</b>	<b>(7,258,977)</b>	<b>(9,838,401)</b>
Proceeds from issue of shares	–	22,413,800	25,600,000
Payments for issue of shares	–	(2,378,448)	(734,740)
Proceeds from exercise of options	–	1,000,000	37,375
Capital raising expenses	–	(3,569,033)	–
<b>Net cash flows from financing activities</b>	<b>–</b>	<b>17,466,319</b>	<b>24,902,635</b>
<b>Net increase in cash and cash equivalents</b>	<b>(2,845,355)</b>	<b>6,842,493</b>	<b>18,249,636</b>
Cash and cash equivalents at beginning of the year	5,498,957	2,653,602	9,496,095
<b>Cash and cash equivalents at end of the year</b>	<b>2,653,602</b>	<b>9,496,095</b>	<b>27,745,731</b>

**5.10****Material changes in Touchcorp's financial position**

To the knowledge of Touchcorp's Directors, and except as disclosed elsewhere in this Scheme Booklet, the financial position of Touchcorp has not materially changed since 31 December 2016.

**5.11****Recent share price history**

The latest recorded price of Touchcorp Shares on ASX before the Merger Announcement was \$1.05.

The current price of Touchcorp Shares on ASX can be obtained from the ASX website ([www.asx.com.au](http://www.asx.com.au)) or [www.touchcorp.com](http://www.touchcorp.com).

**5.12****Publicly available information**

As an ASX listed company and a "disclosing entity" for the purposes of section 111AC(1) of the Corporations Act, Touchcorp is subject to regular reporting and disclosure obligations. Broadly these require it to announce price sensitive information to ASX as soon as it becomes aware of the information, subject to exceptions for certain confidential information. Touchcorp's most recent announcements are available from its website [www.touchcorp.com](http://www.touchcorp.com).

Further announcements concerning Touchcorp will continue to be made available on this website after the date of this Scheme Booklet.

ASX maintains files containing publicly available information about entities listed on their exchange. Touchcorp's files are available for inspection at ASX during normal business hours and are available on the ASX website ([www.asx.com.au](http://www.asx.com.au)).

Additionally copies of documents lodged with ASIC in relation to Touchcorp may be obtained from or inspected at an ASIC service centre. Please note ASIC may charge a fee in respect of such services.

The following documents are available for inspection free of charge prior to the Touchcorp Scheme Meeting during normal business hours at the registered office of Touchcorp:

- Touchcorp's Bye-laws;
- Touchcorp's annual report for the financial year ended 31 December 2016;
- Touchcorp's public announcements; and
- Touchcorp's interim report for the period ended 30 June 2016.

The annual and interim reports and public announcements are also available at [www.touchcorp.com](http://www.touchcorp.com).

## 6. Information on Afterpay Touch Group



## 6. Information on Afterpay Touch Group

The information in this section of the Scheme Booklet has been prepared by Afterpay Touch Group. The information concerning Afterpay Touch Group and the intentions, views and opinions contained in this section are the responsibility of Afterpay Touch Group.

To the maximum extent permitted by law, Touchcorp, Afterpay and their directors and officers do not assume any responsibility for the accuracy or completeness of this information except to the extent that Afterpay or Touchcorp has provided Afterpay Touch Group with information for the purpose of Afterpay Touch Group preparing information on the Merged Group following implementation of the Merger.

### 6.1

#### Overview of Afterpay Touch Group

The Merger will bring together the businesses of Afterpay and Touchcorp under the ownership of the Afterpay Touch Group.

Afterpay focusses on applying its technology to provide a customer and retail centric, omni channel retail service that facilitates commerce between retail merchants and their end-customers.

Afterpay delivers this by providing a platform that allows retail merchants to offer their end-customers the ability to buy products on a “buy now, receive now, pay later” basis without the end-customer having to:

- Apply for or enter into a traditional loan;
- Pay any additional amount (by way of interest or upfront fees to Afterpay) for the merchant’s products; or
- Provide extensive personal information that would likely cause delay or failure to complete a purchase.

Afterpay as a stand-alone, end-customer focused, entity has enjoyed strong growth since the company’s commercialisation in 2015 through the initial focus on Millennials as a target market and is now successfully expanding into broader and more traditional retail market segments.

The Touchcorp business has been operating for more than 10 years. Touchcorp has designed, built, owns and operates a proprietary software platform that is called the Touch System Platform. This Platform enables consumers to quickly and simply purchase products both in-store and directly via secure self-service methods and across mobile device applications, web sites, interactive voice recognition (IVR) systems and a variety of other methods.

The Touch System Platform is designed to minimise friction for merchant retailers and enhance the shopping experience for consumers. This allows merchant retailers to operate, and consumers to purchase goods and services without unnecessary

processes while having confidence that transaction services are consistently operational – with 100% uptime capability.

The Touch System Platform provides customers with competitive performance and cost advantages with sophisticated strategic and tactical fraud management capability. The Touch System Platform provides merchant retailers with the capacity to maximise transaction acceptance while minimising the cost of fraud to those merchant retailers. In some cases Touchcorp accepts fraud risk for merchant retailers.

The Afterpay Touch Group will build on this foundation of being heavily customer centric through the expansion of its established retail technology.

A flat and agile management structure and equity ownership model will be a feature of the Afterpay Touch Group. This will ensure a streamlined decision making platform that facilitates speed to market and positions Afterpay Touch Group as an employer of choice for the best talent.

### 6.2

#### Strategic priorities

The strategic priorities for the Afterpay Touch Group include:

- (a) **Accelerate the growth of the Afterpay business** in Afterpay Touch Group while maintaining the positive net transaction margin performance illustrated to date. Additional technology development resources will be dedicated towards the Afterpay product and market development activities to more rapidly capture the expansion opportunities that have become apparent since inception. A number of medium term business priorities have been established, namely:
  - Grow Afterpay’s in-store presence and capability to promote omni-channel opportunities to Afterpay’s online merchant base. The market opportunity in Australia alone is very large, with the size of the physical retail market still significantly larger (approximately \$304.9 billion) than the online retail market (\$21.7 billion). The inter-connectedness of online and physical retail is becoming increasingly apparent, however, as consumer buying habits evolve and demand for omni-channel shopping applications becomes more mainstream. A key aspect of Afterpay Touch Group’s strategy is to progressively develop the in-store Afterpay product to promote retail innovation opportunities and add value to Afterpay’s retail merchant clients and their customers.
  - Further penetrate new retail applications or verticals for the Afterpay product. To date, Afterpay has concentrated on physical product

## 6. Information on Afterpay Touch Group (continued)

markets such as fashion, homewares, lifestyle and electronics. Afterpay Touch Group sees significant opportunity and product alignment in developing an Afterpay presence in various e-Services markets. E-Services is a broad and very large market segment in Australia alone and covers multiple sub-verticals such as travel, health, education, ticketing, etc. Afterpay has already started making in-roads towards developing the Afterpay product for various e-services markets and this will continue to be a focus area for the Merged Group.

- International expansion is now a clear opportunity for the Afterpay product. This stems from the applicability of Afterpay's product to other retail markets and the ability to develop its transaction integrity capabilities in new geographies. A number of Afterpay's existing merchant clients maintain an international footprint and this provides logical direction as it relates to international expansion. A market expansion strategy into New Zealand has been underway for some time and Afterpay is actively exploring strategic partnership opportunities in other markets.
- With over 575,000 unique Afterpay customers already established in Australia, and continuing to grow at a rapid rate, the power of this network is significant from multiple perspectives. Afterpay's ability to serve its retail merchants from a both a transaction and information perspective remains a key priority. Afterpay has already demonstrated its ability to add material incremental sales and value to retailers and a number of strategies are in place to evolve and enhance the services Afterpay provides to its affiliated merchants. Additionally, a number of strategies have been developed to further engage and provide benefits to Afterpay's customer base and the Merged Group will focus on innovative, technology driven applications to deliver further benefits.

- (b) **Enhance the Touchcorp business recurring revenue streams in Afterpay Touch Group that are complementary to the Afterpay business** and from a financial perspective, provide an adequate return on investment. Focusing on areas of alignment with Afterpay is important because it will allow Afterpay Touch Group management to more effectively leverage the combined skills and productivity of the merged entity. Touchcorp's presence in some markets and customer relationships will advantage the Afterpay product as it further penetrates new verticals and geographies. Likewise, Afterpay's sales force, product packaging and go to market activities are expected to increase revenue opportunities over

time for key Touchcorp products. Touchcorp's key products and opportunities for complementary product development are illustrated below:

- **Mobility** – Touchcorp has developed a core product capability in relation to processing pre-paid mobile phone top-up transactions. In addition to transaction processing aspects, Touchcorp provides a revenue assurance service that reduces the exposure for the mobile phone operator from fraud and other related non-payment risks. Touchcorp has maintained a long-standing relationship with Optus to provide these services and this has been a growth area in recent years. Mobility client relationships are common to both Afterpay and Touchcorp and transaction integrity capabilities and disciplines are also complementary. Promoting Touchcorp's mobility services, separately or in combination with Afterpay products and services, will be a core focus of the Merged Group.
  - **Health** – Touchcorp has developed a strong technical capability in the Australian health sector. Touchcorp's health platform provides a number of transaction related services to banking groups and other participants in the health sector, including NAB, Commonwealth Bank of Australia and Suncorp. Touchcorp's platform provides services such as Medicare Easyclaim and Private Health Insurance claiming. Touchcorp's activities and relationships in the health sector are a source of opportunity and growth for the Merged Group. Additionally, they are complementary and applicable to introducing the Afterpay product to selected health care market segments. Afterpay has independently identified certain health care market segments as being attractive markets and this will be a focus for the Merged Group.
  - **E-Services** – Touchcorp enables electronic products to be offered and sold at the point-of-sale via retailers' existing Point of Sale (POS) and associated devices. Touchcorp's e-services activity supports approximately 7,500 merchants in Australia, including 7-Eleven and an additional 6,500 merchants in Europe including Valora. Touchcorp's history in developing technical POS integrations and presence in the physical retail space is complementary to Afterpay's omni-channel focus. Additionally, Touchcorp's international customer relationships, infrastructure and transaction experience is valuable from an Afterpay international expansion perspective.
- (c) **Streamline and enhance transaction integrity and data capabilities of Afterpay Touch Group.** Both the Touchcorp business and Afterpay business maintain a core focus

on developing transaction integrity and data capabilities to underpin various aspects of its businesses. From Afterpay's perspective, real-time fraud identification and repayment capability assessment is a key element of its value proposition to merchants. Touchcorp's mobility business likewise relies on an ability to identify and reject fraudulent transactions, also in real-time. Transaction integrity and data analytics is also relevant to many facets of both Afterpay's and Touchcorp's businesses and is the key ingredient to direct innovation and additional customer centric services in the future. In addition to having access to a broader and international data set, the merged entity has the opportunity to streamline and coordinate its transaction integrity and data related activities to increase the productivity of its resources, develop its intellectual property base and enhance future related business opportunities.

- (d) **The Merged Group will focus on developing proprietary, profitable, transaction based products** that are scalable in their markets and add to the transaction integrity and data capabilities of the combined group and will not devote resources to new activities that would not further those objectives. Activities that may not be a focus for the Merged Group going forward may include developing software and technology for third parties for a one-off development fee, developing software and technology for third parties where the IP is transferred to such third parties, and technology business incubation activities which do not relate to current core activities and revenue streams and where Afterpay Touch Group may not maintain a significant equity interest.
- (e) **Improve margins in both Afterpay and Touchcorp businesses** by utilising combined scale benefits to reduce variable input costs and other product delivery costs. The prospective Afterpay Touch Group management team has already identified several areas where efficiencies can be garnered for the benefit of the combined group. In addition to scale benefits, a vertically integrated structure and approach will improve how resources are utilised and directed towards the most profitable areas.
- (f) **Reduce merged entity overheads.** Removing duplicated activities in the Afterpay and Touchcorp businesses will be an immediate focus. Additionally, a vertically integrated structure and approach will reduce the support activities and expenditure required to operate the combined business.

#### Immediate strategic goals

- (a) Continue to profitably scale the Afterpay business. Grow sales while maintaining positive net transaction margins achieved to date.
- (b) Focus on growing and enhancing the margins on Afterpay and Touchcorp business recurring revenue streams by utilising combined scale benefits to reduce variable input costs and other product delivery costs.
- (c) Optimise allocation of technology development resources and reduce combined entity overhead costs to achieve positive net operating cash flows (on a run-rate basis) post-merger. A key financial goal of the merger is to enhance the profitability of the Afterpay and Touchcorp businesses while maintaining a rapid growth profile.
  - From an Afterpay product perspective, this means rapidly growing underlying sales at positive transaction margins without significantly adding to fixed overheads.
  - From a Touchcorp perspective, this means generating positive net operating cash flows from recurring revenue streams after the full allocation of overhead costs to those activities.
- (d) Insulating existing Afterpay capital, and complementing that capital by scaling the receivables debt facility already in place with National Australia Bank, to ensure scope for rapid future growth is maintained.
- (e) Utilise existing Touchcorp capital to facilitate restructuring activities and support future group investment.

## 6.3

### Rationale for Merger

Afterpay has grown rapidly since its commercialisation in 2015 and Initial Public Offering in May 2016. The opportunity to further significantly expand the Afterpay business is now clearly apparent and Afterpay has considerably developed its internal capabilities over this period to embrace this opportunity.

Having now achieved an initial leading presence in its field in the Australian market, the Board of Afterpay has concentrated on how best to position Afterpay Touch Group for the future and how best to maximise the opportunities that exist in Australia and international markets.

Afterpay has enjoyed a strong relationship with Touchcorp since inception. Afterpay commissioned Touchcorp to develop its technology and to process Afterpay's transactions on its behalf. This relationship has served both entities well, with significant shareholder value having been created as a result. The current scale of Afterpay and the future opportunities to develop the business means



## 6. Information on Afterpay Touch Group (continued)

that it is now considered more effective, however, for Afterpay to directly manage all aspects of its business in a vertically integrated structure, including future technology development activities and engaging directly with third parties as it relates to the delivery of its product.

Afterpay has sound contractual rights with Touchcorp as it relates to non-competition, the ownership of the Afterpay System and Afterpay transaction data, as well as perpetual licenses to utilise and access all relevant aspects of Touchcorp technology that interact with the Afterpay System. Further details of the SLDA are included in Section 9.2.1 of Afterpay's Replacement Prospectus dated 14 April 2016.

Afterpay and Touchcorp have enjoyed a mutually beneficial relationship since 2015. If the merger does not proceed, this relationship will continue to be governed under the SLDA as outlined in Afterpay's Replacement Prospectus dated 14 April 2016. However, if the Merger does not proceed, Afterpay management would not have an ability to directly add value across all aspects of its business. While Afterpay is today conducting a number of technology led initiatives outside of the Touchcorp relationship, direct access to the technology and technology development activities within a vertically integrated structure will unlock combined entity synergies that the Afterpay Board believes will ultimately be of greater benefit to Afterpay shareholders, namely:

- Allow the leadership team of Afterpay to be enhanced with key Touchcorp executives and for the combined management team to direct all aspects of the Afterpay and Touchcorp businesses;
- Provide additional scope for accelerating the growth profile of Afterpay through new verticals and geographies, leveraging off the core technology and team that currently exists;
- Benefit from incorporating profitable Touchcorp recurring revenue streams in relevant industry verticals and geographic markets and add to the future growth of those businesses because they are synergistic to Afterpay's existing activities;
- Enhance the intellectual property profile and transaction integrity capability of the combined group through access to a broader data set and a streamlined approach to data analytics; and
- Generate synergies through combined platform benefits, operational cost savings and a singular strategic focus;

The expanded skill set and resources of Afterpay Touch Group compared to the stand alone position of Afterpay or Touchcorp will result in a more resilient entity that is better positioned to withstand competitive forces going forward.

The creation of Afterpay Touch Group is, from both a structural a branding perspective, a reflection of the natural alignment and collaborative approach of the two foundation entities.

### 6.4

#### Directors and senior management of Afterpay Touch Group following the Merger

The following persons are directors of Afterpay Touch Group as at the date of this Scheme Booklet:

- David Hancock, Non-Executive Director
- Clifford Rosenberg, Non-Executive Director
- Elana Rubin, Non-Executive Director

The directors of Afterpay Touch Group following the Merger will be:

- Anthony Eisen, Executive Chairman
- Nicholas Molnar, Managing Director;
- Michael Jefferies, Non-Executive Director;
- David Hancock, Non-Executive Director;
- Clifford Rosenberg, Non-Executive Director; and
- Elana Rubin, Non-Executive Director.

Nadine Lennie will be the Chief Financial Officer of Afterpay Touch Group.

Refer to sections 4.9 and 5.7 for details on the directors and senior management.

### 6.5

#### Corporate governance

The Afterpay Touch Group Board is responsible for the corporate governance of the Merged Group. The Afterpay Touch Group Board monitors the operational and financial position and performance of Afterpay Touch Group and oversees its business strategy, including approving the strategic goals of Afterpay Touch Group and considering and approving its annual business plan and the associated budget. The Afterpay Touch Group Board is committed to maximising performance, generating appropriate level of shareholder value and financial return and sustaining the growth and success of Afterpay Touch Group. In conducting Afterpay Touch Group's business with these objectives, the Afterpay Touch Group Board seeks to ensure that Afterpay Touch Group is properly managed to protect and enhance shareholder interests and that Afterpay Touch Group, its directors, officers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Afterpay Touch Group Board have adopted a framework of corporate governance policies and practices, risk management practices and internal controls that it believes appropriate for Afterpay Touch Group's business.



The Afterpay Touch Group Board has committed to incorporating each of the ASX Corporate Governance Council's Revised Principles and Recommendations (**ASX Recommendations**) into its corporate governance policies (except as otherwise set out below). Afterpay Touch Group's corporate governance policies are summarised below and full details are available on Afterpay's website at [www.afterpay.com.au](http://www.afterpay.com.au).

#### (a) Board appointment and composition

It is the Afterpay Touch Group Board's policy that there should, where practicable, be a majority of Directors and that the office of Chair be held by an independent non-executive director.

The Afterpay Touch Group Board Charter sets out guidelines for the purpose of determining independence of directors in accordance with the ASX Recommendations and has adopted a definition of independence that is based on that set out in the ASX Recommendations. The Afterpay Touch Group Board considers an independent director to be a non-executive director who is not a member of Afterpay Touch Group's management and who is free of any business or other relationship that could materially interfere with the independent exercise of their judgement. The Afterpay Touch Group Board reviews the independence of each director in light of interests disclosed to the Afterpay Touch Group Board from time to time.

The Afterpay Touch Group Board considers that Michael Jefferies, David Hancock, Clifford Rosenberg and Elana Rubin are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the exercise of the director's unfettered and independent judgement and are able to fulfil the role of independent director for the purpose of the ASX Recommendations.

Anthony Eisen and Nicholas Molnar are currently considered by the Afterpay Touch Group Board not to be independent as they are executive directors, and will have substantial shareholdings in Afterpay Touch Group following the Merger.

#### (b) Afterpay Touch Group Board Charter

- The Afterpay Touch Group Board has adopted a written charter which sets out:
- the Afterpay Touch Group Board composition;
- the Afterpay Touch Group Board's role and responsibilities;
- the relationship and interaction between the Afterpay Touch Group Board and management; and
- the authority delegated by the Afterpay Touch Group Board to management and Afterpay Touch Group Board committees.

The Afterpay Touch Group Board's role is to, among other things:

- represent the interests of Afterpay Touch Group Shareholders by overseeing and appraising Afterpay Touch Group's strategies, policies and performance;
- provide strategic direction for, and approval of, corporate strategy and performance objectives;
- review and ratify systems of risk management, internal compliance and control, codes of conduct and legal and regulatory compliance to ensure appropriate compliance systems and controls are in place;
- monitor senior management's performance and implementation of strategy, and seek to ensure appropriate resources are available;
- approve and monitor the operational and financial position and performance of Afterpay Touch Group;
- approve and monitor the progress of major capital expenditure, capital management, acquisitions and divestments;
- approve and monitor budgets; and
- oversee control and accountability systems.

Matters which are specifically reserved to the Afterpay Touch Group Board or its committees include:

- appointment of the Chair;
- appointment and removal of the Managing Director;
- appointment of directors to fill a vacancy or as an additional director;
- establishment of Afterpay Touch Group Board committees, their membership and their delegated authorities;
- approval of dividends;
- review of corporate codes of conduct; and
- approval of major capital expenditure, acquisitions and divestments in excess of authority levels delegated to management.

The management function is conducted by, or under the supervision of, the Managing Director as directed by the Afterpay Touch Group Board. Management must supply the Afterpay Touch Group Board information in a form, timeframe and quality that will enable the Afterpay Touch Group Board to discharge its duties effectively. The Afterpay Touch Group Board collectively and any individual director may seek independent professional advice at Afterpay Touch Group's expense, subject to the reasonable approval of the Chair of the Afterpay Touch Group Board and the advice being made available to the Afterpay Touch Group Board as a whole.

#### (c) Afterpay Touch Group Board Committees

##### (i) Audit, Risk and Compliance Committee

Under its charter, this committee should comprise at least three directors a majority of whom must be independent where practicable, and all of whom must be non-executive directors (to the extent that

## 6. Information on Afterpay Touch Group (continued)

this is practical given the size and composition of the Afterpay Touch Group Board from time to time). The committee Chair must not be the Chair of Afterpay Touch Group. Members of the committee must comprise of persons who are financially literate and at least one member must be a qualified accountant or other financial professional with appropriate expertise in financial and accounting matters.

Following the Merger, the committee will comprise Michael Jefferies, David Hancock, Clifford Rosenberg and Elana Rubin. Each member is financially literate.

Accordingly, on completion of the Merger, the Audit, Risk and Compliance Committee will comply with the ASX Recommendation that all members be non-executive directors, at least a majority of whom are independent.

The primary role of the committee is to assist the Afterpay Touch Group Board to fulfil its responsibilities for Afterpay Touch Group's financial reporting, external audit, risk management systems and internal control structure. This includes:

- engaging in the oversight of Afterpay Touch Group's financial reporting, internal control, continuous disclosure, financial and non-financial risk and overseeing and reviewing the output of that process;
- assessing the appropriateness and application of Afterpay Touch Group's accounting policies and principles, and any changes to them, so that they accord with the applicable financial reporting framework;
- reviewing and approving Afterpay Touch Group's financial reports;
- reviewing all quarterly, half yearly and annual reports with management, advisors and the external auditors (as appropriate), and recommending the applicable accounts' adoption by the Afterpay Touch Group Board;
- overseeing the establishment of risk management and internal compliance and control systems and ensuring there is a mechanism for assessing the ongoing efficacy of those systems;
- reviewing the adequacy of risk management procedures to ensure they comply with legal obligations, including to assist the Managing Director and CFO to provide declarations required under Section 295A of the Corporations Act;
- make recommendations to the Afterpay Touch Group Board on the appointment and independence of the external auditor and consider the rotation of the audit partner and engagement of the external auditors; and
- meeting periodically with the external auditor and inviting them to attend committee meetings to assist the committee to discharge its obligations.

Pursuant to the charter, it is the policy that the external auditor must be independent and that the external auditor's independence be reviewed on an annual basis.

The committee may invite other directors, senior managers and representatives of the external auditor to attend committee meetings and may seek advice from external consultants.

### (ii) Remuneration and Nomination Committee

The charter of this committee provides that the committee should comprise at least three directors, where practicable a majority of whom (including the Chair) must be independent and all of whom must be non-executive directors (to the extent that this is practical given the size and composition of the Afterpay Touch Group Board from time to time).

Following the Merger, the Remuneration and Nomination Committee will comprise Michael Jefferies, David Hancock, Clifford Rosenberg and Elana Rubin.

Accordingly, on completion of the Merger, the Remuneration and Nomination Committee will comply with the ASX Recommendation that all members be non-executive directors, at least a majority of whom are independent.

The role of the committee is to assist the Afterpay Touch Group Board with fulfilling its responsibilities to Afterpay Touch Group Shareholders and other stakeholders to seek to ensure that Afterpay Touch Group:

- has coherent and appropriate remuneration policies and practices which enable Afterpay Touch Group to attract and retain directors and executives who will create value for Afterpay Touch Group Shareholders;
- fairly and responsibly remunerates directors and executives having regard to the performance of Afterpay Touch Group, the performance of the executives and the general market environment;
- has policies to evaluate the performance and composition of the Afterpay Touch Group Board, individual directors and executives on (at least) an annual basis with a view to ensuring that Afterpay Touch Group has a Afterpay Touch Group Board of effective composition, size and diversity, expertise and commitment to adequately discharge its responsibilities and duties;
- has adequate succession plans in place (including for the recruitment or appointment of directors and senior management); and
- has policies and procedures that are effective to attract, motivate and retain appropriately skilled and diverse people that meet Afterpay Touch Group needs and that are consistent with Afterpay Touch Group's strategic goals and human resource objectives.

The committee may seek advice and assistance where appropriate (for example, for the purpose of conducting the annual review process) from external consultants.

### (iii) Diversity Policy

The workforce of Afterpay Touch Group comprises individuals with diverse skills, backgrounds, perspectives and experiences and this diversity is valued and respected. To demonstrate Afterpay Touch Group's commitment to developing measurable objectives to achieve diversity and inclusion in its workplace, Afterpay Touch Group has implemented a Diversity Policy. Afterpay Touch Group's policy has meritocracy as a guiding principle, and seeks to align Afterpay Touch Group's management systems with its commitment to continue to develop a culture that values and achieves diversity in its workforce and on its Afterpay Touch Group Board.

In its annual report, Afterpay Touch Group will disclose the measurable objectives for achieving diversity and progress towards the policy's goals, and will also disclose the proportion of women in the whole organisation, women in senior positions and women on the Afterpay Touch Group Board.

### (iv) Continuous Disclosure Policy

Once listed, Afterpay Touch Group will be required to comply with the continuous disclosure obligations of the Listing Rules and the Corporations Act. Subject to the exceptions in the Listing Rules, Afterpay Touch Group will be required to disclose any information to the ASX that is not generally available and which a reasonable person would expect to have a material effect on the price or value of Afterpay Touch Group's securities.

Afterpay Touch Group is committed to observing its continuous disclosure obligations. Afterpay Touch Group has adopted a Continuous Disclosure Policy which establishes procedures that are aimed at ensuring that directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price sensitive information. Under the disclosure policy the Company Secretary will be responsible for managing Afterpay Touch Group's compliance with its continuous disclosure obligations.

In addition to being provided to the ASX, continuous disclosure announcements will also be available on Afterpay Touch Group's website at [www.afterpay.com.au](http://www.afterpay.com.au).

### (v) Shareholder Communications

The Afterpay Touch Group Board's aim is to ensure Afterpay Touch Group Shareholders are provided with sufficient information to assess the performance of Afterpay Touch Group and that Afterpay Touch Group

Shareholders are informed of all major developments affecting the affairs of Afterpay Touch Group in accordance with all applicable laws. In addition to Afterpay Touch Group's continuous disclosure obligations, Afterpay Touch Group recognises that potential investors and other interested stakeholders may wish to obtain information about Afterpay Touch Group from time to time and Afterpay Touch Group will communicate this information regularly to Afterpay Touch Group Shareholders and other stakeholders through a range of forums and publications.

Afterpay Touch Group is required by law to communicate to Afterpay Touch Group Shareholders through the lodgement of all relevant financial and other information with the ASX. This information will also be published on Afterpay Touch Group's website at [www.afterpay.com.au](http://www.afterpay.com.au).

Afterpay Touch Group's website will also contain information about Afterpay Touch Group, including media releases, key policies and charters of the Afterpay Touch Group Board and its committees.

### (vi) Securities Trading Policy

Afterpay Touch Group has adopted a policy to take effect from Listing for dealing in Afterpay Touch Group's Shares which will apply to the Merged Group's directors, officers, and employees.

The policy outlines the types of conduct in relation to dealing in Afterpay Touch Group Shares that are prohibited by the Corporations Act, and establishes procedures to minimise the risk of dealing in Afterpay Touch Group Shares in breach of those prohibitions.

Subject to certain exceptions, including severe financial hardship or during a period Afterpay Touch Group is complying with heightened disclosure requirements, the policy defines certain **prohibited periods** during which trading by directors, senior executives, staff involved in Afterpay Touch Group's financial reporting process and certain other employees (**Restricted Employees**) is prohibited. These prohibited periods are:

- Afterpay Touch Group's financial year end until the business day after Afterpay Touch Group releases its annual results to the ASX;
- Afterpay Touch Group's financial half year end until the business day after Afterpay Touch Group releases its half year results to the ASX; and
- any additional periods determined by the Afterpay Touch Group Board from time to time.

Outside of the prohibited periods, Restricted Employees must receive prior clearance for any proposed dealing in Afterpay Touch Group Shares. In all instances, buying and selling of shares is not permitted at any time by any person who possesses price-sensitive information.

## 6. Information on Afterpay Touch Group (continued)

In addition to the above restrictions, all directors and employees are prohibited from:

- short term trading in Afterpay Touch Group's securities (such as buying Afterpay Touch Group Shares with a view to selling them within 12 months, other than an acquisition of Afterpay Touch Group Shares upon exercise of options);
- buying Afterpay Touch Group Shares with a margin loan; or
- hedging exposure to unvested equity awards.

A copy of Afterpay Touch Group's security trading policy is available on its website [www.afterpay.com.au](http://www.afterpay.com.au).

### (d) Risk management policy

The identification and proper management of Afterpay Touch Group's risks are integral to successful execution of Afterpay Touch Group's strategies. The Afterpay Touch Group Board has adopted a risk management policy appropriate for its business. This policy sets out Afterpay Touch Group's commitment to designing and implementing systems and practices appropriate to minimise and control its risks.

The Afterpay Touch Group Board is responsible for overseeing and approving risk management strategy and policies, monitoring risk management, and ensuring that major business risks are identified, consistently assessed and appropriately addressed with the assistance of the Audit, Risk and Compliance Committee.

The Afterpay Touch Group Board has in place a system whereby management is required to report as to its assessment of risk management which the Afterpay Touch Group Board will review regularly.

### (e) Code of Conduct

The Afterpay Touch Group Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Afterpay Touch Group Board has adopted a code of conduct designed to:

- provide a benchmark for professional behaviour throughout the Merged Group;
- support Afterpay Touch Group's business reputation and corporate image; and
- make directors and employees aware of the consequences if they breach the Code of Conduct.

The Code of Conduct is to be followed by all employees and officers. The key aspects of this code are to:

- act fairly with honesty and integrity in the best interests of Afterpay Touch Group and in the reasonable expectations of Afterpay Touch Group Shareholders;

- act in accordance with all applicable laws, regulations, and Afterpay Touch Group policies and procedures;
- have responsibility and accountability for individuals for reporting and investigating reports of unethical practices; and
- use Afterpay Touch Group's resources and property properly.

The code of conduct sets out Afterpay Touch Group's policies on various matters including ethical conduct, business conduct, compliance, privacy, security of information and conflicts of interest.

## 6.6

### Afterpay Touch Group Incentive Plan

Afterpay Touch Group has adopted the Afterpay Touch Group Incentive Plan in order to assist in the motivation and retention of selected Afterpay Touch Group employees. The Afterpay Touch Group Incentive Plan is designed to align the interests of eligible employees more closely with the interests of Afterpay Touch Group by providing an opportunity for eligible employees to receive an equity interest in Afterpay Touch Group. Under the Afterpay Touch Group Incentive Plan, eligible employees may be offered performance rights, options, loan shares, deferred share awards or exempt share awards which may be subject to vesting conditions set by the Afterpay Touch Group Board.

The key terms of the Afterpay Touch Group Incentive Plan are summarised below. A copy of the Afterpay Touch Group Incentive Plan will be made available on Afterpay Touch Group's website at [www.afterpay.com.au](http://www.afterpay.com.au).

### (a) Afterpay Touch Group Employee Rights

Under the Afterpay Touch Group Incentive Plan, Afterpay Touch Group may offer or issue to eligible employees, the following Afterpay Touch Group Employee Rights:

- **performance rights:** a right to be issued or provided with an Afterpay Touch Group Share at nil issue price on specific vesting conditions being achieved;
- **options:** a right to be issued or provided with an Afterpay Touch Group Share on payment of an exercise price and which can only be exercised if specific vesting conditions are achieved;
- **loan shares:** Afterpay Touch Group Shares issued subject to a limited recourse loan and at nil interest rate, subject to specific vesting conditions ;
- **deferred share awards:** Afterpay Touch Group Shares issued to employees:
  - who elect to receive Afterpay Touch Group Shares in lieu of any wages, salary, director's fees, or other remuneration; or

- by Afterpay Touch Group in its discretion, in addition to their wages, salary and remuneration, or in lieu of any discretionary cash bonus or other incentive payment; or
- **exempt share awards:** Afterpay Touch Group Shares issued for no consideration or at an issue price which is a discount to the market price with the intention that up to \$1,000 (or such other amount which is exempted from tax under the Income Tax Assessment Act 1936 (Cth) or the Income Tax Assessment Act 1997 (Cth) from time to time) of the total value or discount received by each employee will be exempt from tax.

**(b) Eligible employees**

Afterpay Touch Group Employee Rights may be granted at the discretion of the Afterpay Touch Group Board to any person who is an employee, officer, director or consultant of a member of the Merged Group.

**(c) Price**

The Afterpay Touch Group Board has discretion to determine the issue price and/or exercise price for the Afterpay Touch Group Employee Rights.

**(d) Vesting and exercise of Afterpay Touch Group Employee Rights**

The Afterpay Touch Group Employee Rights held by a participant will vest in and become exercisable by that participant upon the satisfaction of any vesting conditions specified in the offer and in accordance with the rules of the Afterpay Touch Group Incentive Plan. Vesting conditions may be waived at the discretion of the Afterpay Touch Group Board.

**(e) Change of control**

In the event a takeover bid is made to acquire all of the Afterpay Touch Group Shares on issue, or a scheme of arrangement, selective capital reduction or other transaction is initiated which has an effect similar to a full takeover bid, the Afterpay Touch Group Board may waive unsatisfied vesting conditions in relation to some or all Afterpay Touch Group Employee Rights. Further, if a takeover bid is made to acquire all of the Afterpay Touch Group Shares on issue, participants may accept the takeover bid in respect of any Afterpay Touch Group Employee Rights (other than exempt share awards) which they hold notwithstanding the restriction period in respect of those Afterpay Touch Group Employee Rights has not expired.

**(f) Claw-back**

If any vesting conditions of an Afterpay Touch Group Employee Rights are mistakenly waived or deemed satisfied when in fact they were not satisfied, then in accordance with the terms of the Afterpay Touch Group Incentive Plan, the Afterpay Touch Group Board may determine that the relevant Afterpay Touch Group

Employee Rights expire (if not yet exercised), or it may otherwise recover from the participant some or all Afterpay Touch Group Shares issued upon exercise of the Afterpay Touch Group Employee Rights or any proceeds received from the sale of those shares.

**(g) Variation of share capital**

If prior to the exercise of an Afterpay Touch Group Employee Right, Afterpay Touch Group undergoes a reorganisation of capital or bonus issue, the terms of the Afterpay Touch Group Employee Right will be changed to the extent necessary to comply with the Listing Rules.

## 6.7

### Rights and liabilities attaching to Afterpay Touch Group Shares

The rights and liabilities attaching to ownership of the Afterpay Touch Group Shares are:

- detailed in the Afterpay Touch Group Constitution which is available online at [www.afterpay.com.au](http://www.afterpay.com.au); and
- in certain circumstances, regulated by the Corporations Act, the Listing Rules, the ASX Settlement Operating Rules and the general law.

A summary of the significant rights, liabilities and obligations attaching to Afterpay Touch Group Shares and a description of other material provisions of the Afterpay Touch Group Constitution are set out below. This summary is not intended to be exhaustive and is qualified by the fuller terms of the Afterpay Touch Group Constitution. This summary does not constitute a definitive statement of the rights and liabilities of Afterpay Touch Group Shareholders. This summary assumes Afterpay Touch Group is admitted to the official list of ASX.

**(a) Voting**

At a general meeting, every shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each fully paid Afterpay Touch Group Share held. On a poll, partly paid Afterpay Touch Group Shares (if any) confer a fraction of a vote pro-rata to the amount paid up on the Afterpay Touch Group Share.

**(b) Dividends**

Subject to any special terms and conditions of issue, the amount which the directors from time to time determine to distribute by way of dividend are divisible among the shareholders in proportion to the amounts paid up on the Afterpay Touch Group Shares held by them.

**(c) Issue of shares**

Subject to the Afterpay Touch Group Constitution, the Listing Rules and the Corporations Act, the



## 6. Information on Afterpay Touch Group (continued)

directors have the right to issue shares or grant options over unissued shares to any person and they may do so at such times as they think fit and on the conditions and the issue price they think fit. Such shares may have preferred, deferred or other special rights or special restrictions about dividends, voting, return of capital or otherwise, as the directors think fit.

### (d) Variation of class rights

Subject to the Corporations Act and the Listing Rules, the rights attached to any class of shares may, unless their terms of issue state otherwise, be varied:

- with the written consent of the holders of 75% of the shares of the class; or
- by a special resolution passed at a separate meeting of the holders of shares of the class.

### (e) Transfer of shares

Subject to the Afterpay Touch Group Constitution, the Corporations Act, the Listing Rules and to the rights or restrictions attached to any shares or class of shares, holders of Afterpay Touch Group Shares may transfer them by a proper transfer effected in accordance with the ASX Settlement Operating Rules or an instrument in writing in any usual form or in any other form that the directors approve.

The directors may decline to register a transfer of Afterpay Touch Group Shares for reasons including where the transfer is not in registrable form or where the refusal to register the transfer is permitted under the Listing Rules or the ASX Settlement Operating Rules. If the directors decline to register a transfer, Afterpay Touch Group must give the party lodging the transfer written notice of the refusal and the reason for refusal.

### (f) Small holdings

The directors may sell Afterpay Touch Group Shares on behalf of a Afterpay Touch Group Shareholder if that shareholder holds less than a marketable parcel of Afterpay Touch Group Shares, provided that the procedures set out in the Afterpay Touch Group Constitution are followed including offering an opt-out ability to all affected Afterpay Touch Group Shareholders. A non-marketable parcel of Afterpay Touch Group Shares is defined in the Listing Rules and is, generally, a holding of shares with a market value of less than \$500.

### (g) General meetings and notices

Subject to the Afterpay Touch Group Constitution and to the rights or restrictions attached to any shares or class of shares, each shareholder is entitled to receive notice of and, except in certain circumstances, to attend and vote at general meetings of Afterpay Touch Group and receive all financial statements, notices and other documents required to be sent to shareholders

under the Afterpay Touch Group Constitution or the Corporations Act.

### (h) Winding up

Subject to any special or preferential rights attaching to any class or classes of shares, the Afterpay Touch Group Constitution, the Corporations Act and the Listing Rules, shareholders will be entitled in a winding up to share in any surplus assets of Afterpay Touch Group in proportion to the shares held by them, less any amounts which remain unpaid on these shares at the time of distribution.

### (i) Directors – appointment and removal

The minimum number of directors is three and the maximum is to be fixed by the directors but may not be more than 10 unless Afterpay Touch Group passes a resolution varying that number. Directors are elected at annual general meetings of Afterpay Touch Group. Retirement will occur on a rotational basis so that any director who has held office for three or more years or three or more annual general meetings (excluding any managing director) retires at the annual general meeting of Afterpay Touch Group, and may stand for re-election. The directors may also appoint a director to fill a casual vacancy on the Afterpay Touch Group Board or as an addition to the Afterpay Touch Group Board, who will then hold office until the next annual general meeting of Afterpay Touch Group and may stand for re-election.

### (j) Directors – voting

Questions arising at a meeting of directors will be decided by a majority of votes of the directors present at the meeting and entitled to vote on the matter. Subject to the Listing Rules, in the case of a tied vote, the Chair has a second or casting vote, unless there are only two directors present or qualified to vote, in which case the proposed resolution is taken as having been lost.

### (k) Directors' remuneration

The directors, other than the executive directors, are entitled to be paid by such directors' fees for their services as the directors decide, provided that the total fees do not exceed the maximum aggregate sum of \$700,000 or such other amount as may be approved from time to time by Afterpay Touch Group Shareholders in general meeting. The Afterpay Touch Group Constitution also makes provision for Afterpay Touch Group to pay all expenses of directors in attending meetings and carrying out their duties and for the payment of additional fees for extra services or special exertions. Any change to that maximum aggregate sum needs to be approved by Afterpay Touch Group Shareholders.

**(l) Alteration of share capital**

Subject to the Listing Rules, the Afterpay Touch Group Constitution and the Corporations Act, Afterpay Touch Group may alter its share capital.

**(m) Variation of the Afterpay Touch Group Constitution**

The Afterpay Touch Group Constitution can only be amended by a special resolution passed by at least three quarters of shareholders present and voting at a general meeting of Afterpay Touch Group.

**(n) Share buy-backs**

Afterpay Touch Group may buy back shares in accordance with the provisions of the Corporations Act.

**6.8****Afterpay Touch Group's intentions if the Merger is implemented**

This section sets out Afterpay Touch Group's present intentions in relation to the continuation of the business of Afterpay, any major changes to be made to the business of Afterpay, including any redeployment of the fixed assets of Afterpay and the future employment of the present employees of Afterpay, if the Scheme is implemented.

The statements set out in this section are statements of present intention only and have been formed on the basis of facts and information concerning Afterpay (including certain non-public information made available by Afterpay to Afterpay Touch Group prior to the entry into the Merger Implementation Agreement) and the general business environment which is known to Afterpay Touch Group at the time of preparing this Scheme Booklet. Final decisions on these matters will only be made by Afterpay Touch Group in light of all material facts and circumstances at the relevant time. Accordingly, statements set out in this section which may change as new information becomes available or as circumstances change, and the statements in this section should be read in that context.

If the Merger and the Afterpay Scheme is implemented:

- Afterpay Touch Group will become the holder of all Afterpay Scheme Shares and Afterpay will become an indirectly wholly-owned Subsidiary of Afterpay Touch Group;
- Afterpay Touch Group will apply for Touchcorp and Afterpay to be removed from the official list of the ASX;
- Afterpay Touch Group will continue to operate the businesses which are currently being operated by Afterpay and Touchcorp. While Afterpay Touch Group does not intend to discontinue any of the current operations of Afterpay and Touchcorp, resources available to Afterpay Touch Group will

be directed to the activities within the Touchcorp and Afterpay businesses which will generate the best return on investment for Afterpay Touch Group shareholders.

Except for the changes and intentions set out in this section, following implementation of the Scheme Afterpay Touch Group intends, based on the information presently known to it:

- to continue the business of Afterpay;
- not to make any major changes to the business of Afterpay or the deployment of Afterpay's assets; and
- to continue the employment of Afterpay's employees.

**6.9****No dealing in Afterpay Shares in previous four months**

Except for the consideration to be provided under the Merger, during the period of 4 months before the date of this Scheme Booklet, neither Afterpay Touch Group nor any of its associates have provided or agreed to provide consideration for any Afterpay Shares under a purchase or agreement.

**6.10****Benefits to holders of Afterpay Shares**

Other than as set out above, neither Afterpay Touch Group nor any of its associates has given or offered to give or agreed to give a benefit to another person that was likely to induce the other person, or an Associate of that person to:

- vote in favour of the Afterpay Scheme; or
- dispose of Afterpay Shares,

during the period of 4 months ending on the date of this Scheme Booklet and which was not offered to all other Afterpay Shareholders.

**6.11****Afterpay Touch Group financial information**

This section contains the pro forma historical financial information of Afterpay Touch Group and has been provided in connection with the Merger.

**(a) Basis of preparation of the pro forma historical financial information**

This section contains the following pro forma historical financial information.

The pro forma historical financial information of Afterpay Touch Group includes:

- (i) The pro forma historical consolidated statement of financial position of Afterpay Touch Group as at



## 6. Information on Afterpay Touch Group (continued)

31 December 2016 (**"Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position"**); and

- (ii) The pro forma historical consolidated income statement of Afterpay Touch Group for the 12 months ended 31 December 2016 (**"Afterpay Touch Group Pro Forma Historical Consolidated Income Statement"**),

together, the **"Pro Forma Historical Financial Information"**.

The Afterpay Touch Group Pro Forma Historical Financial Information has been prepared solely for the purpose of inclusion in this Scheme Booklet.

The Afterpay Touch Group Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement requirements of AAS other than that it includes adjustments which have been prepared in a manner consistent with AAS that reflect (i) the exclusion of certain transactions that occurred in the relevant period and (ii) the impact of certain transactions as if they had occurred on 1 January 2016 in the Pro Forma Historical Consolidated Income Statement or on 31 December 2016 in the Pro Forma Historical Consolidated Statement of Financial Position.

The Afterpay Touch Group Pro Forma Historical Financial Information is presented in abbreviated form and does not include all of the presentation, disclosures, statements and comparative information as required by AAS applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position has been derived from the historical consolidated statements of financial position of Afterpay and Touchcorp as at 31 December 2016, adjusted for the pro forma adjustments. The historical consolidated statement of financial position of Touchcorp as at 31 December 2016 has been derived from the general purpose financial statements of Touchcorp for the year ended 31 December 2016, which was audited by Ernst & Young and upon which an unqualified audit opinion was issued, and the historical statement of financial position of Afterpay as at 31 December 2016 has been derived from the interim financial statements of Afterpay for the six months ended 31 December 2016, which was reviewed by Ernst & Young and upon which an unqualified limited assurance conclusion was issued. The Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position is prepared on the assumption that the proposed Merger was implemented as at 31 December 2016.

The Afterpay Touch Group Pro Forma Historical Consolidated Income Statement has been derived from the general purpose financial statements of Touchcorp for the year ended 31 December 2016 and from the general purpose financial statements of Afterpay for the year ended 30 June 2016 and interim financial statements for the six month periods ended 31 December 2016 and 31 December 2015, adjusted for the effects of the pro forma adjustments described below. The Afterpay Touch Group Pro Forma Historical Income Statement is prepared on the assumption that the proposed merger was implemented as at 1 January 2016.

In preparing the Afterpay Touch Group Pro Forma Historical Financial Information, no adjustments have been made for potential changes in the cost or operating structure resulting from the merger of Afterpay and Touchcorp.

Due to its nature, the Afterpay Touch Group Pro Forma Historical Financial Information does not represent Afterpay Touch Group's actual or prospective financial performance or position.

A preliminary comparison of the Touchcorp and Afterpay accounting policies has not identified any material differences in accounting policies. For the accounting policies of Touchcorp, please refer to the Touchcorp annual report for the year ended 31 December 2016 and for the accounting policies of Afterpay, please refer to the Afterpay annual report for the year ended 30 June 2016.

The Pro Forma Historical Financial Information set out in this section 6.11 should be read in conjunction with the risk factors set out in section 7 of this Scheme Booklet.

Ernst & Young Transaction Advisory Services Limited has been appointed as the Investigating Accountant to prepare an Independent Limited Assurance Report on the Pro Forma Historical Financial Information. The Independent Limited Assurance Report is set out in Annexure B of this Scheme Booklet. Afterpay Shareholders should note the scope and limitations of the Independent Limited Assurance Report.

(b) Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position  
as at 31 December 2016

\$A	As at 31 Dec 2016 Afterpay	As at 31 Dec 2016 Touchcorp	Notes	Pro Forma Adjustments	As at 31 Dec 2016 Pro Forma ATG
<b>Current Assets</b>					
Cash and cash equivalents	27,740,034	27,745,731		–	55,485,765
Trade and other receivables	38,798,290	11,867,144	(i)	(1,596,366)	49,069,068
Other current assets	5,768,250	9,474,375		–	15,242,625
<b>Total current assets</b>	<b>72,306,574</b>	<b>49,087,250</b>		<b>(1,596,366)</b>	<b>119,797,458</b>
<b>Non current assets</b>					
Deferred tax assets	1,555,695	4,223,361	(ii)	3,067,846	8,846,902
Property, plant and equipment	71,360	2,893,953		–	2,965,313
Intangible assets	10,936,820	16,134,503		–	27,071,323
Investment in an associate	–	20,489,222	(ii)	(20,489,222)	–
Financial assets	–	5,000,000		–	5,000,000
Prepayments	–	1,625,000		–	1,625,000
Goodwill	–	–	(iv)	14,687,996	14,687,996
<b>Total non current assets</b>	<b>12,563,875</b>	<b>50,366,039</b>		<b>(2,733,380)</b>	<b>60,196,534</b>
<b>TOTAL ASSETS</b>	<b>84,870,449</b>	<b>99,453,289</b>		<b>(4,329,746)</b>	<b>179,993,992</b>
<b>Current liabilities</b>					
Trade and other payables	(4,545,446)	(16,080,844)	(i) & (iii)	(803,634)	(21,429,924)
Employee provisions	(115,317)	(1,147,654)		–	(1,262,971)
Interest-bearing liabilities	(8,094,560)	–		–	(8,094,560)
<b>Total current liabilities</b>	<b>(12,755,323)</b>	<b>(17,228,498)</b>		<b>(803,634)</b>	<b>(30,787,455)</b>
<b>Non current liabilities</b>					
Long service leave provision	(10,945)	(96,224)		–	(107,169)
<b>Total non current liabilities</b>	<b>(10,945)</b>	<b>(96,224)</b>		<b>–</b>	<b>(107,169)</b>
<b>TOTAL LIABILITIES</b>	<b>(12,766,268)</b>	<b>(17,324,722)</b>		<b>(803,634)</b>	<b>(30,894,624)</b>
<b>NET ASSETS</b>	<b>72,104,181</b>	<b>82,128,567</b>		<b>(5,133,380)</b>	<b>149,099,368</b>
Issued capital	76,513,415	83,439,656	(iv)	(5,344,469)	154,608,602
Accumulated losses	(4,988,515)	(2,975,730)	(iii) & (iv)	1,875,730	(6,088,515)
Reserves	579,281	1,664,641	(iv)	(1,664,641)	579,281
<b>TOTAL EQUITY</b>	<b>72,104,181</b>	<b>82,128,567</b>		<b>(5,133,380)</b>	<b>149,099,368</b>

## 6. Information on Afterpay Touch Group (continued)

Whilst pro forma Cash and cash equivalents is \$55.5 million in the Pro Forma Historical Consolidated Statement of Financial Position as at 31 December 2016, Afterpay Touch Group expects that net cash outflow between 31 December 2016 and completion of the Merger will reduce this balance, including due to Touchcorp's investing cash outflows and Afterpay's operating cash flows. Pro forma Cash and cash equivalents should also be considered with reference to Merger Transaction Costs, Customer Development Expenses, and potential synergies, integration costs and costs of achieving synergies.

The following pro forma adjustments have been made for the purposes of illustrating the Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position as at 31 December 2016 as if the Merger had occurred on 31 December 2016

### (i) Group Intercompany Transactions and Balances

Touchcorp provides services to Afterpay under the SDLA. The intercompany receivable and payable balances of \$1.6m between Afterpay and Touchcorp at 31 December 2016 have been removed from the Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position.

### (ii) Investment of Touchcorp in Afterpay

In 2015, Touchcorp acquired 10 million shares representing a 35.7% interest in Afterpay. From this date Touchcorp accounted for its investment in Afterpay using the equity accounting method. During the year ended 31 December 2016, Afterpay undertook an initial public offering and subsequent capital raising. Touchcorp did not participate in these equity raisings and as a result Touchcorp's interest in Afterpay reduced from 35.7% to 27.7%. As a result there was a gain on the deemed disposal of this interest recorded in Touchcorp's Income Statement, together with Touchcorp's share of Afterpay's operating loss after tax. Touchcorp also recorded a deferred tax liability of \$3.1m as at 31 December 2016 in relation to its investment in Afterpay.

Following the Merger, Touchcorp will be considered to be a controlled entity of Afterpay under AAS, and as a result, Touchcorp's equity accounted investment balance and corresponding deferred tax liability have been removed from the Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position as at 31 December 2016. As noted below the gain on the deemed disposal of Touchcorp's interest in Afterpay has been removed from the Pro Forma Consolidated Income Statement for the 12 months ended 31 December 2016.

### (iii) Merger Transaction Costs

The Afterpay Touch Group anticipates the following non-recurring costs attributable to the Merger:

- Transaction costs related to the Merger and expected to be incurred by Afterpay post 31 December 2016 of \$1.1m which will be expensed; and
- Transaction costs related to the Merger expected to be incurred by Touchcorp post 31 December 2016 of \$1.3m which will be treated as pre-acquisition expenses.

These costs have been included in the Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position. The transaction costs incurred by Touchcorp increase the Goodwill on acquisition by \$1.3m (refer (iv) Goodwill on Acquisition below) and the transaction costs incurred by Afterpay increase Accumulated Losses by \$1.1m. The full amount of \$2.4m has been included as an adjustment in Trade and Other Payables.

For the purposes of the Afterpay Touch Group Pro Forma Historical Income Statement, the transaction costs incurred by Touchcorp and Afterpay have been presented at their gross amounts and have not considered the impact of any tax benefits arising from these transaction costs as the tax profile of the Afterpay Touch Group's tax consolidated group is not yet known at the date of this Scheme Booklet.

### (iv) Acquisition accounting and Goodwill on Acquisition

Given the relative market capitalisation of Afterpay and Touchcorp, together with the future anticipated Afterpay Touch Group Board and executive representation, Afterpay has been identified as the acquirer of Touchcorp and the Afterpay Touch Group Pro Forma Historical Financial Information has been prepared assuming acquisition of the Touchcorp business by Afterpay.

Goodwill arises as a result of the difference between the deemed purchase consideration less the fair value of the net assets of the Touchcorp business. The deemed purchase consideration has been based on Afterpay's share price of \$2.40, the share price at the close of business on 24 April 2017. The final purchase consideration will reflect Afterpay's actual share price at the completion of the Merger. The purchase consideration has been calculated as follows.

Number of shares issued to Touchcorp shareholders	81,776,044
Fair value of shares issued (\$)	196,262,504
Fair value of employee shares issued subject to non-recourse loans (\$)	1,832,683
<b>Total purchase consideration \$ (A)</b>	<b>198,095,187</b>

The fair value of the net assets of the Touchcorp has been determined as follows (amounts in \$).

Net assets at 1 December 2016	82,128,567
Less Afterpay investment in associate (note ii)	(20,489,222)
Add revaluation of shares in Afterpay to fair value	120,000,000
Add deferred tax liability associated with Afterpay investment (note ii)	3,067,846
Less Touchcorp transaction costs (note iii)	(1,300,000)
<b>Adjusted Touchcorp net assets (B)</b>	<b>183,407,191</b>
<b>Pro Forma Goodwill being (A) minus (B)</b>	<b>14,687,996</b>

The pro forma adjustments to issued capital reflect the elimination on consolidation of Touchcorp's issued capital and capital held by Touchcorp in Afterpay as shown in the table below (amounts are in \$).

Afterpay issued capital at 31 December 2016	76,513,415
Touchcorp issued capital at 31 December 2016	83,439,656
Add new ATG shares issued	196,262,504
Add fair value of converted ATG shares subject to non-recourse loans	1,832,683
Less elimination of shares on consolidation	(83,439,656)
Less Afterpay shares held as treasury shares	(120,000,000)
<b>Pro Forma Issued Capital</b>	<b>154,608,602</b>

Accumulated Losses have been adjusted to reflect the elimination on consolidation of the Touchcorp balance of \$3.0m as well as the additional Afterpay transaction costs of \$1.1m noted in (iii) Merger Transaction Costs above.

Reserves have been adjusted to reflect the elimination upon consolidation of the Touchcorp Reserves of \$1.7m.

AASB 3 requires all identifiable assets (including intangible assets and deferred tax balances) and liabilities that meet certain recognition criteria to be recognised in the Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position. The excess of the cost of the acquisition over and above the net fair value of the identifiable assets and liabilities is to be recognised as goodwill.

The acquirer is allowed a period of 12 months from the acquisition date to finalise the identification and valuation process and any resultant accounting adjustments. Afterpay Touch Group has not finalised the identification and valuation of Touchcorp's assets and liabilities, which will not be finalised until the transaction is implemented. For the purposes of preparing the Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position, except where otherwise stated, it has been assumed that the carrying value of assets and liabilities are equal to their fair value and that there will be no separately identifiable intangible assets other than those already recognised in the 31 December 2016 historical statements of financial position of Touchcorp and Afterpay.

Additional amortisation relating to identified intangible assets may arise as a result of the transaction and the finalisation of the accounting for the transaction has not been reflected in the Afterpay Touch Group Pro Forma Historical Financial Information.

For the purpose of preparing the Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position, it has been assumed that there will be no resetting of the Merged Group's tax cost bases following the acquisition. It is, however, likely that the allocable cost amount calculation will result in a deferred tax position which is different to the position presented in the Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position. Any resulting adjustment will have an equal but opposite impact on the amount of goodwill recognised.

## 6. Information on Afterpay Touch Group

(continued)

### (c) Afterpay Touch Group Pro Forma Historical Consolidated Income Statement for 12 months ended 31 December 2016

\$A	For the year ended 31 Dec 2016 Afterpay	For the year ended 31 Dec 2016 Touchcorp	Notes	Pro Forma Adjustments	For the year ended 31 Dec 2016 Pro Forma ATG
Revenue	7,174,207	36,817,162	(i)	(2,414,643)	41,576,726
Cost of sales	(1,406,662)	(10,816,220)	(i)	1,164,643	(11,058,239)
<b>Gross profit</b>	<b>5,767,545</b>	<b>26,000,942</b>		<b>(1,250,000)</b>	<b>30,518,487</b>
Other income	1,440,803	461,645		–	1,902,448
Employee expenses	(2,884,761)	(8,501,594)	(i)	1,250,000	(10,136,355)
General operating expense	(3,964,381)	(7,746,952)		–	(11,711,333)
Customer development expense	–	(5,646,000)		–	(5,646,000)
Bad and doubtful debts	(2,282,550)	(52,222)		–	(2,334,772)
Depreciation & amortisation	(2,668,116)	(3,851,833)		–	(6,519,949)
Interest	291,608	146,233		–	437,841
Share of gain (loss) from an associate	–	14,261,392	(ii)	(14,261,292)	–
<b>Net Profit (Loss) before Tax</b>	<b>(4,299,852)</b>	<b>15,071,611</b>		<b>(14,261,392)</b>	<b>(3,489,633)</b>
Income tax benefit (expense)	615,588	(3,499,228)	(ii)	3,067,846	184,206
<b>Net Profit After Tax</b>	<b>(3,684,264)</b>	<b>11,572,383</b>		<b>(11,193,546)</b>	<b>(3,305,427)</b>

The following pro forma adjustments have been included in the Pro Forma Historical Consolidated Income Statement for the year ended 31 December 2016 as if the Merger had occurred on 1 January 2016.

#### (i) Group transactions

Touchcorp provides services to Afterpay under the SDLA. During the year ended 31 December 2016, Touchcorp earned transaction fees totaling \$1.16m and \$1.25m for software development. The revenue and expenses recorded from Merged Group transactions have been removed from the Afterpay Touch Group Pro Forma Historical Consolidated Income Statement. The \$1.25m deducted from employee expenses, represents the development salaries which would otherwise be capitalised under the Touchcorp software development accounting policy.

#### (ii) Investment of Touchcorp in Afterpay

In 2015, Touchcorp acquired 10 million shares representing 35.7% interest in Afterpay. From this date Touchcorp accounted for its investment in Afterpay using the equity accounting method. During the year ended 31 December 2016, Afterpay undertook an initial public offering and subsequent capital raising. Touchcorp did not participate in these equity raisings and as a result Touchcorp's interest in Afterpay was reduced from 35.7% to 27.7%. A gain on the deemed disposal of this reduction in equity interest was recorded in the historical consolidated income statement of Touchcorp for the year ended 31 December 2016, together with Touchcorp's share of Afterpay's operating loss after tax. Touchcorp also recorded an income tax expense of \$3.1m in relation to its share of gain from investment in Afterpay.

Being the Excluded Shareholder, Touchcorp's Subsidiary will not dispose of its Afterpay Shares pursuant to the Afterpay Scheme and accordingly no capital gains tax consequences will arise to the Touchcorp Group from disposal.

The share of gain from an associate of \$14.3m and the corresponding income tax expense of \$3.1m have been removed from the Afterpay Touch Group Pro Forma Historical Consolidated Income Statement.

**(d) Items not reflected in the Afterpay Touch Group Pro Forma Historical Financial Information**

**(i) The Merger is expected to generate cost synergies and has the potential to generate revenue synergies**

The Merger is expected to result in cost savings for the Merged Group relative to Afterpay and Touchcorp operating on a stand-alone basis.

The management teams of Afterpay and Touchcorp expect to generate cost synergies in the first year of combined operations. The key drivers of these cost synergies include savings from the following areas:

- duplicated public company costs
- rationalisation of resources
- insurances
- general overheads and administrative costs
- transaction processing costs as a result of economies of scale

After the Merger is effective, management of the Afterpay Touchcorp Group will implement strategies to achieve these savings. It is expected that over a 12 month period, arrangements will be put in place to achieve 100% of the operational savings on a go forward basis. The management teams estimate that there will be one-off costs associated with achieving the cost synergies but that these will be significantly less than the synergies which can be achieved in the medium term.

In addition to the cost savings, the Merger has the potential to provide revenue synergies including:

- Cross selling of the Merged Group's complementary "pay later" and "pay now" products
- More focused relationships which can better leverage Touchcorp's innovative technology to meet customer payment and fraud management needs
- Leveraging an enlarged database for fraud and repayment capability

Synergy benefits which are expected to occur following implementation of the Merger, and the costs associated with achieving them, have not been included in the Afterpay Touch Group Pro-Forma Historical Financial Information for the 12 months ended December 2016.

**(ii) Taxation**

Following implementation of the Merger, Touchcorp and its wholly owned subsidiaries intend to join the Afterpay Touch Group's tax consolidated group. Under the tax consolidation regime, the existing tax base of each joining entity's assets will be reset, which may have an impact on the income tax expense and deferred tax balance. A detailed assessment of the consequences of joining the Afterpay Touch Group tax consolidated group will be undertaken following implementation of the Merger. These consequences have not been included in the Afterpay Touch Group's Pro Forma Historical Consolidated Financial Information.

Touchcorp's R&D tax incentive claim for the year ended 31 December 2014 is subject to an AusIndustry review. Touchcorp has responded to the information request and to date no further correspondence has been received from AusIndustry in relation to the information provided. The outcome of the AusIndustry review is not known as at the date of this report.

**(iii) Customer Development Expense**

Customer development expenses are business development fees, access fees or rebates paid to a party with whom Touchcorp seeks to co-operate to increase the number of transactions carried on the Touch System Platform. Afterpay Touch Group's Pro Forma Historical Consolidated Income Statement for the 12 months ended December 2016 assumes that this expenditure is expected to increase gross revenue through the winning of new business in future years. The Afterpay Touch Group intends to review this expenditure after the Merger to ensure that its categorisation remains consistent with the strategy for the Merged Group. Touchcorp is party to a 5 year contract in which monthly amounts are paid in relation to the delivery of current revenue generating services as well as new opportunities to increase the transactions processed and consequential revenue. As at 31 December 2016, total payments remaining under the existing contract to December 2019 total \$10.9m with prepaid amounts of \$4.9m included as an asset as at 31 December 2016. Should future revenue opportunities not arise as expected and the contract is determined to be onerous in the future, monthly payments will continue over the remaining contract term, however, an expense calculated as prepaid amounts plus future required payments less anticipated future revenues would be recorded as a one off expense.



## 6. Information on Afterpay Touch Group (continued)

### (iv) Employee Incentives

There was an additional 400,000 shares issued to employees of Touchcorp under the Employee Incentive Plan on 21 April 2017 in the ordinary course and not in connection with the Merger. These were awarded in the form of loan shares, issued with an exercise price equal to the closing Touchcorp share price on 28 April 2017, vesting on 31 December 2017. The fair value of the shares assuming the vesting conditions are met have a fair value of \$0.2m. No adjustment to the Afterpay Touch Group Pro Forma Historical Consolidated Income Statement or the Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position has been made for the issue of these shares. The additional \$0.2m will be recognised in the Afterpay Touch Group Consolidated Income Statement as an increase in share based payments expense and share based payments reserve over the vesting period.

As outlined in section 3.25, within the first 12 months following implementation of the Merger, the board of Afterpay Touch Group intends to establish appropriate incentive and remuneration arrangements for executive directors and employees of the Afterpay Touch Group. As part of this process, the current intention is to issue up to 12 million Afterpay Touch Group loan shares, under the terms of the Afterpay Touch Group Incentive Plan, to appropriately remunerate and incentivise executive directors and employees of the merged entity.

No adjustment to the Afterpay Touch Group Pro Forma Historical Consolidated Income Statement or the Afterpay Touch Group Pro Forma Historical Consolidated Statement of Financial Position has been made for these loan shares.

### (v) Updated Trading Performance

The Afterpay Touch Group Pro Forma Historical Consolidated Income Statement has not been adjusted to reflect the:

- trading of either Touchcorp or Afterpay since 31 December 2016;
- synergy benefits which are expected to occur following the Merger, or integration costs or the costs of achieving synergies (refer to paragraph d(i) above);
- additional depreciation and amortisation relating to identified tangible and intangible assets which may arise as a result of the transaction and the finalisation of the accounting for the transaction in accordance with AASB 3.

In addition to the above, the estimated transaction costs of approximately \$1.1m for Afterpay and approximately \$1.3m for Touchcorp, which are considered to be one-off in nature, have not been reflected in the Afterpay Touch Group Pro Forma Historical Consolidated Income Statement. The transaction costs are an estimate of the costs incurred that are directly related to the Merger, including fees payable by Afterpay and Touchcorp to advisers.

## 6.12

### No other material information

Except as disclosed elsewhere in this Scheme Booklet, there is no other information that is material to the making of a decision in relation to the Afterpay Scheme, being information that is within the knowledge of any director of Afterpay Touch Group, at the date of this Scheme Booklet, which has not previously been disclosed to Afterpay Shareholders.



## 7. Risk factors



## 7. Risk Factors

The Merger and Afterpay Scheme present a number of potential risks that Afterpay Scheme Shareholders and Touchcorp Shareholders should consider when deciding how to vote on the Merger. If the Scheme is implemented, Afterpay Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive Afterpay Touch Group Shares. If the Touchcorp Scheme is implemented, Touchcorp Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive Afterpay Touch Group Shares. The value of the Scheme Consideration to Afterpay Scheme Shareholders, and the Touchcorp Scheme Consideration to Touchcorp Scheme Shareholders, will depend on the price of Afterpay Touch Group Shares following implementation of the Merger.

In addition, upon the Merger being implemented, the Afterpay and Touchcorp businesses will be owned by Afterpay Touch Group, and both Afterpay Scheme Shareholders and Touchcorp Scheme Shareholders will become Afterpay Touch Group Shareholders. As a result, Afterpay Shareholders will continue to be exposed to the risks associated with having an interest in Afterpay and will additionally be exposed to the risks associated with an interest in Touchcorp. Similarly, Touchcorp Shareholders will continue to be exposed to the risks associated with having an interest in Touchcorp and will have a larger exposure to the risks associated with an interest in Afterpay. There are also additional risks that Afterpay Touch Group Shareholders will be exposed to as a result of holding Afterpay Touch Group Shares if the Merger becomes effective.

There are many risk factors that could adversely affect the Merged Group's business, operations, financial performance, cash flows and prospects which will consequently affect the price of Afterpay Touch Group Shares. Although Afterpay Touch Group will have in place a number of strategies to minimise the exposure to, and mitigate the effects of, some of the risks outlined in this section 7, there can be no assurance that such arrangements will protect Afterpay Touch Group fully from such risks. In addition, certain risks will remain outside the control of Afterpay Touch Group.

The risk factors described in this section 7 outline some of the key, but not all, risks associated with an investment in Afterpay Touch Group. The outline of risks in this section is a summary only and should not be considered exhaustive.

You should carefully consider the following risks as well as the other information contained in this Scheme Booklet before voting on the Scheme. This section 7 does not take into account the investment objectives, financial situation, taxation position or particular needs of Scheme Shareholders.

### 7.1

#### Risks relating to the implementation of the Afterpay Scheme and the Merger

##### (a) Approval of the Afterpay or Touchcorp Scheme

There is a risk that the Touchcorp Scheme or the Afterpay Scheme may not be approved by the requisite majorities and/or sanctioned by the Bermuda Court or approved by the Australian Court, respectively. If either the Touchcorp Scheme is not approved or sanctioned or the Afterpay Scheme is not approved, the Merger will not proceed. See section 2 for information on consequences for Afterpay Shareholders if the Merger does not proceed.

##### (b) Market value of the Scheme Consideration

Under the terms of the Afterpay Scheme, Afterpay Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive 1 Afterpay Touch Group Share for each Afterpay Share they hold as at the Record Date. The value of the Scheme Consideration that would be realised by individual Afterpay Shareholders will depend on the price at which Afterpay Touch Group Shares trade on the ASX after the Implementation Date.

For Ineligible Foreign Shareholders, the value of the consideration they will receive will depend on the price realised by the Sale Nominee in respect of the sale of Afterpay Touch Group Shares attributable to the Ineligible Foreign Shareholders.

Some of Afterpay's Shareholders may not intend to continue to hold the Afterpay Touch Group Shares received under the Scheme and may wish to sell them on the ASX soon after the Implementation Date. In addition, the Sale Nominee will sell Afterpay Touch Group Shares on the ASX as soon as reasonably practicable after the Implementation Date. There is a risk that such sales may exert downward pressure on the price of Afterpay Touch Group Shares in the short term.

In any event, there is no guarantee regarding the market price of the Afterpay Touch Group Shares when they commence trading on ASX. Future market prices may either be above or below current or historical market prices. Information about the current trading prices of Afterpay Touch Group Shares may be obtained from [www.asx.com.au](http://www.asx.com.au).

##### (c) Integration risk and realisation of synergies

There is a risk that the Merged Group's success and profitability could be adversely affected if Afterpay's business is not integrated effectively with Touchcorp's business. The integration of Afterpay and Touchcorp into the Merged Group may encounter unexpected challenges or issues. These include (but are not limited to) a failure to obtain necessary consents or

unexpected delays, challenges, liabilities and costs in relation to, but not limited to, integrating operating and management systems such as IT, information or accounting systems, or that it diverts management attention or does not deliver the expected benefits (including synergy benefits) and this may affect the Merged Group's operating and financial performance.

There is a risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated (see section 6.11 for further information on synergies that may result from the Merger). Any failure to achieve targeted synergies may impact on the financial performance and position of the Merged Group and the future price of Afterpay Touch Group Shares. Possible problems may include:

- disruption to the ongoing operations of both businesses;
- higher than anticipated integration costs;
- unforeseen costs relating to integration of IT platforms, network capabilities, management information systems and financial and accounting systems of both businesses;
- unintended loss of key personnel or expert knowledge or reduced employee productivity due to uncertainty arising as a result of the Merger; and
- unforeseen costs or disruption as a result of the transition of Afterpay and Touchcorp into Subsidiaries of Afterpay Touch Group.

#### **(d) Contract risk**

Some contracts to which Afterpay or Touchcorp is a party may contain 'change of control' provisions (or equivalent) that could be triggered by implementation of the Merger, allowing the counterparty to renegotiate or terminate the contract. If a counterparty to any such contract were to terminate or seek to renegotiate the contract this may have an adverse effect on the Merged Group, depending on the relevant contract.

#### **(e) Due diligence**

Before executing the Merger Implementation Agreement, Afterpay and Touchcorp undertook a due diligence exercise on each other for the purpose of negotiating the terms of the Merger.

Whilst Afterpay and Touchcorp decided to proceed with the Merger following that due diligence exercise, there is a risk that any assumptions made during the due diligence period may prove to be false or incorrect.

Furthermore, after implementation of the Merger, the Merged Group will be subject to any unknown liabilities of either Afterpay or Touchcorp which may have an adverse effect on the Merged Group's performance and financial condition.

#### **(f) Change in risk and investment profile**

After implementation of the Afterpay Scheme and Merger, Scheme Shareholders (other than Ineligible Foreign Shareholders) will be exposed to additional risk factors relating to Touchcorp, and to certain additional risks relating to the Merged Group and the integration of the two businesses as set out in section 7.2.

Whilst the operations of Afterpay and Touchcorp are similar in a number of ways, the portfolio of merchant clients and end customers, capital structure and size of the Merged Group will be different from that of Afterpay currently.

#### **(g) Risks for Shareholders if the Afterpay Scheme and the Merger do not proceed**

If the Afterpay Scheme (and effectively, the Merger) does not proceed and no other acceptable proposal is received, Afterpay will continue on a stand-alone basis and Shareholders will retain their Shares. In these circumstances the price at which Shares may trade on the ASX is uncertain.

As a stand-alone business, Afterpay will continue to rely heavily on the arrangements with Touchcorp under the SDLA. The SDLA sets out both Afterpay's and Touchcorp's ownership rights in relation to the respective business' intellectual property and technology. Afterpay would rely on Touchcorp to continue to develop Afterpay's software and systems, provide hardware and support, and to assist with integration of new retail merchants onto the Afterpay system. Afterpay would also continue to rely on Touchcorp in relation to the ongoing day-to-day operations of Afterpay's business, including processing of all Afterpay transactions.

Other risk factors in respect of the Afterpay business that Shareholders will remain exposed to if the Afterpay Scheme and the Merger do not proceed, include:

- loss of key retail merchant clients for various reasons like failing to meet contractual or commercial requirements, clients changing to competitor services, or termination for convenience of a contract by a client;
- exposure to bad debts due to end customers failing to meet their repayments for purchases, which is a major expense for Afterpay that may adversely impact Afterpay's profitability;
- requiring additional capital to support Afterpay's instalment payments receivables book and working capital; and
- exposure to operational risks arising from the daily functioning of Afterpay's business including in connection with legal and regulatory compliance, process error, fraud, system failure, failure of security and physical protection systems, improper business practices, human error and pricing

## 7. Risk Factors

(continued)

risk. Any failure to manage operational risks may materially adversely impact Afterpay's reputation, business, operations and financial performance.

Further, Afterpay will have incurred significant transaction costs in relation to the proposed Scheme even if it does not proceed. These costs may include paying a break fee of \$750,000 to Touchcorp in certain circumstances, as set out in the Merger Implementation Agreement. See section 9.10 for further information on the break fee.

### 7.2

#### Risks specific to the Merged Group

The following risk factors are relevant to one or both of Afterpay and Touchcorp as stand-alone businesses. Accordingly, they will continue to be relevant to the Merged Group if the Merger is implemented.

##### (a) Loss of key contracts and relationships

The Merged Group will depend on Afterpay and Touchcorp each continuing their contracts and relationships with their respective significant merchant clients and end customers. There can be no guarantee that these contracts and relationships will continue or, if they do continue, that these contracts and relationships will continue to be successful. For example, Afterpay's contracts with retail merchant clients can generally be terminated for convenience on relatively short notice by either party, and so Afterpay does not have long term contracted revenues. In respect of Touchcorp in most instances, the agreements with Touchcorp's suppliers or merchants are contracted with a fixed end date. There is the risk that Touchcorp may be unable to secure contract renewals at that time for reasons including a failure to agree on the terms and conditions of the new contract or if the requirements of the new contract are not satisfied.

The Merged Group may lose merchant clients and end customers for a variety of reasons including a failure to meet key contractual or commercial requirements, or retail merchant clients shifting to in-house solutions or competitor service providers. The loss of a number of the Merged Group's key merchant clients and end customers may materially and adversely impact the Merged Group's revenue and profitability, and increase marketing expenses to sign up new merchant clients and end customers to replace those lost.

Depending on the reason for the loss of a key merchant client or end customer, it may also have a negative impact on the Merged Group's reputation with other merchant clients and with end customers. There is also a risk that new agreements formed with merchant clients and end customers in the future may be less favourable to the Merged Group including in relation to pricing and other key terms, due to unanticipated changes in the market in which the Merged Group operates.

##### (b) Exposure to Afterpay's end customer bad debts

A major part of the Merged Group's operations and earnings will depend on Afterpay's "buy now, receive now, pay later" service provided to end customers and Afterpay's ability to recoup the purchase value of products from end customers (see section 6 for further information on the Merged Group's operations). Afterpay's profitability in providing this service depends on its ability to put in place and optimise its systems and processes to make predominantly accurate, real time decisions in connection with the end customer transaction approval process. End customer non-payment is a major component of Afterpay's expenses at present, and Afterpay is currently exposed to end customer bad debts as a normal part of its operations. However, excessive exposure to bad debts through end customers failing to meet their repayments to Afterpay will materially and adversely impact Afterpay's profitability and accordingly, of the Merged Group.

Afterpay also has exposure, although much more limited, to the potential insolvency of a merchant client to which Afterpay has advanced funds. Exposure occurs in the period of time between the advance of funds to a merchant client for an end customer's purchase of goods and the merchant shipping the goods to the end customer (at which point Afterpay is entitled to payment from the end customer). This period is typically only a few days at most and so is unlikely to represent a material risk to Afterpay and accordingly, the Merged Group.

##### (c) Fluctuation in revenue and profitability generated by Touchcorp due to variability in completed transaction volumes

The Merged Group's revenue and profitability will be directly impacted by any fluctuations in the revenue and profitability of Touchcorp which will be one of the two operating Subsidiaries in the Merged Group. A significant amount of Touchcorp's revenue is generated on a 'per successful transaction fee' basis and consequently, the use of the Touch System by its merchants is critical to the ongoing profitability of Touchcorp.

Contracts are a pre-condition to, but do not guarantee, the volume of completed transactions. The number of end customers or the frequency with which those customers will use the Touch System is beyond the control of Touchcorp. Touchcorp's merchants' and suppliers' market positions may also deteriorate due to aggressive marketing by their competitors, which may reduce the volume of transactions executed by end customers accessing the Touch System. Touchcorp cannot predict with any certainty the number of end customers or the frequency with which those customers will use the Touch System. In the event that completed transaction volumes are

less than expected, this may materially adversely impact Touchcorp's revenue and profitability, and accordingly, of the Merged Group.

Furthermore, not all completed transactions are equally profitable due to differences in fees for different services provided by Touchcorp to its merchants and suppliers across Touchcorp's business units (see section 5.3 for information on Touchcorp's business units). Consequently, there is a risk that an increase in overall completed transaction volumes may not necessarily result in a corresponding proportional increase in Touchcorp's revenue or profitability, and accordingly, of the Merged Group.

**(d) Afterpay's NAB Facility**

Afterpay has financing arrangements with National Australia Bank (**NAB Facility**) to support Afterpay's funding of purchases by end customers. Following completion of the Merger, the Merged Group will assume the liabilities under the NAB Facility and will be exposed to the risks relevant to the NAB Facility through Afterpay's business.

As of April 2017, the NAB Facility limit is \$40 million following National Australia Bank's approval of a \$20 million increase to the facility on top of its initial commitment of \$20 million to Afterpay in December 2016. See section 4.4 for further information on the funding of Afterpay's business.

In the unlikely event of repayments not being made or certain terms and conditions not being satisfied under the NAB Facility, the National Australia Bank may terminate its obligation. In these circumstances, Afterpay's capacity to pay merchant clients in advance of collecting purchase price instalments from end customers may be diminished in the event that other banks are not able to step in and provide financing on equivalent terms. This may have the effect of possibly slowing down Afterpay's growth and having an adverse impact on the profitability of Afterpay, and accordingly of the Merged Group.

**(e) Additional requirements for capital**

As the Merged Group's businesses grow and new lines of business are developed, the Merged Group will require additional funding for working capital. In particular, given the nature of their business models, additional funding may be required in the future by Afterpay to support its instalment payments receivables book and by Touchcorp if it is required by merchants and suppliers to increase the level of capital and collateral amounts that Touchcorp maintains.

Although after completion of the Merger, the Merged Group will be generally well-funded through cash available from past equity issues and existing financing facilities contributed by both Afterpay and Touchcorp,

there is a risk that the Merged Group may need to seek additional debt or equity funding to increase the level of working capital to satisfy funding requirements.

There is no assurance that debt facilities will be obtained when required or obtained on reasonable terms and there is a risk that debt funding may not be available in sufficient amounts. Further, if the Merged Group elects to finance an expansion by way of additional debt facilities, such facilities would likely increase financing risks such as interest rate risk and refinancing risk.

If the Merged Group is unable to obtain additional debt funding, it may require additional equity funding to expand its business. The equity funding would be in the form of the issue of additional Afterpay Touch Group Shares which will dilute the interests of existing Afterpay Touch Group Shareholders including former Afterpay Shareholders and Touchcorp Shareholders. Dilution may occur if Afterpay Touch Group Shareholders are invited to subscribe for additional equity, which may be substantial. To the extent that Afterpay Touch Group Shareholders do not subscribe to such additional equity, or are otherwise not invited to subscribe, their holdings in Afterpay Touch Group may be diluted (relative to other shareholders).

Other ways that the Merged Group may address any need for additional funding include increasing prices, reducing or ceasing to pay dividends, delaying the onboarding of new merchants or the servicing of existing merchants and/or end customers, or by adjusting processes to limit the services provided.

However, these approaches would risk damage to the Merged Group's reputation as a reliable provider of payment and transaction services, which could in turn harm the long term prospects of the business.

**(f) Loss of key management personnel**

The Merged Group's ability to effectively execute growth strategies depends on the performance and expertise of its key management personnel. The proposed key management personnel of the Merged Group are a highly experienced team with a depth of experience in, and knowledge of, Afterpay's and Touchcorp's, and accordingly the Merged Group's businesses and the environment in which it will operate. The loss of key management personnel, or any delay in their replacement, may adversely affect the Merged Group's future financial performance.

**(g) Failure to increase transaction volumes, merchant and end customer numbers or perform as intended following implementation of expansion strategies**

The revenue and profitability of each of Afterpay and Touchcorp generally relies on increases in transaction volumes and increases in the number of their respective merchant and end customer bases.



## 7. Risk Factors

(continued)

Afterpay's revenues are influenced by increases in transaction volumes undertaken by existing and new end customers. The number of end customers who use Afterpay's service is, in turn, influenced by the number of merchant clients who have integrated Afterpay as a payment method. Touchcorp depends primarily on enterprise clients for new business and typically experiences long deal cycles in new merchant client negotiations, meaning that Touchcorp is exposed to the risk that the signing of new merchant client contracts may be delayed or may not complete. Failure to increase these metrics that drive revenue and profitability in respect of either or both of Afterpay and Touchcorp may adversely impact the Merged Group's ability to improve its future revenue and profitability.

In addition, a failure to increase transaction volumes, or the number of merchant clients or end customers, may also adversely impact any economies of scale and synergies expected to occur for the Merged Group as it may diminish Afterpay's and Touchcorp's ability to capitalise on the other's business (for example, by seeking business opportunities and winning new contracts from the merchant clients and customers of the other's business).

The Merged Group's growth strategy may include the introduction of new services or technologies provided by each of Afterpay and/or Touchcorp, or the expansion into new geographical markets. There is a risk that new services or technologies may not be adopted, for example, by existing merchants (which would limit the Merged Group's ability to penetrate its existing merchant base), or by new merchants (which would adversely impact the Merged Group's ability to gain new sources of revenue). There is a risk that expansion initiatives undertaken by Afterpay and/or Touchcorp may result in additional costs and risks that may affect the Merged Group as a whole, or may not deliver the outcomes intended for the Merged Group.

### (h) Competitors and new market entrants

The Merged Group is expected to be a market leader in Australia in providing payment and transaction services, however, a number of competitors currently offer services similar to the 'buy now, pay later' service that Afterpay offers to the Australian retail market (for example, zipMoney), and the transaction-processing technology solutions that Touchcorp offers (including other software solutions providers, payment terminal manufacturers and payment processing businesses).

Existing competitors as well as new competitors entering the industry, may engage in aggressive customer acquisition campaigns, develop superior technology offerings or consolidate with other entities to deliver enhanced scale benefits. Such competitive pressures may materially erode the Merged Group's

market share and revenue, and may materially and adversely impact the Merged Group's revenue and profitability.

A general increase in competition may also require the Merged Group to increase marketing expenditure or offer lower fees to merchant clients, which would decrease profitability even if the Merged Group's market share does not decrease.

### (i) Failures or disruptions to technology systems and communication networks

Afterpay and Touchcorp depend on, and accordingly, the Merged Group will continue to depend on the constant performance, reliability and availability of its technology system and third-party communication networks. There is a risk that these systems may fail to perform as expected or be adversely impacted by a number of factors, some of which may be outside the control of the Merged Group, including damage, equipment faults, power failure, fire, natural disasters, computer viruses and external malicious interventions such as hacking or denial-of-service attacks. Events of that nature may cause part or all of the Merged Group's technology system and/or the communication networks used by the Merged Group to become unavailable. The Merged Group's operational processes and contingency plans may not adequately address every potential event. This may disrupt transaction flow and adversely impact the Merged Group's financial performance and reputation.

There is a risk that repeated failures to keep the Merged Group's technology (particularly, the Touch System) available may result in a decline in customer and merchant numbers or merchants cancelling their contracts with the Merged Group. This may materially and adversely impact the Merged Group's financial performance, including a reduction in revenue from completed transactions and an increase in the costs associated with servicing customers through the disruption, as well as negatively impacting the Merged Group's reputation.

### (j) Employee recruitment risk and retention

The Merged Group's ability to effectively execute its growth strategy will depend upon the performance and expertise of its staff. The Merged Group will rely on experienced managerial and highly qualified technical staff to develop and operate new and existing technology platforms and services, and to direct operational staff to manage the operational, sales, compliance and other functions of its business.

There is a risk that the Merged Group may not be able to attract and retain key staff or be able to find effective replacements in a timely manner. The loss of staff, or any delay in their replacement, could impact

the Merged Group's ability to operate its business and achieve its growth strategies including through the development of new systems and technology.

There is a risk that the Merged Group may not be able to recruit suitably qualified and talented staff in a time frame that meets the growth objectives of the Merged Group. This may result in delays in the integration of new systems, development of technology and general business expansion, which may adversely impact the Merged Group's revenue and profitability.

There is also a risk that the Merged Group will be unable to retain existing staff, or recruit new staff, on terms of retention that are as attractive to the Merged Group as past agreements. This would adversely impact employment costs and profitability.

**(k) Compliance with laws, regulations and industry compliance standards**

The Merged Group will operate in a wide range of jurisdictions, and will be subject to a range of legal and industry compliance requirements that are constantly changing. This includes privacy laws, data protection laws and contractual conditions. Additional specific regulatory and compliance requirements that Touchcorp is currently subject to, which the Merged Group will adopt include the Australian Government's policies and guidelines as provided by Australian Signals Directorate (ASD) on information and communications technology (ICT) services in support of Australian security, the payment industry data security standards Payment Card Industry-Data Security Standards (PCI-DSS) and contractual compliance conditions imposed on Touchcorp by its merchants and suppliers, as well as best-practice standards which Touchcorp has voluntarily adopted.

In respect of Afterpay, there is possibility that it may become subject to additional legal or regulatory requirements if Afterpay's business, operations, strategy or geographic reach expand in the future. This may potentially include credit licensing, financial services licensing, or other licensing or regulatory requirements or similar limitations on the conduct of business.

There is a risk that additional or changed legal, regulatory or licensing requirements, and industry compliance standards, may make it uneconomic for the Merged Group to continue to operate in the markets it currently does, or to expand in accordance with its strategy. This may materially and adversely impact the Merged Group's revenue and profitability, including by preventing its business from reaching sufficient scale.

There is also a risk that if the Merged Group fails to comply with these laws, regulations and industry compliance standards, this may result in significantly increased compliance costs, the loss of licences or

denial of pending licences, increased complexities involved in servicing merchants (to register or verify merchants, for example), cessation of certain business activities or the ability to conduct business in certain markets, forfeiture of assets, litigation or regulatory enquiry or investigation and significant reputational damage. All of these may have a materially adverse impact on the Merged Group's revenue and profitability.

**(l) Exposure to potential security breaches and data protection issues**

Through the ordinary course of business, the Merged Group will collect a wide range of confidential information. Cyber-attacks may compromise or breach technology platforms used by the Merged Group to protect confidential information.

There is a risk that the measures taken by the Merged Group may not be sufficient to detect or prevent unauthorised access to, or disclosure of, such confidential information. Any data security breaches or the Merged Group's failure to protect confidential information could result in the loss of information integrity, or breaches of the Merged Group's obligations under applicable laws or agreements, each of which may materially adversely impact the Merged Group's financial performance and reputation.

**(m) Activities of fraudulent parties**

The Merged Group may be exposed to risks imposed by fraudulent conduct, including risks stemming from the potential collusion between internal and external parties, and end customers attempting to circumvent the Merged Group's systems (for example, attempts to circumvent Afterpay's repayment capability assessments). There is a risk that the Merged Group may be unsuccessful in defeating fraud attempts, resulting in a higher than budgeted cost of fraud which may materially adversely impact the Merged Group's revenue and profitability.

The Merged Group will to some extent, accept the responsibility associated with minimising fraudulent activity and bear costs associated with such fraudulent activity as it is part of Afterpay's business to guarantee payment to merchant clients and part of Touchcorp's business to guarantee transaction integrity in certain circumstances. Fraudulent activity may result in the Merged Group suffering losses due to fraud, a materially adverse impact to the Merged Group's reputation and bearing certain costs to rectify and safeguard business operations and the Merged Group's systems against fraudulent activity.

**(n) Protection and ownership of technology and intellectual property**

The business of the Merged Group will depend on each of Afterpay's and Touchcorp's ability to



## 7. Risk Factors

(continued)

commercially exploit its technology and intellectual property, including their technological systems and data processing algorithms. The Merged Group will rely on laws relating to trade secrets, copyright and trademarks to assist in protecting its proprietary rights. However, there is a risk that unauthorised use or copying of any of the Merged Group's software, data, specialised technology or platforms will occur. In addition, there is a risk that the validity, ownership or authorised use of intellectual property relevant to the Merged Group's business may be successfully challenged by third parties. This could involve significant expense and potentially the inability to use the intellectual property in question, and if an alternative cost-effective solution were not available, it may materially adversely impact the Merged Group's financial position and performance. Such disputes may also temporarily adversely impact the Merged Group's ability to integrate new systems or develop new services which may adversely impact the Merged Group's revenue and profitability.

There is also a risk that the Merged Group will be unable to register or otherwise protect new intellectual property it develops in the future. A particular risk in this respect includes the ability of Touchcorp's merchant clients to exercise their stand-in rights in the event that Touchcorp fails to perform under the terms of a contract. In addition, competitors may be able to work around any of the intellectual property rights used by the Merged Group, or independently develop technologies or competing payment products or services that are not protected by the Merged Group's patents, patent applications or other intellectual property rights. The Merged Group's competitors may then be able to offer identical or very similar services or services that are otherwise competitive against those provided by the Merged Group, which could adversely affect the Merged Group's business.

### (o) Ability of the Merged Group's technology to integrate various third party platforms

Both Afterpay and Touchcorp use and rely on integration with third party systems and platforms, particularly websites, point of sale systems and other merchant systems. The success of the Merged Group's services offered via Afterpay and Touchcorp, and the ability to attract additional end customers and merchant clients, will depend on the ability of the Merged Group's technology and systems to integrate into and operate with various third party systems and platforms. In addition, as these systems and platforms are regularly updated, it is possible that when such updates occur it could cause the Merged Group's services to not operate as efficiently as previously. This will require the Merged Group to change the way some of its systems operates which may take time and expense to remedy.

### (p) The Merged Group's technology may be superseded by other technology or changes in business practice

The Merged Group will operate in a competitive environment. IT systems are continuing to develop and are subject to rapid change, while business practices continue to evolve. The Merged Group's success will in part depend on its ability to offer services and systems that remain current with the continuing changes in technology, evolving industry standards and changing consumer preferences. There is a risk that the Merged Group will not be successful in addressing these developments in a timely manner, or that expenses will be greater than expected. In addition, there is a risk that new products or technologies (or alternative systems) developed by third parties will supersede the Merged Group's technology. This may materially and adversely impact the Merged Group's revenue and profitability.

### (q) Government regulation and legal requirements

Afterpay and Touchcorp are currently subject to, and the Merged Group will continue to be subject to, Anti-Money Laundering/Counter Terrorism Financing Act in relation to merchant clients. The Merged Group will also be subject to other laws and regulations applicable to business generally. There is a risk that a number of laws and regulations may be adopted with respect to the Merged Group's operations covering issues such as user privacy, pricing, the content and quality of products and services, intellectual property rights and information security which could limit the proposed scope of activities of the Merged Group.

### (r) Capacity constraints

Continued increases in transaction volumes may require the Merged Group to expand and adapt its network infrastructure to avoid interruptions to Afterpay's systems, the Touch System, and the Merged Group's technology. Any unprecedented transaction volumes may cause interruptions to the Merged Group's systems and technology, reduce the number of completed transactions, increase expenses, and reduce the level of consumer service, and these factors may potentially adversely impact the Merged Group's financial performance.

If Touchcorp expands into new offshore markets, it may be required to secure additional data centre capacity in those particular markets due to data security requirements and capacity constraints.

### (s) The Merged Group may suffer reputational damage

Maintaining the strength of the Merged Group's reputation is important to retaining and increasing its end customer base and its merchant client base, maintaining its relationships with partner companies and other service providers and successfully

implementing the Merged Group's business strategy. There is a risk that unforeseen issues or events may adversely impact the Merged Group's reputation. This may adversely impact the future growth and profitability of the Merged Group.

The Merged Group's reputation is also closely linked to the provision of services to merchant clients and end customers. There is a risk that the Merged Group's actions and the actions of the Merged Group's suppliers and merchants may adversely impact the Merged Group's reputation. Specifically in relation to Touchcorp, the development and refinement of Touchcorp's services modules requires Touchcorp to work closely with existing and potential customers to listen to and understand their needs. There is a risk that Touchcorp may fail to maintain its current service culture by failing to listen to its customers and may not develop services modules that satisfy its customers' requirements. This may negatively impact Touchcorp's reputation and its customers' adoption of new service modules, and these negative impacts may flow on to the Merged Group.

Any factors that diminish the Merged Group's reputation could result in customers, consumers or other parties ceasing to do business with the Merged Group, impede Afterpay's and Touchcorp's ability to successfully provide each of their respective services, negatively affect the Merged Group's future business strategy and materially and adversely impact the Merged Group's financial position and performance.

**(t) Banking and payment processing performance**

Afterpay and Touchcorp rely on online payment gateways, banking and financial and other institutions (such as Medicare and private health insurers in respect of Touchcorp), and point of sale devices for the validation of payment methods (such as bank cards), processing and settlement of payments. Any failures or disruptions to such platforms and technology may impact the financial performance of the Merged Group.

**(u) Exchange rate risk for Touchcorp's European and Asian operations**

Touchcorp's financial reports are prepared in Australian dollars. However, revenue, expenditure and cashflows, and assets and liabilities from Touchcorp's European operations are denominated in Swiss francs, Swedish kronor, Norwegian kroner and Euros, while expenses are primarily incurred in Croatian Kuna and Euros. Touchcorp is, and to an extent the Merged Group will be, exposed to the risk of fluctuations in the Australian dollar against those currencies, and adverse fluctuations in exchange rates may negatively impact the translation of account balances and profitability from these offshore operations.

**(v) Accounting Policy Risk**

Touchcorp has particular accounting policies and methods which are fundamental to how it records and reports its financial position and results of operations. The Touchcorp Directors may have exercised judgement in selecting and applying certain accounting policies or methods which might have been reasonable under the circumstances yet might have resulted in reporting materially different outcomes than would have been reported under Afterpay's policies and methods. A preliminary comparison of the Touchcorp and Afterpay accounting policies has not identified any material differences in accounting policies. The integration of Touchcorp's accounting functions may lead to revisions of these accounting policies, which may adversely impact on the Merged Group's reported results of operations and/or financial position and performance.

In accordance with AAS, Afterpay Touch Group will need to assess the impairment of all assets at each reporting date by evaluating conditions specific to the Merged Group and to each particular asset. In the event that the value of an asset reduces, this is likely to be reflected as an impairment charge. Any future impairments may have an adverse impact on the reported financial performance of the Merged Group.

## 7.3

### General risks

**(a) Risks relating to share investment**

There are various risks associated with investing in any form of business and with investing in listed entities generally. The value of Afterpay Touch Group Shares following implementation of the Merger will depend upon general share market and economic conditions as well as the specific performance of the Merged Group. There is no guarantee of profitability, dividends, return of capital, or the price at which Afterpay Touch Group Shares will trade on the ASX. The past performance of Afterpay Touch Group Shares is not necessarily an indication as to future performance as the trading price of shares can go down or up in value.

**(b) Risks relating to the general economy and capital markets**

The financial performance of the Merged Group and the value of Afterpay Touch Group Shares will fluctuate due to various factors including movements in the Australian and international capital markets, recommendations by brokers and analysts, interest rates, exchange rates, inflation, Australian and international economic conditions, change in government, fiscal, monetary and regulatory policies,

## 7. Risk Factors

(continued)

prices of commodities, global geo-political events and hostilities and acts of terrorism, investor perceptions and other factors that may affect the Merged Group's financial position and earnings. In the future, these factors may affect the income and expenses of the Merged Group and may cause the price of Afterpay Touch Group Shares to fluctuate and trade below current prices.

### (c) Exposure to adverse macroeconomic conditions

The Merged Group's business will depend on end customers transacting with retail merchants, which in turn can be affected by changes in general economic conditions. For example, the retail sector is affected by such macroeconomic conditions as unemployment, interest rates, consumer confidence, economic recessions, downturns or extended periods of uncertainty or volatility, all of which may influence customer spending and suppliers' and retailers' focus and investment in outsourcing payment and transaction processing solutions. This may subsequently impact the Merged Group's ability to generate revenue. Additionally in the case of Afterpay, in weaker economic environments, end customers may have less disposable income to spend and so may be less likely to purchase products by utilising Afterpay's services and bad debts might increase.

### (d) Regulatory and tax

The Merged Group's businesses and earnings could be affected by the legal, regulatory, fiscal or other policies adopted by various regulatory authorities of the Australian government, Bermuda Government, other foreign governments and international agencies. Further, the nature and impact of future changes of such regulations and policies are not predictable and will be beyond the Merged Group's control. Changes in regulations or regulatory policy could adversely affect one or more of the Merged Group's businesses and could require substantial compliance costs. In addition, any significant changes in taxation law could have an adverse effect on the Merged Group's financial condition and financial performance.

### (e) Legal proceedings and contingent liabilities

The Merged Group may be subject to litigation and other claims and disputes in the course of its business, including employment disputes, contractual disputes or occupational and personal claims. Such litigation, claims and disputes, including the costs of settling claims and operational impacts, could adversely affect the Merged Group's business, reputation, operating and financial performance.

### (f) Acquisitions

The Merged Group's future strategy may involve the acquisition of additional businesses within the Merged Group's core business lines. Acquisition transactions involve inherent risks, including:

- accurately assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquired businesses;
- integration risks including the risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated;
- diversion of management attention from existing business;
- potential loss of key personnel and key clients;
- unanticipated changes in the industry or general economic conditions that affect the assumptions underlying the acquisition; and
- decline in the value of, and unanticipated costs, problems or liabilities associated with, the acquired business.

Any of these or other risks could cause the Merged Group not to realise the benefits anticipated to result from any acquisition of new business and could have a material adverse impact on its financial position.

## 8. Tax implications of the Afterpay Scheme



## 8. Tax implications of the Afterpay Scheme



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Level 11, 1 Margaret St  
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20 April 2017

The Directors  
Afterpay Holdings Ltd  
Level 6, 406 Collins Street  
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Dear Directors

<b>AFTERPAY SCHEME OF ARRANGEMENT - TAX ISSUES FOR SHAREHOLDERS</b>
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This letter has been prepared on behalf of Afterpay Holdings Ltd ("Afterpay") for inclusion in the Scheme Booklet.

### Introduction

The following is a general description of the Australian tax consequences of the Scheme on the assumption that it becomes effective for Afterpay Shareholders who participate in the Scheme.

This description does not purport to provide advice to any particular Afterpay Shareholder because the tax position of each shareholder may vary because of their particular circumstances. The description is of a general nature only and is not intended to be an authoritative or complete statement of the laws applicable to the particular circumstances of an Afterpay Shareholder. The description is based upon the Australian law and administrative practice in effect at the date of this Scheme Booklet. Afterpay Shareholders should obtain independent professional advice which is relevant to their particular circumstances.

The description is only relevant to those Afterpay Shareholders which hold their Afterpay Shares on capital account.

The description does not address the Australian tax consequences for Afterpay Shareholders who:

- Hold their Afterpay Shares for the purpose of speculation, profit making or a business of dealing in securities (eg as trading stock); or
- Are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997 (Cth)* ("the 1997 Act") in relation to gains and losses on their Afterpay Shares; or
- Have previously been a resident of Australia and chose to disregard a capital gain or loss in relation to their Afterpay Shares on ceasing to be a resident.



Afterpay Shareholders which are tax residents of a country other than Australia (whether or not they are also residents, or are temporary residents, of Australia for tax purposes) should take into account the tax consequences of the Scheme under the laws of their country of residence, as well as under Australian law.

#### **Australian Resident Shareholders - No Scrip for Scrip Rollover Relief Chosen**

##### **(a) Capital Gains tax**

Because Afterpay was incorporated after 19 September 1985, all shares in Afterpay would prima facie fall within the capital gains tax ("CGT") provisions.

Under the Scheme, Afterpay Shareholders will dispose of their Afterpay Shares to Afterpay Touch Group Ltd. This disposal will constitute a CGT event A1 for Australian CGT purposes for Afterpay Shareholders. The time of the CGT event will be the date the Scheme is implemented.

##### **(b) Calculation of Capital Gain or Loss**

Afterpay Shareholders may make a capital gain on the disposal of their Afterpay Shares to the extent that the capital proceeds from the disposal of the Afterpay Shares are more than the cost base of those Afterpay Shares. On the other hand, Afterpay Shareholders will make a capital loss to extent that the capital proceeds are less than their reduced cost base for those Afterpay Shares.

##### **(c) Capital Proceeds**

The capital proceeds will be the value of the Afterpay Touch Group Ltd shares on the date the Scheme is implemented.

##### **(d) Cost Base**

The cost base of the Afterpay Shares generally includes the cost of acquisition, plus non-deductible incidental costs associated with the acquisition and disposal of the Afterpay Shares. No indexation is available because Afterpay was incorporated after 21 September 1999.

##### **(e) CGT Discount**

An individual, a complying superannuation entity or the trustee of a trust who has held their Afterpay Shares for at least 12 months may choose to discount any capital gain (after offsetting any capital losses) from the disposal of their Afterpay Shares by fifty percent in the case of individuals and trustees or by one third for complying superannuation entities. For trustees, the ultimate availability of the discount for beneficiaries of the trusts will depend on the particular circumstances of the beneficiaries.

##### **(f) Net Capital Gains and Capital Losses**

Capital gains (prior to any CGT discount) less capital losses less any CGT discount of a taxpayer are computed to determine where there is a net capital gain. Any net capital gain is generally included in assessable income and is subject to income tax.

## 8. Tax implications of the Afterpay Scheme (continued)



Capital losses cannot be deducted against other income (they can only be offset against capital gains) but can be carried forward to offset against future capital gains (subject to the satisfaction of loss recoupment tests for certain taxpayers).

### (g) Afterpay Touch Group Ltd Shares

The Afterpay shareholders will acquire the Afterpay Touch Group Ltd shares at the time the shares are allotted under the Scheme.

#### **Australian Resident Shareholders - Scrip for Scrip Rollover Relief Chosen**

The requirements for an Afterpay shareholder to elect for scrip for scrip roll-over relief (Subdivision 124-M of the 1997 Act) should be met having regard to the terms of the Scheme. Accordingly, Australian resident Afterpay shareholders should be eligible to choose scrip for scrip rollover relief to the extent that they receive Afterpay Touch Group Ltd shares in exchange for Afterpay shares they own, if they would otherwise have made a capital gain from the exchange (see above comments).

An Afterpay shareholder will not be required to make or lodge a formal election in order to choose scrip for scrip roll-over relief. The way in which an Afterpay shareholder's income tax return is prepared will be evidence of a scrip for scrip roll-over choice having been made.

The consequence of choosing scrip for scrip roll-over relief is that the capital gain made from the disposal of Afterpay shares is disregarded to the extent an Afterpay shareholder receives Afterpay Touch Group Ltd shares.

The cost base of the Afterpay Touch Group Ltd shares acquired is determined by attributing, on a reasonable basis, the cost base of the Afterpay shares disposed of, to those Afterpay Touch Group Ltd shares. An Afterpay shareholder who chooses scrip for scrip roll-over is deemed to have acquired the Afterpay Touch Group Ltd shares at the same time the Afterpay shareholder acquired the original Afterpay shares. The deemed acquisition date may be relevant in determining the CGT consequences of any future disposal of Afterpay Touch Group Ltd shares.

#### **Non Resident Shareholders**

For an Afterpay Shareholder who:

- Is not a resident of Australia for Australian tax purposes; and
- Does not hold their Afterpay Shares in carrying on a business through a permanent establishment in Australia;

the disposal of Afterpay Shares will generally not result in Australian CGT implications because, amongst other things, Afterpay does not have any taxable Australian real property (as defined in the income tax legislation).





### **Employee Shares**

If an employee has received shares and/or options under an employee share or option scheme from Afterpay, then the key to the tax position on the like for like exchange under the Scheme will be whether the employee shares or options have passed the taxing point and an amount of a potential discount gain has been determined for that grant or issue.

Where the taxing point has been passed, scrip for scrip rollover relief under Subdivision 124-M should be available, as discussed above.

Where the taxing point has not been passed, such that the employees are still within the employee share scheme provisions, the holders of the interests would not have an assessable gain on the exchange of their interests in Afterpay for replacement interests in Afterpay Touch Group Ltd and their existing tax profile (eg cost, acquisition date etc) would roll over into their new interests under section 83A-130 of the 1997 Act. This includes the options which are subject to the start-up concessions.

### **Goods and Services Tax ("GST")**

No Australian GST is payable by the Afterpay shareholders in connection with the Scheme.

### **Stamp duty**

No Australian stamp duty is payable by the Afterpay shareholders in connection with the Scheme.

### **Tax file number and Australian business number**

If a tax file number (TFN) or Australian Business Number (ABN) is not provided to Afterpay Touch Group Ltd, tax at the relevant rate (which is currently 46.5%) will be deducted from any unfranked component of dividends paid by Afterpay Touch Group Ltd. However, these Afterpay Touch Group Ltd shareholders would be entitled to claim an income tax credit/refund (as applicable) in their income tax returns in respect of the tax withheld.

### **Other matters**

This advice does not constitute "financial product advice" for the purposes of the Corporations Act. We are not licensed to provide financial product advice. To the extent this letter includes information about a "financial product", taxation is only one of the matters that should be taken into account before making a decision.

## 8. Tax implications of the Afterpay Scheme (continued)



Yours faithfully

A handwritten signature in black ink, appearing to read 'Tony Sloan'. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Tony Sloan  
Partner - Tax

## 9. Additional information



## 9. Additional information

This section sets out additional statutory information, as well as some additional information that may be of interest to Shareholders.

### 9.1

#### Substantial Shareholders

As at the close of trading on the date of this Scheme Booklet, the following persons had notified Afterpay that they had voting power in 5% or more of Afterpay Shares:

Name	Number of Shares in which they have voting power	% of Shares
Afterpay Holdings Limited	103,250,000	57.3%
Touchcorp Limited	50,000,000	27.7%
Anthony Eisen	25,000,000	13.9%
Nicholas Molnar	25,000,000	13.9%

Afterpay has voting power of 57.3% in its own Shares due to escrow arrangements with certain Shareholders under which those Shareholders are restricted from dealing with the escrowed Shares they hold until the expiration of the relevant escrow period.

An “escrow” is a restriction on sale, disposal, or encumbering of, or certain other dealings in respect of, the Shares concerned for the period of the escrow, subject to any exceptions in the escrow arrangement. However, the restriction does not extend to any voting rights attached to the Shares.

Based on the information available as at the date of this Scheme Booklet, the following persons may hold voting power in 5% or more of Afterpay Touch Group Shares:

Name	Number of Afterpay Touch Group Shares – undiluted	Number of Afterpay Touch Group Shares held – fully diluted	% of total Afterpay Touch Group Shares – undiluted	% of total Afterpay Touch Group Shares – fully diluted
Anthony Eisen	25,000,000	26,500,000	11.6%	11.5%
Nicholas Molnar	25,000,000	26,500,000	11.6%	11.5%
Utilico Investments Ltd & ICM NZ Ltd	20,772,468	20,772,468	9.7%	9.0%
Cleeve Family Holdings (includes all holdings across ATC Capital Pty Ltd, Cleevecorp Pty Ltd and Adrian Cleeve)	14,673,507	14,673,507	6.8%	6.4%

Fully diluted basis means the number of Afterpay Touch Group Shares that would be on issue following completion of the Merger if all Afterpay employee option/performance rights were vested and exercised.

ASX has informed Afterpay that it will require those Afterpay Shareholders who are currently subject to escrow arrangements in respect of their Afterpay Shares (as set out above) to enter into escrow arrangements with Afterpay Touch Group in relation to any Afterpay Touch Group Shares they receive as Afterpay Scheme Consideration if they become Afterpay Scheme Shareholders.

## 9.2

### Marketable securities of Afterpay held by or controlled by Afterpay Directors

No marketable securities of Afterpay are held or controlled by Afterpay Directors and no such persons are otherwise entitled to such securities as at the time of lodgement of this Scheme Booklet for registration by ASIC other than as listed below, all of which are held beneficially:

Director	Number of Afterpay Shares	Number of Afterpay Options
Anthony Eisen	25,000,000	1,500,000
Nicholas Molnar	25,000,000	1,500,000
David Hancock	2,500,000	200,000
Clifford Rosenberg	1,000,000	900,000

Each Director intends to vote any Afterpay Shares held by or on behalf of him in favour of the Scheme in the absence of a superior proposal.

David Hancock's total holding includes 500,000 Afterpay Shares which are not subject to escrow restrictions. He intends to sell up to 250,000 Shares after this Scheme Booklet is publicly released and before the Scheme Meeting.

Except as stated in this section and section 9.3 of the Scheme Booklet:

- (a) there are no marketable securities of Afterpay held by or on behalf of directors as at the date of this Scheme Booklet;
- (b) there are no marketable securities of Afterpay Touch Group held by or on behalf of directors as at the date of this Scheme Booklet; and
- (c) there has been no dealing by any director in any marketable securities of Afterpay or Afterpay Touch Group in the four months preceding the date of this Scheme Booklet.

## 9.3

### Afterpay Touch Group's interests in marketable securities of Afterpay

No Marketable Securities of Afterpay are held or controlled by Afterpay Touch Group and Afterpay Touch Group is not entitled to such securities as at the time of lodgement of this Scheme Booklet for registration by ASIC.

David Hancock and Clifford Rosenberg are also directors of Afterpay Touch Group. Each of their interests in the Marketable Securities of Afterpay is set out in section 9.2 above. Clifford Rosenberg holds one share in Afterpay Touch Group. No marketable securities of Afterpay are otherwise controlled or held by or on behalf of any Afterpay Touch Group

directors, other than as disclosed elsewhere in this Scheme Booklet.

Elana Rubin is a director of both Afterpay Touch Group and Touchcorp. She holds one share in Afterpay Touch Group.

## 9.4

### Benefits and agreements

#### (a) Benefits in connection with retirement from office

It is not proposed that any payment or other benefit be made or given to any director, secretary or executive officer of Afterpay (or of its Related Bodies Corporate) as compensation for loss of, or as consideration for, or in connection with his or her retirement from, office in Afterpay or in any of its Related Bodies Corporate as a result of the Scheme other than in his or her capacity as an Afterpay Shareholder.

Afterpay pays premiums in respect of a directors and officers (D&O) insurance policy for the benefit of its directors and executive officers.

#### (b) Agreements connected with or conditional on the Scheme

Except as set out below or otherwise disclosed in this section:

- no Afterpay Director has any other interests in a contract entered into by Afterpay Touch Group;
- there are no contracts or arrangements between a director and any person, including Afterpay Touch Group in connection with or conditional on the outcome of the Afterpay Scheme; and
- no Afterpay Director has a material interest in relation to the Afterpay Scheme other than in their capacity as an Shareholder.

Afterpay Touch Group has agreed under the Merger Implementation Agreement to appoint Anthony Eisen and Nicholas Molnar to the Afterpay Touch Group Board if the Afterpay Scheme and Merger is implemented, subject to them providing their consent.

Afterpay Touch Group has indemnified each Afterpay Director from any claim, action, damage, loss, liability, cost, expense or payment which any Afterpay Director may suffer, incur or be liable for arising out of any breach of any of the representations and warranties given by Afterpay Touch Group in the Merger Implementation Agreement.

## 9.5

### Consents

The following parties have given and have not withdrawn, before the registration of this Scheme Booklet by ASIC, their written consent to be named in this Scheme Booklet in the form and context in which they are named:

## 9. Additional information (continued)

- LEA as Independent Expert;
- RSM as independent expert for Touchcorp (and to all references in this Scheme Booklet to the RSM Report in the form and context in which they appear);
- Ernst & Young Transaction Advisory Services Limited as Investigating Accountant with respect to their Independent Limited Assurance Report set out in Annexure B;
- BDO as tax advisor to Afterpay;
- Ernst & Young as auditor of Afterpay;
- Computershare as Share Registry for Afterpay;
- FinClear Execution Ltd as corporate advisor to Afterpay;
- Baker McKenzie as legal adviser to Afterpay.

LEA has also given and has not withdrawn, before the time of registration of this Scheme Booklet with ASIC, its written consent to the inclusion of its Independent Expert's Report in this Scheme Booklet in the form and context in which it is included and to all references in this Scheme Booklet to that Report in the form and context in which they appear.

BDO has also given and has not withdrawn, before the time of registration of this Scheme Booklet with ASIC, its written consent to the inclusion of its advice on tax issues for Afterpay Shareholders in this Scheme Booklet in the form and context in which it is included and to all references in this Scheme Booklet to that advice in the form and context in which they appear.

Ernst & Young Transaction Advisory Services Limited has also given and has not withdrawn, before the date of this Scheme Booklet, its written consent to the inclusion of its Independent Limited Assurance Report in this Scheme Booklet in the form and context in which it is included.

Ernst & Young has also given and has not withdrawn, before the date of this Scheme Booklet, its written consent to be named in this Scheme Booklet as auditor of Afterpay for the year ended 30 June 2016 and the half years ended 31 December 2015 and 2016, and as Afterpay's accounting adviser with respect to the Merger, in the form and context in which it is included and to all references in this Scheme Booklet in the form and context in which they appear.

Afterpay Touch Group has also given and has not withdrawn, before the time of registration of this Scheme Booklet by ASIC, its written consent to the inclusion of the Afterpay Touch Group Information in the form and context in which it is included.

Touchcorp has also given and has not withdrawn, before the time of registration of this Scheme Booklet with ASIC, its written consent to the inclusion of the Touchcorp Information in the form and context in which it is included.

## 9.6

### Disclaimers

None of the persons referred to in section 9.5 have authorised or caused the issue of this Scheme Booklet and do not make or purport to make any statement in this Scheme Booklet other than those statements made in the capacity and to the extent the person has provided its consent, as referred to above.

The information contained in this Scheme Booklet other than the Touchcorp Information, Afterpay Touch Group Information, BDO tax advice in section 8, the Independent Experts' Report and the Independent Limited Assurance Report has been prepared by Afterpay and is the responsibility of Afterpay. None of Touchcorp or Afterpay Touch Group, or their directors, officers or advisers assume any responsibility for the accuracy or completeness of the Afterpay Information.

The Touchcorp Information has been provided by Touchcorp and is the responsibility of Touchcorp. To the maximum extent permitted by law, none of Afterpay or Afterpay Touch Group, or their directors, officers or advisers assume any responsibility for the accuracy or completeness of the Touchcorp Information.

The Afterpay Touch Group Information has been provided by Afterpay Touch Group and is the responsibility of Afterpay Touch Group. Afterpay does not assume responsibility for the accuracy or completeness of the Afterpay Touch Group Information. To the maximum extent permitted by law, none of Afterpay, Touchcorp, or their directors, officers or advisers assume any responsibility for the accuracy or completeness of the Afterpay Touch Group Information.

BDO has prepared the tax advice contained in section 8 and takes responsibility for that advice.

LEA has prepared the Independent Expert's Report in relation to the Scheme contained in Annexure A and takes responsibility for that report. None of Afterpay, Touchcorp, Afterpay Touch Group and their respective directors, officers and advisers assume any responsibility for the accuracy or completeness of the Independent Expert's Report.

Ernst & Young Transaction Advisory Services Limited has prepared the Independent Limited Assurance Report contained in Annexure B and takes responsibility for that report. None of Touchcorp, Afterpay, Afterpay Touch Group or their respective directors, officers or advisers assume any responsibility for the accuracy or completeness of the Independent Limited Assurance Report.

To the maximum extent permitted by law, each person referred to in section 9.5 disclaims all liability in respect of, makes no representation regarding and takes no responsibility for, any part of this Scheme Booklet other than as described in this section with that person's consent

## 9.7

### Fees

Except for Touchcorp and Afterpay Touch Group, each of the persons named in section 9.5 of this Scheme Booklet as performing a function in a professional, advisory or other capacity in connection with the Afterpay Scheme and the preparation of this Scheme Booklet, will be entitled to receive professional fees charged in accordance with their normal basis of charging. Afterpay has paid, or agreed to pay:

- LEA approximately A\$60,000 (excluding GST);
- Ernst & Young Transaction Advisory Services Limited approximately A\$20,000 (excluding GST) as Investigating Accountant with respect to their Independent Limited Assurance Report;
- Ernst & Young approximately A\$94,500 (excluding GST) as Afterpay's accounting adviser with respect to the Merger;
- BDO approximately A\$100,000 (excluding GST);
- FinClear Execution Ltd approximately A\$100,000 (excluding GST); and
- Baker McKenzie approximately A\$450,000 (excluding GST) up to the date of this Scheme Booklet.

## 9.8

### Foreign jurisdictions

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities law. Afterpay disclaims all liabilities to such persons. Afterpay Shareholders who are nominees, trustees or custodians are encouraged to seek independent advice as to how they should proceed. No action has been taken to register or qualify this Scheme Booklet or any aspect of the acquisition in any jurisdiction outside of Australia.

#### New Zealand

This Scheme Booklet is not a New Zealand disclosure document and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Financial Markets Conduct Act 2013 (or any other relevant New Zealand law). The issue of Afterpay Touch Group Shares is being made to Afterpay Shareholders in reliance upon the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016 and, accordingly, this Scheme Booklet may not contain all the information that a disclosure document is required to contain under New Zealand law.

### Hong Kong

**WARNING** – The contents of this document have not been reviewed or approved by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document does not constitute an offer or invitation to the public in Hong Kong to acquire or subscribe for or dispose of any securities. This document also does not constitute a prospectus (as defined in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or cause to be issued this document in Hong Kong, other than to persons who are "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder or in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance or which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

No person may issue or have in its possession for the purposes of issue, this document or any advertisement, invitation or document relating to these securities, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than any such advertisement, invitation or document relating to securities that are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

Copies of this document may be issued to a limited number of persons in Hong Kong in a manner which does not constitute any issue, circulation or distribution of this document, or any offer or an invitation in respect of these securities, to the public in Hong Kong. The document is for the exclusive use of Afterpay Shareholders in connection with the Scheme, and no steps have been taken to register or seek authorisation for the issue of this document in Hong Kong.

This document is confidential to the person to whom it is addressed and no person to whom a copy of this



## 9. Additional information

(continued)

document is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this document to any other person in Hong Kong or use for any purpose in Hong Kong other than in connection with the consideration of the Scheme by the person to whom this document is addressed.

### Singapore

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of the Afterpay Touch Group Shares have not been and will not be registered as a prospectus with the Monetary Authority of Singapore and this offering is not regulated by any financial supervisory authority pursuant to any legislation in Singapore. Accordingly, statutory liabilities in connection with the contents of prospectuses under the Securities and Futures Act, Cap. 289 (the “SFA”) will not apply.

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of the Afterpay Touch Group Shares may not be offered, sold or distributed, or be made the subject of an invitation for subscription, purchase or receipt, whether directly or indirectly, to persons in Singapore except pursuant to exemptions in Subdivision (4) Division 1, Part XIII of the SFA, including the exemption under section 273(1)(c) of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Any offer is not made to you with a view to the Afterpay Touch Group Shares being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

Neither this document nor any copy of it may be taken or transmitted into any country where the distribution or dissemination is prohibited. This document is being furnished to you on a confidential basis and solely for your information and may not be reproduced, disclosed, or distributed to any other person.

The investments contained or referred to in this document may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Neither Afterpay nor Afterpay Touch Group is in the business of dealing in securities or hold itself out or purport to hold itself out to be doing so. As such, Afterpay and Afterpay Touch Group are neither licensed

nor exempted from dealing in securities or carrying out any other regulated activities under the SFA or any other applicable legislation in Singapore.

### United Kingdom

Neither the information in this Scheme Booklet nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (FSMA)) has been published or is intended to be published in respect of the Afterpay Touch Group Shares.

Any invitation or inducement to engage in investment activity (within the meaning of s.21 FSMA) received in connection with the issue of the Afterpay Touch Group Shares has only been communicated, and will only be communicated, in the United Kingdom in circumstances in which s.21(1) FSMA does not apply to Afterpay or Afterpay Touch Group. In the United Kingdom, this Scheme Booklet is being distributed only to, and is directed at, persons to whom it may lawfully be made within the circumstances described in Article 43 of the FSMA (Financial Promotion) Order 2005 and/or any other persons to whom it may lawfully be communicated (all such persons being referred to as Relevant Persons).

The investments to which this Scheme Booklet relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

### United States

Afterpay and Afterpay Touch Group intend to rely on an exemption from the registration requirements of the US Securities Act of 1933 provided by Section 3(a)(10) thereof in connection with the consummation of the Scheme and the issuance of the Afterpay Touch Group Shares. Approval of the Scheme by the Court will be relied upon by Afterpay and Afterpay Touch Group for purposes of qualifying for the Section 3(a)(10) exemption.

US shareholders should note that the Scheme is made for the securities of an Australian company in accordance with the laws of Australia and the listing rules of the Australian Securities Exchange. The Scheme is subject to disclosure requirements of Australia that are different from those of the United States.

Any financial statements included in the Scheme Booklet have been prepared in accordance with Australian Accounting Standards and may not be comparable to the financial statements of US companies. Australian corporations must comply with Australian Accounting Standards, which contain Australian equivalents to International Financial Reporting Standards.

It may be difficult for you to enforce your rights and any claim you may have arising under US federal securities laws, since Afterpay is incorporated in Australia and its directors are residents of Australia. You may not be able to sue Afterpay or its directors in Australia for violations of the US securities laws. It may be difficult to compel Afterpay and its affiliates to subject themselves to a US court's judgment.

The Scheme Booklet has not been filed with or reviewed by the US Securities and Exchange Commission or any state securities authority and none of them has passed upon or endorsed the merits of the Scheme or the accuracy, adequacy or completeness of the Scheme Booklet. Any representation to the contrary is a criminal offence.

The Afterpay Touch Group Shares to be issued pursuant to the Scheme have not been, and will not be, registered under the US Securities Act 1933 or the securities laws of any US state or other jurisdiction. The Scheme is not being made in any US state or other jurisdiction where it is not legally permitted to do so.

## 9.9

### ASIC relief and ASX waivers

#### (a) ASIC relief

Afterpay has applied for, and expects to be granted, consent under clause 8305 of Schedule 8 of the Corporations Regulations for the Independent Expert's Report, which contains forecast information, to accompany the Scheme Booklet.

Afterpay has applied for, and expects to be granted, relief from clause 8302(h) of Schedule 8 of the Corporations Regulations to allow this Scheme Booklet to disclose material changes to the financial position of Afterpay since 31 December 2016, rather than 30 June 2016.

#### (b) ASX waivers

Afterpay has applied for a waiver from ASX Listing Rule 6.23.2 in respect of the cancellation and exchange of Afterpay Employee Rights in connection with the Merger.

## 9.10

### Key terms of the Merger Implementation Agreement

Afterpay, Touchcorp and Afterpay Touch Group entered into the Merger Implementation Agreement as announced on 30 March 2017. A copy of the full Merger Implementation Agreement is available on the ASX website at [www.asx.com.au](http://www.asx.com.au), and on Afterpay's website at [www.afterpay.com.au](http://www.afterpay.com.au).

The Merger Implementation Agreement sets out the rights and obligations of Afterpay, Touchcorp and

Afterpay Touch Group in connection with the Afterpay Scheme, Touchcorp Scheme and Merger. The key terms of the Merger Implementation Agreement are summarised below.

#### (a) Conditions Precedent

The Afterpay Scheme and the Merger are subject to the following conditions, some of which have already been satisfied:

- (i) **(Orders convening Scheme Meeting)** the Australian Court orders the convening of the Scheme Meeting under section 411(1) of the Corporations Act;
- (ii) **(Afterpay Shareholder approval)** the Afterpay Scheme is approved by Afterpay Shareholders at the Scheme Meeting by the majorities required under section 411(4)(a)(ii) of the Corporations Act;
- (iii) **(Court approval)** the Afterpay Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act either unconditionally or on conditions that do not impose unduly onerous obligations upon any party to the Merger Implementation Agreement (acting reasonably and with prior written consent from Touchcorp);
- (iv) **(Order lodged with ASIC)** an office copy of the Court order approving the Afterpay Scheme is lodged with ASIC as contemplated by section 411(10) of the Corporations Act on or before 30 September 2017;
- (v) **(Touchcorp Scheme)** the Touchcorp Scheme is sanctioned by the Bermuda Court in accordance with the Companies Act subject to the satisfaction of the Condition Subsequent and either unconditionally or on conditions that do not impose unduly onerous obligations upon any party to the Merger Implementation Agreement (acting reasonably and with prior written consent from Afterpay);
- (vi) **(Regulatory approvals)** before 8.00am on the Second Court Date, all regulatory approvals required to implement the Afterpay Scheme are granted or obtained (including ASIC and ASX having issued or provided such consents, waivers or approvals as are necessary or which the parties to the Merger Implementation Agreement agree are reasonably necessary or desirable to implement the Afterpay Scheme), either unconditionally or on conditions that do not impose unduly onerous obligations on any parties to the Merger Implementation Agreement (acting reasonably), and those regulatory approvals have not been withdrawn, cancelled or revoked before 8.00am on the Second Court Date;
- (vii) **(Restraints)** no law, statute, ordinance, regulation, rule, temporary restraining order, preliminary or permanent injunction or other judgment, order or decree issued by any court of competent jurisdiction or governmental agency or other legal restraint or prohibition preventing or materially restricting

## 9. Additional information (continued)

the Afterpay Scheme is in effect at 8.00am on the Second Court Date;

- (viii) **(Afterpay Employee Rights)** Exchange of Options/Rights Deeds are executed by all holders of Afterpay Employee Rights on issue as at the date of the Merger Implementation Agreement, before 8.00am on the Second Court Date;
- (ix) **(Afterpay Touch Group listing approval)** ASX approves Afterpay Touch Group to be admitted to the official list of ASX, and official quotation of the Afterpay Touch Group Shares forming the Scheme Consideration and the Touchcorp Scheme Consideration, subject only to Implementation of the Afterpay Scheme and the Touchcorp Scheme and other customary conditions which are acceptable to the parties to the Merger Implementation Agreement (acting reasonably), before 8.00am on the Second Court Date;
- (x) **(Afterpay Touch Group Warranties)** the Afterpay Touch Group Warranties being true and correct in all material respects on the date of the Merger Implementation Agreement and at 8.00am on the Second Court Date;
- (xi) **(No Touchcorp Prescribed Occurrence)** no Touchcorp Prescribed Occurrence occurs between the date of the Merger Implementation Agreement and 8.00am on the Second Court Date;
- (xii) **(No Touchcorp Material Adverse Change)** there is no Touchcorp Material Adverse Change between the date of the Merger Implementation Agreement and 8.00am on the Second Court Date;
- (xiii) **(Touchcorp Warranties)** the Touchcorp Warranties being true and correct in all material respects on the date of the Merger Implementation Agreement and at 8.00am on the Second Court Date;
- (xiv) **(Independent Expert's Report)** the Independent Expert provides the Independent Expert's Report to Afterpay, stating that in its opinion the Scheme is fair and reasonable and in the best interests of Afterpay Shareholders, on or before the date on which the Scheme Booklet is registered with ASIC under the Corporations Act, and the Independent Expert does not change or publicly withdraw this conclusion before 8.00am on the Second Court Date;
- (xv) **(Afterpay Touch Group Incentive Plan)** to the extent required by ASX for the purposes of the Listing Rules, the issue of Afterpay Touch Group Employee Rights to persons agreed to by Afterpay and Touchcorp, is approved by Afterpay Shareholders at a general meeting of Afterpay (with voting exclusions as required by the Listing Rules) before 8.00am on the Second Court Date; and
- (xvi) **(Escrow Agreement)** an escrow agreement in respect of Afterpay Touch Group Shares in

standard ASX form has been duly executed by each of the Afterpay Shareholders who are currently subject to such an agreement in relation to their Afterpay Shares, as detailed in section 9.1 of this Scheme Booklet.

As at the date of this Scheme Booklet, the conditions in paragraphs (i) and (xv) above have been satisfied or waived.

The condition in paragraph (xv) has been waived by Afterpay and Touchcorp, and is no longer required. Under the Merger Implementation Agreement, the Afterpay Scheme was previously conditional on Afterpay Shareholder approval of the issue of Afterpay Touch Group Employee Rights under the Afterpay Touch Group Incentive Plan. However, Afterpay Touch Group intends to make these grants with Afterpay Touch Group Shareholder approval following implementation of the Merger and Afterpay Shareholder approval is no longer required. See section 3.25 for further information.

The Afterpay Scheme and Touchcorp Scheme are inter-conditional. The Touchcorp Scheme will become Effective (subject to the Condition Subsequent being satisfied) from the lodgement of the Bermuda Court order approving the Touchcorp Scheme with the Bermuda Registrar of Companies which will occur prior to the Effective Date for the Afterpay Scheme. When the Australian Court order approving the Afterpay Scheme is lodged with ASIC, the Condition Subsequent will be satisfied and on the occurrence of this event, both the Afterpay Scheme and the Touchcorp Scheme will become Effective.

The Touchcorp Scheme is subject to conditions substantially similar to the Afterpay Scheme as set out above, including conditions relating to shareholder and regulatory approvals, employee rights, listing of Afterpay Touch Group, prescribed occurrences in respect of Afterpay, warranties, and Touchcorp's independent expert's report except in respect of the following conditions:

- it is a condition to the Touchcorp Scheme that there is no Afterpay Material Adverse Change between the date of the Merger Implementation Agreement and 8.00am on the Second Court Date; and
- the Touchcorp Scheme is not subject to:
  - the 'Afterpay Touch Group Incentive Plan' condition set out in paragraph (xv) above; and
  - the 'Escrow Agreement' condition set out in paragraph (xvi) above.

Where relevant, any materiality thresholds specified in the conditions to the Touchcorp Scheme are the same as the materiality thresholds in the equivalent conditions to the Afterpay Scheme.

**(b) Exclusivity**

Afterpay has agreed to the following exclusivity provisions in the Merger Implementation Agreement.

- (i) **No-shop:** Afterpay must not directly or indirectly solicit, invite, initiate or encourage any competing proposal or any enquiries, proposals, discussions or negotiations with any third party in relation to (or that could reasonably be expected to lead to) a competing proposal, or communicate any intention to do any of these things.
- (ii) **No-talk and no due diligence:** Afterpay must not, directly or indirectly:
  - (A) negotiate or enter into or participate in negotiations or discussions with any person in relation to (or which may reasonably be expected to lead to) a competing proposal;
  - (B) facilitate or permit any person to undertake due diligence investigations or receive any non-public information in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a competing proposal, or
  - (C) communicate any intention to do any of these things,
 even if that person's competing proposal (whether actual or potential) was not directly or indirectly solicited, encouraged or initiated by Afterpay, or that person has publicly announced the competing proposal.

This no-talk and no due diligence provision is subject to the 'fiduciary out' set out in paragraph (v) below.

- (iii) **Notification of approaches:** Afterpay must promptly notify the other parties to the Merger Implementation Agreement of:
  - (A) any approach, inquiry or proposal made by any person to Afterpay to initiate any discussions or negotiations that concern, or that could reasonably be expected to lead to, a competing proposal; and
  - (B) any request made by any person to Afterpay for any information relating to Afterpay or any of their businesses and operations, in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a competing proposal.

Subject to the 'fiduciary out' set out in paragraph (v) below, the notification of approaches must be accompanied by all material details of the relevant event, including (as applicable):

- (A) the identity of the person who made the relevant approach, inquiry or proposal to initiate discussions or negotiations referred to in

paragraph (A), above or who made the relevant request for information referred to in paragraph (B) above; and

- (B) the material terms and conditions (including price, conditions precedent, timetable and break fee (if any)) of any competing proposal whether actual or potential (to the extent known).

Afterpay must promptly provide the other parties to the Merger Implementation Agreement with any material non-public information relating to Afterpay made available or received by any person in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of, a competing proposal and which has not previously been provided to the other parties.

- (iv) **Right to match:** If Afterpay receives a competing proposal, it must not enter into any agreement, arrangement or understanding in relation to the competing proposal, announce the competing proposal publicly or terminate the Merger Implementation Agreement in accordance with its terms, as a result of the competing proposal unless:
  - (A) it gives the other parties to the Merger Implementation Agreement, a proposal notice in relation to the competing proposal; and
  - (B) a period of 3 Business Days has elapsed from the date on which the proposal notice is given.

Despite the requirement in this paragraph (iv), to the extent required to discharge what they have determined in good faith to be their fiduciary or statutory obligations, the Afterpay Board may release a public announcement acknowledging the receipt of a competing proposal and:

- (A) recommending that Afterpay Shareholders take no action in relation to the competing proposal; and
- (B) reserving the Afterpay Board's position in relation to its recommendation of the Afterpay Scheme,

provided that any such announcement does not disclose the person from whom the competing proposal has been received nor any of the material terms of the competing proposal, including the price.

If Afterpay gives a proposal notice, Touchcorp has the right, but not the obligation, at any time until the expiration of 3 Business Days following receipt of the proposal notice to:

- (A) offer to amend the terms of either or both of the Afterpay Scheme; or
  - (B) to propose any other transaction,
- which offer or proposal must be submitted to Afterpay in writing, being a counter-proposal. If a

## 9. Additional information

(continued)

counter-proposal is submitted, the Afterpay Board must review the counter-proposal in good faith to determine whether the counter-proposal is more favourable to Afterpay Shareholders than the relevant competing proposal taking into account all terms and conditions of both proposals.

If the Afterpay Board determines, in good faith and after having obtained advice from its legal and financial advisers, that a counter-proposal is more favourable to Afterpay Shareholders than the relevant competing proposal then:

- (A) if the counter-proposal contemplates an amendment to the Afterpay Scheme (and if relevant, the Touchcorp Scheme), the parties to the Merger Implementation Agreement must amend the agreement and all other necessary documents to reflect the counter-proposal;
  - (B) if the counter-proposal contemplates any other transaction, Afterpay must make an announcement as soon as reasonably practicable recommending the counter-proposal, in the absence of a superior proposal, and the parties to the Merger Implementation Agreement must pursue implementation of the counter-proposal in good faith; and
  - (C) Afterpay must not take any of the steps referred to in this paragraph (iv).
- (v) **Fiduciary out:** Where specified, the relevant exclusivity provisions in clauses 1.69(b)(ii), 1.69(b)(iii)(C) and 1.69(b)(iii)(D) do not apply to restrict Afterpay or any Afterpay Director from taking or refusing to take any action with respect to a competing proposal provided that:
- (A) the competing proposal is bona fide and is made by or on behalf of a person that the Afterpay Board considers is of reputable commercial standing;
  - (B) the Afterpay Board has determined in good faith after consultation with its financial advisers (if any), that the competing proposal is or may reasonably be expected to lead to a superior proposal; and
  - (C) the Afterpay Board has determined in good faith after receiving written advice from external legal adviser practising in the area of corporate law, that failing to take the action or refuse to take the action (as the case may be) with respect to the competing proposal would be likely to constitute a breach of the fiduciary or statutory obligations of the Afterpay Board.

These exclusivity provisions have been mutually agreed to by Touchcorp and are also binding on Touchcorp.

### (c) Break fee

Afterpay has agreed to pay Touchcorp a break fee of \$750,000 if at any time on or after the date of the Merger Implementation Agreement and before 30 September 2017, any of the following events occur:

- (i) at least a majority of Afterpay Directors fail to recommend the Afterpay Scheme;
- (ii) at least a majority of the Afterpay Directors change or withdraw their recommendation of the Afterpay Scheme or make any public statement, or take any other action that is inconsistent with their recommendation of the Afterpay Scheme (including where a competing proposal is recommended by a majority of the Afterpay Directors), except if the Independent Expert concludes that the Scheme is not in the best interests of Afterpay Shareholders or concludes that the Scheme is in the best interests of Afterpay Shareholders but changes this conclusion (provided that the change in conclusion is not due to a competing proposal);
- (iii) a competing proposal is announced before 30 September 2017 and, within 6 months of that competing proposal being announced, the competing proposal results in a person or persons (other than Afterpay Touch Group) obtaining control of Afterpay, obtaining voting power in more than 50% of the Afterpay Shares, merging or amalgamating with Afterpay or acquiring (directly or indirectly) an interest in all or a substantial part of the business or assets of the Afterpay Group;
- (iv) a condition to the Afterpay Scheme (other than the conditions relating to Touchcorp Prescribed Occurrences, Touchcorp Adverse Material Changes and Touchcorp Warranties) is not satisfied due to an action (or failure to act) of Afterpay in breach of Afterpay's obligations under the Merger Implementation Agreement; or

Touchcorp terminates the Merger Implementation Agreement because Afterpay is in material breach of any of its obligations under the Merger Implementation Agreement (other than a breach of a representation or warranty) and Afterpay has not remedied the breach within 5 Business Days of Touchcorp notifying Afterpay of the breach.

Touchcorp has agreed to pay Afterpay a break fee of \$750,000 if any of the events set out in this paragraph (c) occur to the same extent in respect of Touchcorp after the date of the Merger Implementation Agreement and before 30 September 2017.

If any break fee becomes payable by Afterpay or Touchcorp to the other party, it is the sole and exclusive remedy under the Merger Implementation Agreement and the other party may not make any other claim for any loss that may arise under the Merger Implementation Agreement.



**(d) Termination**

- (i) Afterpay or Touchcorp may terminate the Merger Implementation Agreement by notice to the other if: the other party is in material breach of any of its obligations under the agreement (other than a material breach of a representation or warranty) and the party in breach has not remedied the breach within 5 Business Days of being notified of the breach; or
- (ii) Afterpay Touch Group is in material breach of any of its obligations under the agreement (including a material breach of a representation or warranty) and if capable of remedy, Afterpay Touch Group has not remedied the breach within 5 Business Days of being notified of the breach.

Afterpay may terminate the Merger Implementation Agreement by notice to Touchcorp, if:

- (iii) at least a majority of Afterpay Directors publicly recommend a superior proposal to the Scheme (after having undertaken the 'right to match' procedure set out in clause 1.69(b)(iv) above) and do not reinstate their recommendation of the Scheme within 3 Business Days; or
- (iv) Touchcorp materially breaches any of the Touchcorp Warranties and it fails to remedy that breach within 5 Business Days of being notified of the breach by Afterpay, and the breach was of a kind that would have resulted in Afterpay either not entering into the Merger Implementation Deed or entering into it on materially different terms, if the breach had been disclosed to Afterpay prior to entering into the agreement;
- (v) a majority of Touchcorp directors:
  - (A) fail to recommend the Touchcorp Scheme in accordance with the Merger Implementation Agreement; or
  - (B) change or withdraw their recommendation of the Touchcorp Scheme or make any public statement, or take any other action that is inconsistent with their recommendation of the Afterpay Scheme (including where a competing proposal is recommended by a majority of the Touchcorp directors), and do not reinstate their recommendation of the Touchcorp Scheme within 3 Business Days.

Touchcorp may terminate the Merger Implementation Agreement by notice to Afterpay if any of the events set out in this paragraph (d) occur to the same or equivalent extent in respect of Afterpay.

Afterpay and Touchcorp may terminate the Merger Implementation Agreement by mutual agreement. If the Merger Implementation Agreement is terminated by mutual agreement, no break fee is payable by any party.

**9.11****Regulatory**

All regulatory approvals that are Conditions Precedent to the Scheme are set out in clause 3.1 of the Merger Implementation Agreement.

**9.12****Deed Poll**

Afterpay Touch Group has entered into the Deed Poll in favour of the Scheme Shareholders under which Afterpay Touch Group has undertaken to issue Afterpay Touch Group Shares to the Scheme Shareholders if the Scheme becomes Effective.

The Deed Poll may be relied upon by any Scheme Shareholder despite the fact that they are not a party to it and each Scheme Shareholder appoints Afterpay as its agent to enforce their rights under the Deed Poll against Afterpay Touch Group.

**9.13****Other information material to the making of a decision in relation to the Scheme**

Except as set out in this Scheme Booklet, so far as your directors are aware, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any director or any director of a Related Body Corporate of Afterpay which has not previously been disclosed to Shareholders.

**9.14****Supplementary information**

Afterpay will issue a supplementary document to this Scheme Booklet if it becomes aware, between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date:

- (a) that a material statement in this Scheme Booklet is false or misleading in a material respect;
- (b) that there is a material omission from this Scheme Booklet;
- (c) of a significant change affecting a matter included in this Scheme Booklet has occurred; or
- (d) of a significant new matter that has arisen which would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC.

The form which the supplementary document may take will depend on the nature and timing of the new or changed circumstances.

## 10. Glossary





## 10. Glossary

The following is a glossary of certain terms used in this Scheme Booklet.

<b>Afterpay</b>	Afterpay Holdings Limited.
<b>Afterpay Employee Plans</b>	the Afterpay Employee Option Plan adopted on 29 October 2015 by Afterpay Holdings Pty Ltd, and the Afterpay Employee Incentive Plan adopted by Afterpay on listing on ASX.
<b>Afterpay Employee Right</b>	an Option or Performance Right issued under an Afterpay Employee Plan, or a Loan Share.
<b>Afterpay Group</b>	Afterpay and its Subsidiaries.
<b>Afterpay Information</b>	the information contained in this Scheme Booklet other than the Touchcorp Information, Afterpay Touch Group Information, the Independent Experts' Report and the Independent Limited Assurance Report.
<b>Afterpay Material Adverse Change</b>	<p>means:</p> <ul style="list-style-type: none"> <li>(a) an event, occurrence or matter that occurs, is announced, is disclosed or otherwise becomes known to Touchcorp and/or Afterpay Touch Group (whether it becomes public or not) after the date of the Merger Implementation Agreement (whenever occurring), and which (individually or when aggregated with other events, occurrences or matters) has or is reasonably likely to have the following effects: <ul style="list-style-type: none"> <li>(i) to prevent or would be likely to prevent Afterpay from materially discharging its obligations under the Merger Implementation Agreement; or</li> <li>(ii) to materially adversely affect the financial condition or prospects (in each case considered as a whole) of the Afterpay Group, including as a consequence of: <ul style="list-style-type: none"> <li>(A) any material default by any member of the Afterpay Group under their existing financing facilities, including the NAB Facility; or</li> <li>(B) any material litigation threatened or commenced against any member of the Afterpay Group;</li> </ul> </li> </ul> </li> <li>(b) Afterpay is in default, or National Australia Bank Limited notifies Afterpay that it considers an Afterpay Group entity is in default, under the NAB Facility and that default is not remedied to the satisfaction of National Australia Bank Limited within the earlier of 5 Business Days from the date of such default or the Touchcorp Second Court Date;</li> <li>(c) National Australia Bank Limited ceases funding under the NAB Facility;</li> <li>(d) net transaction losses of the Afterpay Group (calculated on a basis consistent with previous public disclosures by Afterpay) are above 1.00% (unaudited) on average over two consecutive months commencing on the date of the Merger Implementation Agreement;</li> <li>(e) Anthony Eisen and/or Nick Molnar ceases his employment or gives notice of his intention to resign from employment with the Afterpay Group;</li> <li>(f) underlying merchant sales of the Afterpay Group (calculated on a basis consistent with previous public disclosures by Afterpay) are below \$11.5 million on average over 4 or more consecutive weeks commencing on the date of the Merger Implementation Agreement (excluding the effects of any Afterpay System or Touchcorp System failure not caused or materially contributed to by Afterpay);</li> <li>(g) total current net assets of the Afterpay Group (unaudited and calculated on a basis consistent with Afterpay's audited financial statements as at 30 June 2016) fall below \$69.5 million (excluding any effect from costs or expenses associated with the Transaction or accounting effects which arise as a direct result of the Transaction); or</li> <li>(h) a major security breach or systems failure is experienced in relation to the Afterpay System, other than a failure caused or materially contributed to by the Touchcorp Group;</li> </ul> <p>but does not include:</p> <ul style="list-style-type: none"> <li>(i) any matter fairly disclosed in the Afterpay due diligence materials;</li> <li>(j) any matter, event or circumstance arising from changes in general economic or political conditions, the securities market in general or law;</li> <li>(k) any change in taxation or interest rates;</li> <li>(l) any change in generally accepted accounting principles or the interpretation of them;</li> <li>(m) any change occurring directly or indirectly as a result of any matter, event or circumstance required by the Merger Implementation Agreement, the Merger, the Afterpay Scheme, the Touchcorp Scheme or the transactions contemplated by them; or</li> <li>(n) any change occurring with the written consent of Touchcorp.</li> </ul>

## 10. Glossary

(continued)

<b>Afterpay System</b>	the electronic transaction processing system developed by Touchcorp for Afterpay in accordance with the SDLA.
<b>Afterpay Touch Group</b>	Afterpay Touch Group Limited.
<b>Afterpay Touch Group Board</b>	the board or directors of Afterpay Touch Group.
<b>Afterpay Touch Group Employee Right</b>	any right to be issued or transferred a Afterpay Touch Group Share, granted under the Afterpay Touch Group Incentive Plan.
<b>Afterpay Touch Group Incentive Plan</b>	the employee incentive plan described in section 6.6 of this Scheme Booklet.
<b>Afterpay Touch Group Information</b>	the information regarding Afterpay Touch Group contained in sections 6, 7.2, and 7.3 of this Scheme Booklet.
<b>Afterpay Touch Group Share</b>	a fully paid ordinary share in Afterpay Touch Group.
<b>Afterpay Touch Group Share Registry</b>	Computershare.
<b>Afterpay Touch Group Warranties</b>	<p>Under the Merger Implementation Agreement, Afterpay Touch Group represents and warrants to Afterpay and Touchcorp, each of the following statements as at the date of the Merger Implementation Agreement and at all subsequent times until 8.00am on the Second Court Date (except where any statement is expressed to be made only at a particular date, the statement is given only at that date):</p> <ul style="list-style-type: none"> <li>(a) Afterpay Touch Group is a validly existing corporation registered under the laws of its place of incorporation;</li> <li>(b) the execution and delivery of the Merger Implementation Agreement has been properly authorised by all necessary corporate action and Afterpay Touch Group has full corporate power and lawful authority to execute and deliver the Merger Implementation Agreement and to perform or cause to be performed its obligations under the Merger Implementation Agreement;</li> <li>(c) it has in full force and effect each authorisation necessary for it to enter into the Merger Implementation Agreement, to comply with its obligations under it, and to allow them to be enforced;</li> <li>(d) the Merger Implementation Agreement constitutes legal, valid, binding and enforceable obligations on it and the Merger Implementation Agreement does not result in a breach of or default under any Agreement or any writ, order or injunction, rule or regulation to which Afterpay Touch Group is a party or is bound;</li> <li>(e) the Afterpay Touch Group Information provided to Afterpay for inclusion in Afterpay's Scheme Booklet and Touchcorp for inclusion in Touchcorp's Scheme Booklet will: <ul style="list-style-type: none"> <li>(i) be provided in good faith;</li> <li>(ii) comply in all material respects with the requirements of relevant laws, regulatory policy and Listing Rules; and</li> <li>(iii) be provided on the understanding that each of Afterpay and Touchcorp will rely on that information for the purposes of preparing Afterpay's Scheme Booklet and Touchcorp's Scheme Booklet and proposing and implementing the Afterpay Scheme and Touchcorp Scheme (as applicable) in accordance with the requirements of relevant laws, regulatory policy and Listing Rules;</li> </ul> </li> <li>(f) all information provided by or on behalf of Afterpay Touch Group to: <ul style="list-style-type: none"> <li>(i) Afterpay's Independent Expert to enable Afterpay's Independent Expert's Report to be included in Afterpay's Scheme Booklet to be prepared and completed; and</li> <li>(ii) the Touchcorp Independent Expert to enable the Touchcorp Independent Expert's Report to be included in the Touchcorp Scheme Booklet to be prepared and completed,</li> </ul> <p>will not be misleading or deceptive in any material respect (whether by omission or otherwise) and will be provided in good faith and on the understanding that:</p> </li> </ul>

<b>Afterpay Touch Group Warranties (continued)</b>	<ul style="list-style-type: none"> <li>(iii) Afterpay's Independent Expert will rely upon that information for the purposes of preparing the Independent Expert's Report for inclusion in Afterpay's Scheme Booklet; and</li> <li>(iv) the Touchcorp Independent Expert will rely upon that information for the purposes of preparing the Touchcorp Independent Expert's Report for inclusion in the Touchcorp Scheme Booklet;</li> <li>(g) as at the date: <ul style="list-style-type: none"> <li>(i) Afterpay's Scheme Booklet is dispatched to Afterpay Shareholders; and</li> <li>(ii) the Touchcorp Scheme Booklet is dispatched to Touchcorp Shareholders, the Afterpay Touch Group Information, in the form and context in which that information appears in the version of:</li> <li>(iii) Afterpay's Scheme Booklet registered by ASIC under section 412(6) of the Corporations Act,</li> <li>(iv) the Touchcorp Scheme Booklet dispatched to the Touchcorp Shareholders, will not be misleading or deceptive in any material respect (whether by omission or otherwise).</li> </ul> </li> <li>(h) as at the date of the Merger Implementation Agreement, Afterpay Touch Group has provided to Afterpay and Touchcorp all information actually known to it (having made reasonable enquiries) regarding matters affecting or relating to it: <ul style="list-style-type: none"> <li>(i) which is not already in the public domain; and</li> <li>(ii) the disclosure of which might reasonably be expected to have resulted in each of Afterpay and/or Touchcorp not entering into the Merger Implementation Agreement at all or only entering into the Merger Implementation Agreement on materially different terms.</li> </ul> </li> </ul>
<b>ASIC</b>	the Australian Securities and Investments Commission.
<b>ASX</b>	ASX Limited or the securities market which it operates, as the context requires.
<b>BDO</b>	BDO East Coast Partnership
<b>Bermuda Court</b>	the Supreme Court of Bermuda.
<b>Board</b>	the board of directors of Afterpay.
<b>Business Day</b>	a day that is not a Saturday, Sunday or a public holiday or bank holiday in Melbourne, Victoria.
<b>Companies Act</b>	the Companies Act 1981 of Bermuda.
<b>Computershare</b>	Computershare Investor Services Pty Limited.
<b>Condition Subsequent</b>	the condition subsequent to the Touchcorp Scheme, being the condition set out in clause 3.1(d) to the Scheme.
<b>Corporations Act</b>	the Corporations Act 2001 (Cth).
<b>Corporations Regulations</b>	the Corporations Regulations 2001 (Cth).
<b>Court</b>	the Federal Court of Australia or any other Court of competent jurisdiction under the Corporations Act.
<b>Deed Poll</b>	the deed poll executed by Afterpay Touch Group under which Afterpay Touch Group covenants to carry out its obligations under the Scheme.
<b>Directors</b>	the directors of Afterpay.
<b>Effective</b>	<p>With respect to the:</p> <ul style="list-style-type: none"> <li>(a) Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.</li> <li>(a) Touchcorp Scheme, the order of the Bermuda Court made under section 99(2) of the Companies Act in relation to the Touchcorp Scheme coming into effect pursuant to section 99(3) of the Companies Act.</li> </ul>
<b>Effective Date</b>	the date on which both the Scheme and Touchcorp Scheme become Effective.
<b>Excluded Shareholders</b>	Touchcorp or a Subsidiary of Touchcorp.
<b>Government Agency</b>	any governmental, semi-governmental, administrative, fiscal, judicial or quasi-judicial body, department, commission, authority, tribunal, agency or entity.

## 10. Glossary

(continued)

<b>Implementation Date</b>	the date the Scheme is implemented, as set out in the indicative timetable in the Key Dates section.
<b>Independent Expert's Report</b>	the report of LEA, as set out in Annexure A.
<b>Investigating Accountant</b>	Ernst & Young Transaction Advisory Services Limited.
<b>Ineligible Foreign Shareholder</b>	a Shareholder with a registered address in a jurisdiction outside Australia and its external territories, New Zealand, or any other jurisdiction which Afterpay and Afterpay Touch Group reasonably determine.
<b>LEA</b>	Loneragan Edwards & Associates Limited.
<b>Loan Share</b>	an Afterpay Share issued subject to vesting conditions and a limited recourse loan.
<b>Merged Group</b>	Afterpay Touch Group and its Subsidiaries following completion of the Merger.
<b>Merger</b>	means the proposed merger of Afterpay and Touchcorp by way of the inter-conditional Scheme and the Touchcorp Scheme, resulting in Afterpay Touch Group's acquisition of Afterpay and Touchcorp.
<b>Merger Implementation Agreement</b>	means the Merger Implementation Agreement dated 30 March 2017 between Afterpay, Touchcorp and Afterpay Touch Group relating to the implementation of (among other things) the Scheme and the Merger, as announced to ASX on the same date.
<b>NAB Facility</b>	the Afterpay Warehouse Trust financing facility constituted by various documents dated on or about 24 November 2016 between, as the case may be, National Australia Trustees Ltd (in its own capacity and in its capacity as trustee), National Australia Managers Limited, National Australia Bank Limited (in its own capacity and in its capacity as trustee), Afterpay, Afterpay Pty Ltd and others.
<b>Option</b>	an option to acquire an Afterpay Share subject to vesting conditions, granted under an Afterpay Employee Plan.
<b>Performance Right</b>	a right to acquire an Afterpay Share subject to vesting conditions, granted under an Afterpay Employee Plan.
<b>Record Date</b>	5.00pm on the third Business Day following the Effective Date.
<b>Register</b>	the register of members of Afterpay maintained by or on behalf of Afterpay in accordance with section 168(1) of the Corporations Act
<b>Regulatory Authority</b>	includes a Government Agency, any regulatory organisation established under statute and ASX.
<b>Requisite Majority</b>	the resolution to be put to the Scheme Meeting being approved by a majority in number (more than 50%) of Shareholders who are present and voting (either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative), and by at least 75% of the votes cast on the resolution.
<b>RG 60</b>	Regulatory Guide 60 issued by ASIC on 22 September 2011.
<b>RSM</b>	RSM Corporate Australia Pty Ltd.
<b>RSM Report</b>	the independent expert's report prepared by RSM for Touchcorp Shareholders in respect of the Touchcorp Scheme.
<b>Sale Nominee</b>	the broker appointed by Afterpay Touch Group for the sale of Afterpay Touch Group Shares that would otherwise have been issued to Ineligible Foreign Shareholders.
<b>Scheme</b>	the scheme of arrangement between Afterpay and the Scheme Shareholders as set out in Annexure C.
<b>Scheme Booklet</b>	this scheme booklet in relation to a proposal from Afterpay Touch Group to exchange all Scheme Shares for Afterpay Touch Group Shares.
<b>Scheme Consideration</b>	the consideration payable to Scheme Shareholders (other than Ineligible Foreign Shareholders) under the Scheme, being 1 new Afterpay Touch Group Share for each Scheme Share held by a Scheme Shareholder.
<b>Scheme Meeting</b>	the meeting of Shareholders (other than the Excluded Shareholders) to be convened by the Court under section 411(1) of the Corporations Act in respect of the Scheme.
<b>Scheme Shareholders</b>	each person registered in the Register as the holder of a Share as at the Record Date, other than the Excluded Shareholders.

<b>SDLA</b>	the Software Development and Licence Agreement between Afterpay Pty Ltd and Touch Australia Pty Ltd dated 12 February 2015, as amended from time to time.
<b>Second Court Date</b>	the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or scheduled to be heard, as set out in the indicative timetable in the Key Dates section.
<b>Second Court Hearing</b>	the Court hearing on the Second Court Date.
<b>Share</b>	a fully paid ordinary share in Afterpay.
<b>Share Registry</b>	Computershare.
<b>Shareholders</b>	each person who is registered in the Afterpay Register from time to time as the holder of an Afterpay Share.
<b>Subsidiary</b>	has the same meaning as in section 46 of the Corporations Act.
<b>Touchcorp Board</b>	the board of directors of Touchcorp.
<b>Touchcorp Deed Poll</b>	the deed poll executed by Afterpay Touch Group under which Afterpay Touch Group covenants to carry out its obligations under the Touchcorp Scheme.
<b>Touchcorp Directors</b>	the directors of Touchcorp.
<b>Touchcorp</b>	Touchcorp Limited.
<b>Touchcorp Group</b>	Touchcorp and its Subsidiaries.
<b>Touchcorp Information</b>	the information contained in section 5 of this Scheme Booklet, and does not include the Afterpay Information, the Afterpay Touch Group Information, the Independent Expert's Report or the Independent Limited Assurance Report.
<b>Touchcorp Material Adverse Change</b>	<p>means:</p> <ul style="list-style-type: none"> <li>(a) an event, occurrence or matter that occurs, is announced, is disclosed or otherwise becomes known to Afterpay and/or Afterpay Touch Group (whether it becomes public or not) after the date of the Merger Implementation Agreement (whenever occurring), and which (individually or when aggregated with other events, occurrences or matters) has or is reasonably likely to have the following effects: <ul style="list-style-type: none"> <li>(i) to prevent or would be likely to prevent Touchcorp from materially discharging its obligations under the Merger Implementation Agreement; or</li> <li>(ii) to materially adversely affect the financial condition or prospects (in each case considered as a whole) of the Touchcorp Group, including as a consequence of any material litigation threatened or commenced against any member of the Touchcorp Group;</li> </ul> </li> <li>(b) Optus terminates or notifies Touchcorp of its intention to terminate the Optus Contract for any reason;</li> <li>(c) one or more other contracts with customers of the Touchcorp Group (excluding the supply agreement between Touchcorp and Optus Mobile Pty Limited (Optus Contract) and the SDLA) are terminated or Touchcorp is notified of an intention to terminate such contracts for any reason such that the annualised revenue to the Touchcorp Group for FY2017 under all customer contracts, including current and any new customers, calculated by annualising such revenue on the basis of revenue received in the period on and from 1 January 2017 to the point of calculation, is reduced by more than \$1 million (excluding under the Optus Contract and the SDLA);</li> <li>(d) total cash held by the Touchcorp Group is below \$15 million as at the date of the Touchcorp Scheme Meeting, adjusted for changes in current assets and current liabilities as agreed by the Parties and calculated on the basis that Afterpay has paid all amounts in full as and when due, and excluding (so as to add back) any payments made to advisors whose identities have been disclosed to Afterpay for advice in relation to the Heads of Agreement, the Merger Implementation Agreement or any transaction related steps that ensue including preparation and approval of Afterpay's Scheme Booklet and the Touchcorp Scheme Booklet;</li> <li>(e) Nadine Lennie ceases her employment or gives notice of her intention to resign from employment with the Touchcorp Group;</li> <li>(f) Citibank withdraws, or notifies Touchcorp of its intention to withdraw, the provision of acquiring services;</li> </ul>

## 10. Glossary (continued)

<b>Touchcorp Material Adverse Change (continued)</b>	<p>(g) any current certification of the Touchcorp Group in relation to PCI DSS compliance is withdrawn or Touchcorp is notified that such certification is to be withdrawn;</p> <p>(h) a major security breach or systems failure is experienced in relation to the Afterpay System or any Touchcorp System, other than a failure caused, or materially contributed to, by the Afterpay Group, which causes a material adverse effect on Afterpay or Touchcorp or is reasonably likely to have a material adverse effect on the financial results of Afterpay or Touchcorp for calendar 2017; or</p> <p>(i) Afterpay becomes entitled to exercise its right to terminate the SDLA in accordance with the SDLA;</p> <p>but does not include:</p> <p>(j) any matter fairly disclosed in the Touchcorp due diligence materials;</p> <p>(k) any matter, event or circumstance arising from changes in general economic or political conditions, the securities market in general or law;</p> <p>(l) any change in taxation or interest rates;</p> <p>(m) any change in generally accepted accounting principles or the interpretation of them;</p> <p>(n) any change occurring directly or indirectly as a result of any matter, event or circumstance required by the Merger Implementation Agreement, the Merger, the Afterpay Scheme, the Touchcorp Scheme or the transactions contemplated by them; or</p> <p>(o) any change occurring with the written consent of Afterpay.</p>
<b>Touchcorp Prescribed Occurrence</b>	<p>the occurrence of any of the following on or after the date of the Merger Implementation Agreement and before 8.00am on the Afterpay Second Court Date:</p> <p>(a) Touchcorp subdivides or consolidates all or any of its shares into a larger or smaller number of shares, as the case may be;</p> <p>(b) any member of the Touchcorp Group resolves to reduce its share capital in any way;</p> <p>(c) any member of the Touchcorp Group:</p> <ul style="list-style-type: none"> <li>(i) enters into a buy-back agreement; or</li> <li>(ii) resolves to approve the terms of a buy-back agreement under the Companies Act;</li> </ul> <p>(d) any member of the Touchcorp Group declares, pays or distributes any dividend, bonus or other share of its profits or assets or returning or agreeing to return any capital;</p> <p>(e) any member of the Touchcorp Group issues shares, or grants a performance right, a phantom performance right, or an option over its shares, or agrees to make such an issue or grant such a performance right, phantom performance right or an option;</p> <p>(f) any member of the Touchcorp Group issues, or agrees to issue, convertible notes;</p> <p>(g) any member of the Touchcorp Group disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;</p> <p>(h) any member of the Touchcorp Group creates or agrees to create, any mortgage, charge, lien or other encumbrance over the whole, or a substantial part, of its business or property, other than in the usual and ordinary course of business consistent with past practice;</p> <p>(i) Touchcorp adopts new Bye-laws or modifies or repeals its Bye-laws or a provision of them; or</p> <p>(j) any member of the Touchcorp Group becomes Insolvent, provided that a Touchcorp Prescribed Occurrence will not include any matter:</p> <p>(k) expressly required to be done or procured by Touchcorp, pursuant to the Merger Implementation Agreement;</p> <p>(l) to the extent it is fairly disclosed in filings of Touchcorp with the ASX prior to the date of the Merger Implementation Agreement;</p> <p>(m) to the extent it is fairly disclosed in the Touchcorp due diligence materials;</p> <p>(n) required by law or by an order of a court or Governmental Agency;</p> <p>(o) expressly permitted pursuant to the Merger Implementation Agreement; or</p> <p>(p) in respect of which Touchcorp first consulted Afterpay, and which Afterpay approved in writing (which approval must not be unreasonably withheld or delayed).</p>
<b>Touchcorp Register</b>	<p>the register of shareholders maintained by Touchcorp in accordance with section 65 of the Companies Act.</p>



<b>Touchcorp Scheme</b>	the scheme of arrangement between Touchcorp and the Touchcorp Scheme Shareholders as described in section 5 of this Scheme Booklet.
<b>Touchcorp Scheme Consideration</b>	the consideration to be issued to Touchcorp Scheme Shareholders under the Touchcorp Scheme, being 0.64 Afterpay Touch Group Shares for each Touchcorp Scheme Share held by a Touchcorp Scheme Shareholder.
<b>Touchcorp Scheme Meetings</b>	each meeting to be convened by the Bermuda Court pursuant to the Touchcorp Scheme.
<b>Touchcorp Scheme Shareholders</b>	each person registered in the Touchcorp Register as the holder of a Touchcorp Share as at the record date for the Touchcorp Scheme.
<b>Touchcorp Share</b>	a fully paid ordinary share in Touchcorp.
<b>Touchcorp Share Registry</b>	Computershare.
<b>Touchcorp Shareholders</b>	each person who is registered in the Touchcorp Register from time to time as the holder of a Touchcorp Share.
<b>Touchcorp System</b>	the electronic transaction processing system developed by Touchcorp.
<b>Touchcorp Warranties</b>	<p>Under the Merger Implementation Agreement, Touchcorp represents and warrants to Afterpay and Afterpay Touch Group, each of the following statements as at the date of the Merger Implementation Agreement and at all subsequent times until 8.00am on the Second Court Date (except where any statement is expressed to be made only at a particular date, the statement is given only at that date):</p> <ul style="list-style-type: none"> <li>(a) Touchcorp is a validly existing corporation registered under the laws of its place of incorporation;</li> <li>(b) the execution and delivery of the Merger Implementation Agreement has been properly authorised by all necessary corporate action and Touchcorp has full corporate power and lawful authority to execute and deliver the Merger Implementation Agreement and to perform or cause to be performed its obligations under the Merger Implementation Agreement;</li> <li>(c) it has in full force and effect each authorisation necessary for it to enter into the Merger Implementation Agreement, to comply with its obligations under it, and to allow them to be enforced;</li> <li>(d) the Merger Implementation Agreement constitutes legal, valid, binding and enforceable obligations on it and the Merger Implementation Agreement does not result in a breach of or default under any Agreement or any writ, order or injunction, rule or regulation to which Touchcorp is a party or is bound;</li> <li>(e) no Touchcorp Prescribed Occurrence has occurred;</li> <li>(f) the information contained in the Touchcorp Scheme Booklet (other than the Afterpay Information, Afterpay Touch Group Information and Touchcorp Independent Expert's Report) will: <ul style="list-style-type: none"> <li>(i) be prepared and included in the Touchcorp Scheme Booklet in good faith; and</li> <li>(ii) comply in all material respects with the requirements of the Companies Act and Listing Rules;</li> </ul> </li> <li>(g) as at the date the Touchcorp Scheme Booklet is despatched to Touchcorp Shareholders, the Touchcorp Scheme Booklet (excluding the Afterpay Information, Afterpay Touch Group Information and the Touchcorp Independent Expert's Report) will not be misleading or deceptive in any material respect (whether by omission or otherwise);</li> <li>(h) the Touchcorp Information provided to Afterpay and Afterpay Touch Group for inclusion in Afterpay's Scheme Booklet will: <ul style="list-style-type: none"> <li>(i) be provided in good faith;</li> <li>(ii) comply in all material respects with the requirements of the Corporations Act, Listing Rules and RG 60; and</li> <li>(iii) be provided on the understanding that Afterpay and Afterpay Touch Group will rely on that information for the purposes of preparing Afterpay's Scheme Booklet and Afterpay Touch Group Information and proposing and implementing Afterpay's Scheme in accordance with the requirements of the Corporations Act, Listing Rules and RG 60;</li> </ul> </li> </ul>



## 10. Glossary (continued)

### Touchcorp Warranties (continued)

- 
- (i) as at the date of the Merger Implementation Agreement, Touchcorp has provided to each of Afterpay and Afterpay Touch Group all information actually known to it (having made reasonable enquiries) regarding matters affecting or relating to it:
    - (i) which is not already in the public domain; and
    - (ii) the disclosure of which might reasonably be expected to have resulted in each other Party not entering into the Merger Implementation Agreement at all or only entering into the Merger Implementation Agreement on materially different terms;
  - (j) all information provided by or on behalf of Touchcorp to Afterpay's Independent Expert to enable Afterpay's Independent Expert's Report to be included in Afterpay's Scheme Booklet to be prepared and completed will not be misleading or deceptive in any material respect (whether by omission or otherwise) and will be provided in good faith and on the understanding that Afterpay's Independent Expert will rely upon that information for the purposes of preparing Afterpay's Independent Expert's Report for inclusion in Afterpay's Scheme Booklet;
  - (k) as at the date Afterpay's Scheme Booklet is dispatched to Afterpay Shareholders, the Touchcorp Information, in the form and context in which that information appears in the version of the Scheme Booklet registered by ASIC under section 412(6) of the Corporations Act will not be misleading or deceptive in any material respect (whether by omission or otherwise);
    - (l) so far as it is aware (after making reasonable enquiries),
    - (i) subject to paragraph (ii) below, all information provided by or on behalf of Touchcorp to Afterpay during the process of due diligence and negotiations in relation to the Merger is materially accurate and not misleading in all material respects (including by omission), and Touchcorp has not knowingly omitted to disclose information to Afterpay during that process which might reasonably be expected to have resulted in Afterpay not entering into the Merger Implementation Agreement, or entering into the Merger Implementation Agreement on materially different terms; and
    - (ii) all information provided under paragraph (i) above which is of a forward looking nature such as forecasts, projections or statements of opinion, belief or intent (Touchcorp Forecasts) has been prepared in good faith. To avoid doubt, Afterpay acknowledges that that Touchcorp does not make any representation or warranty as to the accuracy or completeness of such Touchcorp Forecasts;
  - (m) as at the date of the Merger Implementation Agreement, Touchcorp is not in breach of its continuous disclosure obligations under the Listing Rules and is not relying on the exclusion in Listing Rule 3.1A to withhold any information from disclosure (other than in relation to the Merger or as disclosed in writing to the other parties to the Merger Implementation Agreement on or before the date of the Merger Implementation Agreement);
  - (n) as at the date of the Merger Implementation Agreement and except as fairly disclosed, each member of the Touchcorp Group has complied in all material respects with all Australian and Bermudan laws and regulations applicable to it and any orders of Australian and Bermudan Governmental Agencies having jurisdiction over it and has all material licenses, permits and franchises necessary for it to conduct its business as presently being conducted;
  - (o) the issued capital of Touchcorp as at the date of the Merger Implementation Agreement is:
    - (i) 131,503,568 Touchcorp Shares; and
    - (ii) nil options over Touchcorp Shares; and
    - (iii) nil performance rights in relation to Touchcorp Shares,
 and there are no other Touchcorp options, performance rights, shares, warrants, convertible notes, instruments or other securities (or offers or agreements to issue any of the foregoing) that may convert into Touchcorp Shares;
-

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**Touchcorp Warranties  
(continued)**

- (p) no member of the Touchcorp Group has issued, or agreed to issue, any other securities or instruments which may convert into Touchcorp Shares or any other securities in Touchcorp.
  - (q) no member of the Touchcorp Group is insolvent;
  - (r) there are no material encumbrances over all or any of the Touchcorp Group's assets or revenue;
  - (s) subject to satisfaction of the conditions to the Touchcorp Scheme, Touchcorp does not require the approval of its shareholders or the approval or consent of any other person to enter into or perform any of its obligations under the Merger Implementation Agreement; and
  - (t) Touchcorp's financial statements as disclosed to the ASX have been prepared in accordance with the Accounting Standards on a basis consistent with past practice financial statements and, so far as Touchcorp is aware, there has not been any event, change, effect or development which would require Touchcorp to restate its financial statements as disclosed to the ASX.
- 

**Interpretation**

In this Scheme Booklet:

- (a) except as otherwise provided, all words and phrases used in this Scheme Booklet have the meanings (if any) given to them by the Corporations Act;
  - (b) headings are for ease of reference only and will not affect the interpretation of this Scheme Booklet;
  - (c) words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders. A reference to a person includes a reference to a corporation;
  - (d) all dates and times are Melbourne, Australia times;
  - (e) a reference to \$, A\$, AUD and cents is to Australian currency, unless otherwise stated; and
  - (f) a reference to a section or Annexure is to a section in or Annexure to this Scheme Booklet, unless otherwise stated.
-

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Annexure A  
**Independent Expert's Report**

**LONERGAN EDWARDS  
& ASSOCIATES LIMITED**

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10 May 2017

**Subject: Merger with Touchcorp Limited**

Dear Directors

**Introduction**

- 1 On 30 March 2017, Afterpay Holdings Limited (Afterpay or the Company) and Touchcorp Limited (Touchcorp) announced that they had signed a Merger Implementation Agreement (MIA) under which the two companies will merge under a new Australian holding company called "Afterpay Touch Group Limited" (ATG or the Merged Entity) via all-scrip inter-conditional schemes of arrangement (the Schemes or the Merger).
- 2 If the Schemes are approved and implemented, Afterpay shareholders excluding Touchcorp (Afterpay Shareholders), will receive 1 ATG share for each Afterpay share held, and Touchcorp shareholders (Touchcorp Shareholders) will receive 0.64 ATG shares for each Touchcorp share held (the Merger Ratio).
- 3 On completion of the Merger, existing Afterpay Shareholders and Touchcorp Shareholders will own approximately 64% and 36% respectively of the Merged Entity (on a fully diluted basis).

**Purpose of report**

- 4 There is a regulatory requirement for an independent expert's report (IER) to be prepared for Afterpay Shareholders pursuant to the *Corporations Act 2001 (Cth)* (Corporations Act). Further, the Afterpay Scheme is subject to a number of conditions precedent, including an independent expert concluding that the Afterpay Scheme is fair and reasonable to, and in the best interests of, Afterpay Shareholders.
- 5 Accordingly, the Directors of Afterpay have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in our opinion, the Merger is fair and reasonable to, and in the best interests of, Afterpay Shareholders and the reasons for that opinion.
- 6 LEA is independent of Afterpay and Touchcorp and has no other involvement or interest in the Merger.

Annexure A  
Independent Expert's Report  
(continued)



### Summary of opinion

- 7 In our opinion, the terms of the Merger are fair and reasonable to, and in the best interests of, Afterpay Shareholders, in the absence of a superior proposal. We have formed this opinion for the reasons detailed below.

### Value implications of the Merger

- 8 We set out below the value implications of the Merger from the perspective of Afterpay Shareholders:

	Section	Low \$	High \$
Portfolio value of Afterpay shares pre-Merger	V	2.20	2.60
Portfolio value of Merged Entity shares issued as consideration post-Merger <sup>(1)(2)</sup>	VI	2.26	2.63
Value uplift per share <sup>(2)</sup>		0.06	0.03

**Note:**

- 1 Pursuant to the Merger, Afterpay Shareholders (other than Touchcorp) will receive one share in the Merged Entity for every share held in Afterpay.  
2 Excluding the value of any potential synergy benefits.

- 9 As indicated above, in our view, the merger has a small positive impact on Afterpay Shareholder value. Consequently, in our opinion, the terms of the Merger are fair and reasonable to Afterpay Shareholders.

### Advantages

- 10 In our opinion, there are also a number of advantages of the Merger:
- (a) in our view, the Merged Entity is likely to be more attractive to potential investors as all intellectual property will be owned by the one company
  - (b) Afterpay and Touchcorp are highly complementary businesses and the combination of both companies should, in our view, benefit both groups of shareholders in the long term (compared to their status quo position as standalone companies). In particular, in our view, the Merged Entity is likely to be better placed to commercialise the business opportunities available to the group
  - (c) the Merged Entity expects to be able to generate cost savings due to the Merger.

### Disadvantages

- 11 In our opinion, there are no material disadvantages for Afterpay Shareholders arising from the Merger. However, we note that Ineligible Foreign Shareholders will be unable to receive shares in the Merged Entity and will instead receive a corresponding cash payment.
- 12 Consequently, in our opinion, the advantages of the Merger outweigh the disadvantages. As a result, in our opinion, the Merger is also in the best interests of Afterpay Shareholders.



## General

- 13 In preparing this report we have considered the interests of Afterpay Shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 14 The impact of approving the Merger on the tax position of Afterpay Shareholders depends on the individual circumstances of each investor. Afterpay Shareholders should read the Afterpay Scheme Booklet and consult their own professional advisers if in doubt as to the taxation consequences of the Merger.
- 15 The ultimate decision whether to approve the Merger should be based on each Afterpay Shareholder's assessment of their own circumstances. If Afterpay Shareholders are in doubt about the action they should take in relation to the Merger or matters dealt with in this report, shareholders should seek independent professional advice.
- 16 For our full opinion on the Merger and the reasoning behind our opinion, we recommend that Afterpay Shareholders read the remainder of our report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'C Edwards'.

Craig Edwards  
Authorised Representative

A handwritten signature in black ink, appearing to read 'M Holt'.

Martin Holt  
Authorised Representative

Annexure A  
Independent Expert's Report  
(continued)



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Annexure A  
Independent Expert's Report  
(continued)

**LONERGAN EDWARDS**  
& ASSOCIATES LIMITED

## **I Key terms of the Merger**

### **Terms**

- 17 On 30 March 2017, Afterpay Holdings Limited (Afterpay) and Touchcorp Limited (Touchcorp) announced that they had signed a Merger Implementation Agreement (MIA) under which the two companies will merge under a new Australian holding company called "Afterpay Touch Group Limited" (ATG or the Merged Entity) via all-scrip inter-conditional schemes of arrangement (the Schemes or the Merger).
- 18 If the Schemes are approved and implemented, Afterpay shareholders excluding Touchcorp (Afterpay Shareholders) will receive 1 ATG share for each Afterpay share held, and Touchcorp shareholders (Touchcorp Shareholders) will receive 0.64 ATG shares for each Touchcorp share held (the Merger Ratio).
- 19 On completion of the Merger, existing Afterpay Shareholders and Touchcorp Shareholders will own approximately 64% and 36% respectively of the Merged Entity (on a fully diluted basis).

### **Conditions**

- 20 The Merger is subject to the satisfaction of a number of conditions precedent, including the following which are outlined in the MIA between Afterpay and Touchcorp dated 30 March 2017:
  - (a) each party obtaining all necessary regulatory, court and shareholder approvals
  - (b) no material adverse change or certain specific company events in relation to Afterpay or Touchcorp occurring
  - (c) no prescribed occurrences in relation to Afterpay or Touchcorp occurring
  - (d) the entry into of appropriate exchange or variation documentation in respect of Afterpay and Touchcorp employee awards
  - (e) each party's warranties remaining true and correct in all material respects
  - (f) ATG obtaining Australian Securities Exchange (ASX) listing approval
  - (g) the receipt of IERs for each Scheme concluding that the Scheme is in the best interests of, and fair and reasonable to, the respective shareholders.
- 21 It should be noted that the above is a summary of the key conditions only. Further information on the Merger conditions is set out in the Afterpay Scheme Booklet.

### **Exclusivity**

- 22 In addition, during the "Exclusivity Period" (as defined in the MIA), each of Afterpay and Touchcorp has agreed that they will not:
  - (a) solicit, invite, encourage or initiate any "Competing Proposal" (as defined in the MIA)
  - (b) participate in any discussions or negotiations which may reasonably be expected to lead to a Competing Proposal



- (c) negotiate, accept or enter into any agreement, arrangement or understanding in relation to a Competing Proposal
  - (d) provide any non-public information to a third party with a view to obtaining, or which would reasonably be expected to encourage, or lead to receipt of a Competing Proposal.
- 23 The “no-talk” exclusivity obligations set out in paragraphs 22(b), (c) and (d) above are subject to a fiduciary carve-out in circumstances where, in the opinion of the Afterpay Board or Touchcorp Board (as applicable), formed in good faith after receiving advice from its external legal advisers, compliance with the no-talk obligations constitutes, or would be likely to constitute, a breach of any of the fiduciary or statutory duties of the directors of Afterpay or Touchcorp (as applicable), provided that the Competing Proposal was not directly or indirectly brought about or facilitated by a breach of the “no-shop” obligation summarised in paragraph 22(a) above.
- 24 In addition, during the Exclusivity Period, each of Afterpay and Touchcorp must notify the other party in writing as soon as possible after it becomes aware of:
- (a) any approach, inquiry or proposal made to initiate any negotiations or discussions in relation to a Competing Proposal; or
  - (b) the provision of any material non-public information about the business or affairs of Afterpay or Touchcorp (as applicable).

### **Break Fee**

- 25 A “Break Fee” of \$0.75 million is payable either by Afterpay to Touchcorp or by Touchcorp to Afterpay in certain circumstances as specified in the MIA. For example, a Break Fee is payable by Afterpay to Touchcorp if a Competing Proposal is announced for Afterpay by a third party during the Exclusivity Period and within six months of that announcement, that third party or its associate acquires control of, or acquires or merges with, Afterpay or a material subsidiary of Afterpay, or acquires an interest in all or a substantial part of Afterpay’s business or assets.

### **Resolution**

- 26 Afterpay Shareholders will be asked to vote on the Merger in accordance with the resolution contained in the Notice of Meeting accompanying the Afterpay Scheme Booklet.
- 27 If the resolution is passed by the requisite majorities and the relevant conditions precedent are satisfied or waived, Afterpay must apply to the Court for orders approving the Afterpay Scheme and, if that approval is given, lodge the orders with the Australian Securities & Investments Commission (ASIC) and do all things necessary to give effect to the Afterpay Scheme. Once the Afterpay Scheme becomes effective, it will become binding on all Afterpay Shareholders who hold Afterpay shares as at the Scheme Record Date, whether or not they voted for the Afterpay Scheme (and even if they voted against the Afterpay Scheme).

Annexure A  
Independent Expert's Report  
(continued)

LONERGAN EDWARDS  
& ASSOCIATES LIMITED

## II Scope of our report

### Purpose

- 28 The Afterpay Scheme is to be effected pursuant to Part 5.1 of the Corporations Act, which governs schemes of arrangement. Part 3 of Schedule 8 of the *Corporations Regulations 2001* (Corporations Regulations) prescribes information to be sent to shareholders in relation to a member's scheme of arrangement pursuant to s411 of the Corporations Act.
- 29 Paragraph 8303 of Schedule 8 of the Corporations Regulations provides that, where the other party to the transaction holds not less than 30% of the voting shares in the company the subject of the scheme, or where a director of the other party to the transaction is also a director of the company the subject of the scheme, the explanatory statement must be accompanied by an IER that states whether the proposed scheme is in the best interests of shareholders and the reasons for that opinion.
- 30 Touchcorp has a 27.7% voting interest in Afterpay and has no representation on the Afterpay Board. However, ATG and Afterpay have common directors, and accordingly there is a regulatory requirement for Afterpay to obtain an IER. The Merger is also subject to a number of conditions precedent, including an independent expert concluding that the Merger is fair and reasonable to, and in the best interests of, Afterpay Shareholders.
- 31 Accordingly, the Directors of Afterpay have requested that LEA prepare an IER stating whether, in our opinion, the Merger is fair and reasonable to, and in the best interests of, Afterpay Shareholders and the reasons for that opinion.
- 32 This report has been prepared by LEA for the benefit of Afterpay Shareholders to assist them in considering the resolution to approve the Merger. Our report will accompany the Notice of Meeting and Afterpay Scheme Booklet to be sent to Afterpay Shareholders. The sole purpose of our report is to determine whether, in our opinion, the Merger is fair and reasonable to, and in the best interests of, Afterpay Shareholders.
- 33 The ultimate decision whether to approve the Merger should be based on each Afterpay Shareholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Merger or matters dealt with in this report, shareholders should seek independent professional advice.

### Basis of assessment

#### RG 111

- 34 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, including, in particular, ASIC Regulatory Guide 111 – *Content of expert reports* (RG 111) which outlines the approaches which should be used in IERs when opining on public company transactions (such as the Merger).
- 35 Under RG 111, the fairness of a control transaction (such as a takeover offer) is required to be assessed by comparing the value of the consideration offered with the full underlying value of the target company assuming 100% ownership (inclusive of a control premium). Where the consideration comprises scrip in the offeror (i.e. bidder), the value of that consideration must be assessed on a minority interest (or portfolio) basis, reflecting the minority interest nature of the shares to be issued as consideration.



### **Mergers**

- 36 However, in our opinion, the Afterpay Scheme should be evaluated as a merger rather than a change of control transaction. This is because:
- (a) neither Afterpay or Touchcorp is being acquired by the other
  - (b) as stated above, Afterpay Shareholders will collectively own approximately 64% of ATG following implementation of the Merger, and will therefore collectively control the enlarged business; and
  - (c) no individual shareholder<sup>1</sup> of Touchcorp will acquire a relevant voting interest in more than 20% of the shares on issue in ATG following implementation of the Merger<sup>2</sup>.
- 37 Accordingly, LEA has assessed the Afterpay Scheme as a merger.
- 38 When assessing the value implications of a merger it is important that a consistent basis of valuation be used. Accordingly, we have compared the value of the shares held by Afterpay Shareholders before and after implementation of the Merger on a portfolio (or listed market) basis.
- 39 This is consistent with RG 111, which states that where there is a “merger of entities of equivalent value when control of the Merged Entity will be shared between the ‘bidder’ and ‘target’ ... the expert may be justified in using an equivalent approach to valuing the securities of the ‘bidder’ and the ‘target’”.

### **Assessment criteria**

- 40 In assessing the Merger we have therefore considered:
- (a) whether Afterpay Shareholders obtain a collective ownership interest in the Merged Entity that is consistent with (or greater than) the relative value they contribute to the Merged Entity
  - (b)
  - (c) the value implications of the Merger from the perspective of Afterpay Shareholders; and
  - (d) the advantages and disadvantages of the Merger from the perspective of Afterpay Shareholders.

### **Fair and reasonable**

- 41 Given the above, the terms of the Merger are fair to Afterpay Shareholders if the value of the shares held in the Merged Entity by Afterpay Shareholders (post implementation of the Merger) is equal to or greater than the value of Afterpay shares prior to implementation of the Merger. If the Merger terms are fair, in our opinion, the Merger is also reasonable.

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<sup>1</sup> Including their associates.

<sup>2</sup> Other than Touchcorp, no individual shareholder (including their associates) currently has a relevant interest in more than 20% of the shares in Afterpay.

Annexure A  
Independent Expert's Report  
(continued)

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**In the best interests**

- 42 There is no legal definition of the expression “in the best interests”. However, RG 111 states that a scheme may be “*in the best interests of the members of the company*” if there are sufficient reasons for securityholders to vote in favour of the scheme in the absence of a higher offer.
- 43 Consistent with the requirements of RG 111, we have concluded that the Merger is in the best interests of Afterpay Shareholders if the advantages of the Merger outweigh the disadvantages from the perspective of Afterpay Shareholders.

**Limitations and reliance on information**

- 44 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 45 Our report is also based upon financial and other information provided by Afterpay, Touchcorp and their advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 46 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Merger from the perspective of Afterpay Shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 47 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.
- 48 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 49 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.



- 50 In forming our opinion, we have also assumed that:
- (a) the information set out in the Afterpay Scheme Booklet is complete, accurate and fairly presented in all material respects
  - (b) if the Afterpay Scheme becomes legally effective, it will be implemented in accordance with the terms set out in this report.



Annexure A  
Independent Expert's Report  
(continued)



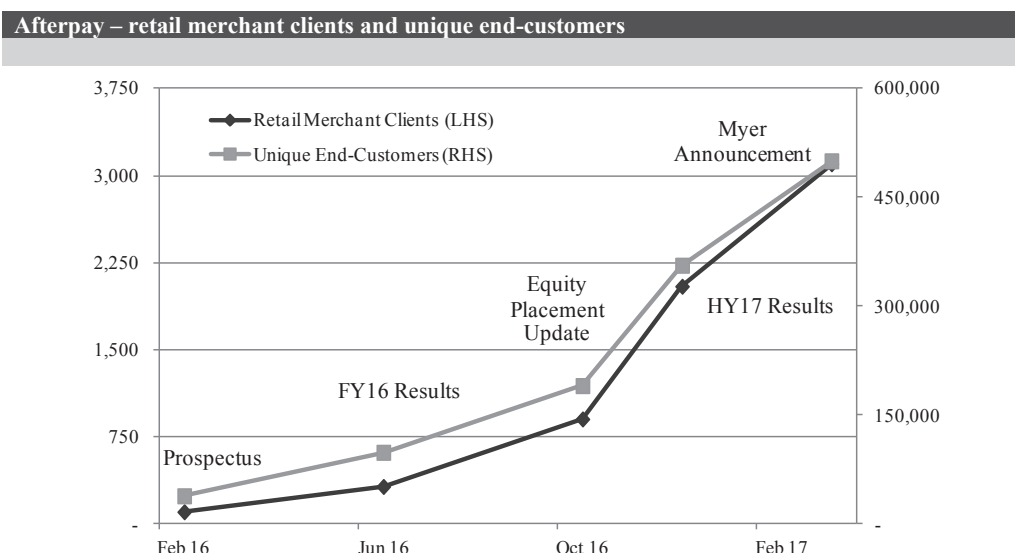
### III Profile of Afterpay

#### Overview

- 51 Afterpay is a technology-driven payments company that facilitates commerce between retail merchants and their end-customers by allowing shoppers to “buy now, receive now, pay later” without any interest or up-front fees. It has an operating system that is accessible to both its retail merchant clients and end-customers, and uses a transaction integrity engine to perform real-time fraud and repayment capability assessments. The Company is headquartered in Melbourne and operates only in Australia, integrated with over 3,700 retailers including General Pants, Telstra, Rebel, Toys R Us, BCF Australia, Optus, Country Road, Cotton On, Mimco, Cue Clothing, The Athlete’s Foot, Officeworks and Ezibuy.

#### History

- 52 The Afterpay system was formally commissioned, developed and delivered by Touchcorp, on Afterpay’s behalf, in the first half of calendar 2015. It was tested and refined on a small number of retail merchant websites, and by the end of February 2016 it had over 100 live retail merchants and 38,000 unique registered end-customers. The company listed on the ASX in May 2016.
- 53 The growth of Afterpay’s retail merchant client and unique end-customer bases is shown below:



- 54 In the six months to 31 December 2016, Afterpay saw its retail merchant client base grow from 318 to 2,044 and its unique end-customer base increase from 98,000 to 356,000. By 15 March 2017, Afterpay had accumulated 500,000 unique end-customers and over 3,100 retail merchants including fashion, department store and media companies.



### **Current operations**

- 55 Afterpay provides a software infrastructure where end-customers can pay for products over a period of up to 56 days without having to enter into a traditional loan, pay any additional interest or upfront fees to Afterpay or provide extensive personal information that would likely cause delay or failure to complete a purchase. The purchase value is recouped by Afterpay from the end-customer usually in four equal fortnightly payments.
- 56 The company has also developed an end-to-end, largely automated, operating platform that allows retail merchants to integrate, manage and monitor the way it is performing on their websites and for end-customers to monitor and manage their transactions and accounts. Its service is typically positioned on the merchant retailer's online product page, but it can also be used, in selected merchants, with in-store transactions through the end-customer easily generating a barcode on their mobile phone for use at the merchant's point of sale terminal.
- 57 Afterpay pays its retailers the full purchase price (net of fees) up-front and accepts all non-payment risk from customers. Retailers pay Afterpay a fee for this service as it encourages greater average order values and customer conversion rates because of its affordability and flexibility features.
- 58 The Company receives merchant service fees that are predominantly based on a percentage of the end-customer order value plus a fixed per-transaction fee. Late payment fees exist, but are aimed at being an incentive to make instalments on time rather than being a source of revenue. Late fees net of payment recovery costs were however 16.7% of revenue for the half-year ended 31 December 2016. Merchant revenues were 4.2% of underlying merchant sales during the half-year ended 31 December 2016. After processing costs, funding finance costs and transaction losses, Afterpay had a pre-overhead net transaction margin of 2.7% of underlying merchant sales.
- 59 The Company uses a proprietary transaction integrity engine to make real time fraud and repayment capability assessments in order to manage non-payment risk. It also benefits from the diversification effects of a low average order value of approximately \$150 and short tenor of receivables, which remain outstanding (on a weighted average duration basis) for less than 30 days.
- 60 Afterpay's core system was developed and is maintained by Touchcorp, on behalf of Afterpay, under a Software Development and Licence Agreement. Afterpay has commissioned Touchcorp to develop further applications outside of the core system in the areas of customer in-store engagement and scaled data analytics.

### **Key agreements**

- 61 The Company has a focus on building strong "one-to-many" distribution partners to drive the growth of small and medium size businesses (SMB). Distribution partners provide an effective mechanism to efficiently reach the broader retail economy, which will allow greater market penetration and enhanced revenue margins.

### ***Tyro Payments***

- 62 Afterpay announced a commercial partnership with Tyro Payments on 8 February 2017 that will facilitate the rollout of Afterpay's system to Tyro Payment's installed base of more than 17,000 merchants. Tyro Payments is Australia's leading EFTPOS provider and a significant

## Annexure A

### Independent Expert's Report

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proportion of Tyro Payments' retail merchants will have the option for Afterpay enablement in 2017.

#### **BigCommerce**

- 63 On 10 March 2017, Afterpay announced that it had entered into an agreement with BigCommerce, one of the world's leading global ecommerce platforms with over 5,000 Australian online merchants and 100,000 active merchants globally. BigCommerce will integrate Afterpay's service into its core system and allow its online retailers to introduce it with minimal to no technical development work.

#### **Neto**

- 64 Afterpay entered into an agreement with Telstra's Neto on 17 March 2016 to become the pre-provisioned "buy now, pay later" service on its next generation e-commerce platform when it launched later that year. Neto is one of Australia's largest locally owned end-to-end ecommerce platforms and has over 2,000 merchants currently processing over \$1 billion of retail transactions per year.

#### **Retail merchants**

- 65 Afterpay has over 3,100 retail merchants using the platform, including many of Australia's top brands such as those listed below:

Afterpay – retail merchant clients			
Category	Customers		
Fashion	Myer <sup>(1)</sup>	Supré	Cue
	Country Road	Cotton On	Mimco
	Lorna Jane	The Athlete's Foot	Factorie
Personal and Recreation	BCF	Supercheap Auto	Rebel
Department stores	Best & Less	Ezibuy	The Iconic
Homewares and Appliances	Pillow Talk	Beacon	Typo
		Sheridan	
Media	Booktopia	Nile	
Toys	Toys R Us		
Other	Officeworks	Telstra	Optus

#### **Note:**

- 1 On 15 March 2017, Afterpay announced a two-year contract with Myer for Afterpay's service to be offered on Myer's online store from Q4 FY17.

#### **Growth strategy**

- 66 Afterpay aims to expand into the Australian e-services sector. It also plans to expand its service to the international retail market. The Company is pursuing a stronger in-store presence to compliment its online offering and has entered a commercial partnership with Tyro Payments to accelerate this. Afterpay also generates large volumes of highly relevant data and insights on its retail merchants and end-customers that may be leveraged in the future.



## Financial performance

- 67 The financial performance of Afterpay for the year ended 30 June 2016 (FY16), as well as the six month period ended 31 December 2016 (1H17), is set out below:

Afterpay – statement of financial performance <sup>(1)</sup>		
	FY16 Audited \$m	1H17 Reviewed \$m
Revenue	1.4	6.0
Cost of sales	(0.3)	(1.2)
Gross profit	1.1	4.8
Other income	0.3	1.2
Bad and doubtful debts	(0.6)	(1.9)
Employee benefits expense	(1.2)	(1.9)
Other operating expenses	(1.1)	(1.8)
Share based expense	(0.2)	(0.5)
<b>EBITDA<sup>(2)</sup></b>	<b>(1.6)</b>	<b>(0.1)</b>
Depreciation and amortisation	(2.2)	(1.4)
<b>EBIT<sup>(2)</sup></b>	<b>(3.8)</b>	<b>(1.5)</b>
One-off items <sup>(3)</sup>	(0.1)	(0.6)
Interest	0.2	0.2
Tax benefit	0.1	0.5
<b>Net profit after tax</b>	<b>(3.6)</b>	<b>(1.4)</b>

**Note:**

- 1 Rounding differences may exist.
- 2 Before one-off items.
- 3 One-off expenses as reported in the 1H17 investor presentation.

- 68 Set out below is a brief summary of the key highlights of Afterpay's financial performance:

### FY16 results

- revenue was \$1.4 million reflecting the commencement of operations, with \$37.3 million in underlying merchant sales
- other income of \$0.3 million predominately related to late fees
- Share based expense relates to the straight line amortisation of share options granted to employees as part of the employee share option plan.

### 1H17 results

- revenue in 1HY17 was \$6.0 million, up from \$1.2 million in the previous half year period due to an increase in underlying merchant sales from \$30.8 million to \$144.8 million
- Afterpay had an improved net transaction margin of 2.7% compared to 2.4% in the previous half year. Average merchant fees from retailers increased as the portfolio mix continued to diversify and net transaction loss was reduced through improved data analytics
- other variable transaction costs increased from 0.7% to 0.8% because of greater merchant acquisition costs and are expected to increase as external debt is utilised

# Annexure A

## Independent Expert's Report

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- one-off costs relate to the establishment of the secured receivables funding facility with the National Australia Bank
- prior to the one-off costs and non-cash share based expenses, Afterpay achieved a positive operating EBITDA of \$0.4 million.

### Outlook

- at the date of the half year results announcement on 17 February 2017, Afterpay management stated that the new sales pipeline remained strong with a number of integrations in progress with major Australian retailers. Subsequently, we note that contracts have been entered into with Myer and Officeworks
- most of Afterpay's leading retail merchants have offline sales that are many times greater than their sales online. As a result, Afterpay is also focused on its in-store rollout to partially or wholly replace traditional in-store lay-by services and otherwise stimulate incremental physical retail sales.

### Financial position

69 The financial position of Afterpay as at 31 December 2016 is set out below:

Afterpay – statement of financial position <sup>(1)</sup>	
	31 Dec 16 \$m
Cash and cash equivalents	27.7
Other financial assets	3.3
Trade receivables	38.8
Prepayments and other receivables	2.5
<b>Total current assets</b>	<b>72.3</b>
Property, plant and equipment	0.1
Intangible assets	11.0
Deferred tax asset	1.6
<b>Total non-current assets</b>	<b>12.6</b>
<b>Total assets</b>	<b>84.9</b>
Trade and other payables	4.6
Employee leave provisions	0.1
Interest-bearing borrowings	8.1
<b>Total current liabilities</b>	<b>12.8</b>
Long service leave provision	– <sup>(2)</sup>
<b>Total liabilities</b>	<b>12.8</b>
<b>Net assets</b>	<b>72.1</b>

#### Note:

- 1 Rounding differences exist.
- 2 Long service leave provision totalled \$10,945.

70 In respect of the above, we note that:

- (a) Other financial assets – relate to cash held in a trust account for repayment of secured interest bearing borrowings



- (b) Trade receivables – are \$40.3 million less a total allowance for doubtful debts of \$1.5 million. They are non-interest bearing and are generally on 42 to 56 day terms
- (c) Intangible assets – consist primarily of the \$13 million paid to Touchcorp for the design of the Afterpay system (transaction integrity engine and Afterpay operating platform) less accumulated amortisation. Intangible assets also include the purchase of intangibles throughout the half year period of \$161,000
- (d) Interest bearing borrowings – have been drawn under a 12 month revolving facility that is secured against trade receivables. The interest rate as at 31 December 2016 was 4.66% per annum.

### Share capital and performance

- 71 As at 31 March 2017, Afterpay had 180.33 million fully paid ordinary shares on issue. In addition, the Company had 16.22 million options on issue at exercise prices of \$0.20 to \$2.71 per share and 155,000 performance rights on issue.
- 72 In October 2016, the Company raised \$36 million (before transaction costs) in new equity through the placement of 15 million new shares at a price of \$2.40 per share.

### Substantial shareholders

- 73 As at 31 March 2017, there were three significant shareholders in Afterpay that held (in aggregate) 55.5% of the ordinary shares on issue. The substantial shareholders of Afterpay were as follows:

Afterpay– substantial shareholders		
Shareholder	Shares held	
	Million	% interest
Touchcorp Limited	50.0	27.7
Anthony Eisen	25.0	13.9
Nicholas Molnar	25.0	13.9
<b>Total</b>	<b>100.0</b>	<b>55.5</b>

### Share price performance

- 74 The following chart illustrates the movement in the share price of Afterpay from 4 May 2016 (the date the company listed on the ASX) to 5 May 2017 :

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**Afterpay – share price history<sup>(1)</sup>**  
**4 May 2016 to 5 May 2017**



**Note:**

<sup>1</sup> Based on closing prices.

**Source:** Bloomberg.

75 We note the following with respect to the material movements in the share price of Afterpay above:

- (a) **17 May 2016** – Afterpay announced a partnership with Telstra’s e-commerce platform Neto to become its pre-provisioned “buy now pay later” service when it launches later in the year, giving Afterpay access to over 2,000 Australian merchants through the Neto platform
- (b) **12 July 2016** – Afterpay announced that its total number of retail merchants had grown to over 300 and unique end-customers had grown to over 100,000
- (c) **25 August 2016** – Afterpay announced its results for the year ended 30 June 2016 reporting revenue from ordinary activities of \$1.4 million, with \$0.8 million coming from Q4 FY16, and a net loss after tax of \$3.6 million for the financial year
- (d) **18 October 2016** – Afterpay announced that it had raised \$36 million via a placement to sophisticated and institutional shareholders at \$2.40 per share
- (e) **22 November 2016** – Afterpay announced a commercial partnership to provide its service to the Country Road Group which includes the brands Country Road, Trenery, Witchery and Mimco
- (f) **24 November 2016** – Afterpay announced that it had signed an agreement with National Australia Bank to provide Afterpay with a secured receivables funding facility (initially up to \$20 million) to fund end-customer receivables
- (g) **29 November 2016** – Afterpay announced a contract with Super Retail Group to integrate its five core retail brands with Afterpay’s online payments platform on a 12-month pilot basis. The Super Retail Group has over 640 stores across Australia and New Zealand and owns brands including Amart Sports, BCF, Supercheap Auto, Rays and Rebel





- (h) **8 February 2017** – Afterpay announced a commercial partnership with Tyro Payments, Australia’s leading independent EFTPOS provider, to roll out its service to Tyro Payments’ in-store merchant base
- (i) **17 February 2017** – Afterpay announced its results for the half year ended 31 December 2016, reporting its first positive operating EBITDA of \$0.4 million (prior to non-cash share based expenses and one-off costs)
- (j) **23 February 2017** – Afterpay announced that it had signed a heads of agreement relating to a proposed merger with Touchcorp
- (k) **30 March 2017** – Afterpay announced that it had entered into a formal Merger Implementation Agreement with Touchcorp.

#### Liquidity in Afterpay shares

- 76 The liquidity in Afterpay shares based on trading on the ASX over the 12 month period to 22 February 2017 (being the day prior to the initial announcement of the proposed Merger) is set out below:

Afterpay – liquidity in shares						
Period	Start date	End date	No of shares traded 000	WANOS <sup>(1)</sup> outstanding 000	Implied level of liquidity Period <sup>(2)</sup> %	Annual <sup>(3)</sup> %
1 month	23 Jan 17	22 Feb 17	3,586	180,287	2.0	23.9
3 months	23 Nov 16	22 Feb 17	9,326	180,283	5.2	20.7
6 months	23 Aug 16	22 Feb 17	17,860	174,762	10.2	20.4
1 year	23 Feb 16	22 Feb 17	35,306	171,066	20.6	20.6

**Note:**

- 1 Weighted average number of shares outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

- 77 Whilst the number of Afterpay shares traded as a proportion of the total shares on issue is low (which can be explained (in part) by the shareholdings held by the top three shareholders and the number of escrowed shares<sup>3</sup>), we note that Afterpay shares are relatively liquid with over \$47 million worth of shares traded in the six months to 22 February 2017.

<sup>3</sup> 40 million shares were subject to voluntary escrow until 1 March 2017 and 103 million shares are subject to ASX escrow until 3 May 2018 (including 3 million shares that are subject to both voluntary and ASX escrow that were included in the 40 million shares subject to voluntary escrow).

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## IV Profile of Touchcorp

### Overview

- 78 Touchcorp designed, built, owns and operates a proprietary cloud-based software platform called the Touch System Platform. This platform enables the secure electronic purchase and delivery of non-physical products, services and entitlements such as gift cards and phone recharge vouchers to end-users in-store or through self-service methods including websites and mobile phone applications. It is a Melbourne based company that operates in Australia and Europe.

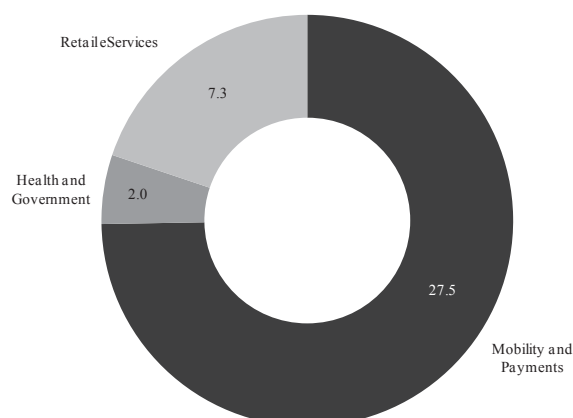
### History

- 79 The predecessor business to Touchcorp was established in May 2000 to provide flexible payment and non-physical product delivery solutions through a network of touch-screen kiosks for a major service station retailer. The company formed relationships with major Australian retail banks and integrated with their payment terminals in 2003 to enable retailers to sell non-physical products in-store. Major Australian telecommunications providers were also integrated with Touchcorp's system to sell non-physical products. The company established its health and government operations in 2007 to enable medical and allied health practitioners to digitalise their payment claiming process in real-time at the point of service. The mobility services segment was established in 2010 to enable consumer self-service payment processing methods.
- 80 The company initially expanded internationally when it commenced operations in Europe in 2005. Touchcorp listed on the ASX in March 2015 and has grown into a globally accessible platform that processed 72.8 million consumer self-service transactions originating from more than 130 countries in the year ended 31 December 2016.

### Current operations

- 81 Touchcorp operates from a Melbourne head office and employs approximately 130 staff. The company has four offices located in Australia, Bermuda, Singapore and Croatia and five data centres. Its Australian operations accounted for 92% of total revenue in FY16, with its major customers in Australia including Optus, 7-Eleven, Afterpay and the major banks. The company's international operations are predominately in the convenience store retail sector with its major customers being Valora, Reitan, Tobaccoland Austria and ONCE Spain.
- 82 The company has three business segments: Retail eServices, Mobility and Payments, and Health and Government.

**Touchcorp – revenue by segment (CY16)**  
 (\$m)



### Retail eServices

- 83 Retail eServices operations use point-of-sale devices commonly found on retail premises, including payment terminals, electronic cash registers and self-service kiosks, to sell various non-physical products. These include mobile phone and broadband recharge vouchers, calling cards, iTunes cards, road tolling passes and account top ups, money transfer and paysafecard.

### Mobility and Payments

- 84 Mobility and Payments services involve the purchase of non-physical products in real-time by consumers through self-service methods including websites, mobile sites and mobile applications. Suppliers of these products include mobile telecommunications network operators where Touchcorp enables the identification of customers and the establishment, registration, activation and operation of customer accounts.

### Health and Government

- 85 The Health and Government segment enables a range of electronic claiming solutions designed to streamline processing and payments of health insurance claims by patients. It allows claims to be made in real-time at the point of service provision, using existing payment terminals or practice management systems for both Medicare and private health transactions.

## Key agreements

### Optus

- 86 Optus has been a customer of Touchcorp since 2000, and through a number of agreements in place, Touchcorp supports multiple services for Optus through self-service channels and retail merchants, primarily selling prepaid mobile recharge products. Optus was Touchcorp's single largest customer as at the date of Touchcorp's prospectus. On 18 March 2016, Touchcorp announced that it had successfully secured a further five-year term of its consolidated sub-agency agreement with Optus to deliver self-service and associated retail services.

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**7-Eleven**

- 87 Touchcorp provides an in-store, eService transacting platform to 7-Eleven Stores Pty Ltd (7-Eleven) in Australia. Its original agreement with 7-Eleven commenced in 2007, but has since been replaced with a new agreement. In FY16 the company developed additional functionality for 7-Eleven so that its fuel card rewards app can utilise Touchcorp's secure platform.

**Major banks**

- 88 Touchcorp provides Medicare Easyclaim services for NAB HICAPS, CBA, Suncorp and ANZ. In addition, Touch provides private health electronic claiming for CBA, ANZ and Suncorp. In FY16, Touchcorp renewed a three year health claiming contract with the CBA.

**Toll road operators**

- 89 In FY16, the company expanded through strategic partnerships with Transurban (Roam, Roam Express, CityLink and govia) and ConnectEast (EastLink) to provide trip passes, account top ups and bill payment for late toll notice services in key retail stores. Touchcorp is now the only retail partner to offer services to five key tolling brands in Australia.

**Reitan**

- 90 Touchcorp initially entered into an agreement with Reitan Convenience AS (Reitan), which operates a network of retail stores in four Scandinavian countries (Norway, Sweden, Finland and Denmark) and the three Baltic states (Latvia, Estonia and Lithuania), that was a pilot program to ensure that the Touchcorp's system was able to meet Reitan's requirements. In April 2015 it was announced that the success criteria and stipulated requirements of the pilot program had been met and the proposed rollout of Touchcorp into Reitan stores would commence.

**Cornér**

- 91 In FY16 Touchcorp developed a new self-service payment processing solution with one of Switzerland's major banks, Cornér Bank Limited (Cornér), that allows payment with Apple Pay and Swatch smartwatches. Touchcorp announced that it had successfully launched a secure online recharge platform for two key Cornércard payment products for Cornér, which is an independent Swiss private bank offering a full range of traditional financial products and services.

**Valora**

- 92 Touchcorp has an agreement with the Valora Group covering a range of services in Switzerland, Germany, Luxembourg and Austria. Valora Group and Touchcorp have both identified new opportunities to introduce a series of new products through Valora's retail network, and the parties believe they can establish unique product offerings which utilise data analytics to create actionable intelligence in real time.

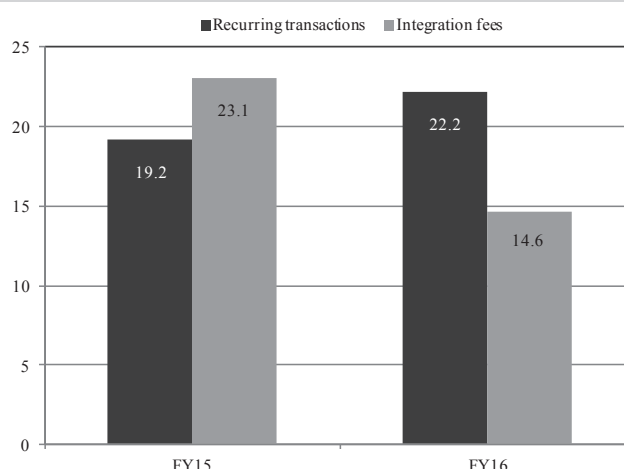
**ONCE Group**

- 93 Touchcorp, in partnership with Convenient Card, successfully completed a pilot program in Spain with ONCE group for the deployment of eServices products including Apple iTunes vouchers, Amazon gift cards and Paysafe cards at 300 locations in the city of Malaga, Spain. Touchcorp aims to extend this service offering to all of ONCE's 24,000 merchants during FY17.

## Strategy

- 94 Touchcorp generates revenue from transaction fees for the delivery of completed transactions, integration fees for the connection of new customers to the Touch System Platform and integration fees for granting existing customers with access to additional services.

**Touchcorp – revenue by service  
(\$m)**



- 95 In FY16 transaction based revenue streams accounted for approximately 60.3% of revenue and integration fees accounted for approximately 39.7%. Transaction based revenue increased by 16% in FY16 from strong growth in activity across the group and the rapid expansion of Afterpay. There was a higher level of integration and infrastructure fees received in FY15 due to a larger number of integration projects.

## Incubator investments

- 96 Touchcorp has a strategy of nurturing start-up businesses that use Touchcorp's technology as their core platform. Nurturing recurring revenue streams through incubator investments has been an important part of Touchcorp's strategy to grow long term revenue streams. Touchcorp is able to derive revenue from the value of the equity in the incubator entity that Touchcorp receives for access to the Touch System Platform, upfront fees for software development work and development of new applications and ongoing transaction processing fees. Touchcorp's system is attractive to innovative new businesses looking to participate in the payment market with exciting new products, and has been utilised by the two companies in which Touchcorp owns equity, Afterpay and Change Up. Touchcorp provides its platform and associated services in exchange for cash and equity in business models which have the potential to also deliver long term revenue streams.

## Afterpay

- 97 Touchcorp developed Afterpay in FY15 pursuant to a software development and licence agreement. Touchcorp undertook all customer integration work and platform development activities to support the growth of the Afterpay product. In FY16 Touchcorp supported the integration of over 2,000 merchants for Afterpay and processed more than one million orders for Afterpay. Touchcorp owns 50 million shares in Afterpay, the value of this investment

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### Independent Expert's Report

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increasing by \$116 million over FY16. Touchcorp undertook all customer integration work and platform development activities to extend the Afterpay consumer experience from being online only to now also have in store capability.

### Change Up

- 98 Touchcorp's second incubator investment was Change Up, a system which allows a consumer to convert spare physical change that may otherwise have been collected from a sale, into a digital credit retained in a digital wallet that can be redeemed at a participating Change Up online or in-store merchant. In July 2016, Touchcorp announced that it had signed a software development and transaction services agreement with Change Up, with an initial payment of \$11.3 million, paid as \$6.3 million in cash and 10 million shares in Change Up. Touchcorp developed, implemented and maintained the Change Up host processing systems that securely hold the funds and details of the digital wallets and manages Change Up's mobile application development. Touchcorp owned 15% of Change Up as at 31 December 2016.

### Strategic outlook

- 99 The company supports organic growth in the businesses it serves which leads to a greater number of transactions it can earn fees on. It also aims to expand its customer base by gaining new customers and entering new countries.
- 100 Touchcorp also has the aim of utilising the data that it processes. Transactions are able to be monitored in real-time, recorded and reviewed, and data in relation to the interaction between buyers and sellers can be captured and stored easily. This can be used for insight on purchase habits of consumers and business intelligence.

### Financial performance

- 101 The financial performance of Touchcorp for the two years ended 31 December 2016 (CY16) is set out below:

Touchcorp – statement of financial performance <sup>(1)</sup>		
	CY15 Audited \$m	CY16 Audited \$m
Revenue	42.3	36.8
Cost of sales	(7.0)	(10.8)
Gross profit	35.3	26.0
Other income	0.1	0.4
Customer development expense	(5.7)	(5.7)
Operating expenses	(12.9)	(16.3)
<b>EBITDA<sup>(2)</sup></b>	16.8	4.5
Depreciation and amortisation	(1.2)	(3.9)
<b>EBIT<sup>(2)</sup></b>	15.6	0.6
Interest	0.2	0.2
Capital raising expenses	(3.6)	-
Government grant	0.1	0.1
Share of gain (loss) from an associate	(3.8)	14.3
Income tax (expense) benefit	0.9	(3.5)
<b>Net profit after tax</b>	9.4	11.6

**Note:**

- 1 Rounding differences may exist.
- 2 Adjusted for significant items reported in FY15 and FY16 presentations.

- 102 Set out below is a brief summary of the key highlights of Touchcorp's financial performance in CY15 and CY16:

**CY15 results**

- revenue from ordinary activities increased 71% from the prior year due to growth across each service module and the development of Afterpay. Touchcorp recognised \$13 million in revenue for work undertaken for Afterpay in FY15 (of which \$10 million was paid in Afterpay shares at \$1.00 per share). Apart from Afterpay, there were also a number of other projects which generated integration revenue of around \$10 million
- underlying EBITDA increased from \$5.9 million to \$16.8 million, primarily because of the increased revenue and a proportionately smaller increase in cost of sales of \$5.5 million to \$7 million
- net profit after tax reduced from \$13.5 million in FY14 to \$9.4 million in FY15 primarily due to:
  - a \$6.8 million income tax benefit and \$1.5 million government grant in FY14; and
  - \$3.6 million of capital raising costs<sup>4</sup> related to its IPO, and a smaller government grant of \$0.1 million, in FY15.

**CY16 results**

- revenue decreased by 13% in FY16 and included integration fees in relation to Change Up of \$11 million. Touchcorp received \$5 million in Change Up shares and \$6 million in cash as consideration for services performed. Total integration revenue was lower by \$8.5 million compared to FY15 (due to the reduced number of high value integration projects), and recurring transactional revenue increased by \$3.0 million
- Mobility and Payments revenue decreased by 3% because of the lower level of integration fees in FY16 (compared to the level of such fees in FY15)
- Health and Government revenue increased by 1% supported by a renewal of the health claiming contract with CBA for three years, and growth from the NAB HICAPS agreement that was renewed in 2015
- Retail eServices revenue fell by 53% due to a reduction in integration revenues from the prior year
- international retail eServices revenue increased by 7% due to growth in the Valora core transaction business
- underlying EBITDA fell by 73.5% due to the lower level of integration income accompanied with increased operating expenses of \$16.3 million compared to

<sup>4</sup> Total capital raising costs were \$5.9 million, but \$3.6 million was expensed as it related to the sell down of shares by existing shareholders into the IPO and \$2.3 million was capitalised as it related to the issue of new shares by the company.



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\$12.9 million in the prior year. Cost of sales also increased from \$7 million in FY15 to \$10.8 million in FY16.

- net profit increased by 23.2% due to a reported \$14.3 million gain from an associate, which principally reflected a \$15.1 million one-off gain on the deemed disposal of Afterpay shares<sup>5</sup>.
- further information on the above results and the outlook is discussed in Section V.

### Financial position

103 The financial position of Touchcorp as at 31 December 2015 and 2016 is set out below:

Touchcorp – statement of financial position <sup>(1)</sup>		
	31 Dec 15	31 Dec 16
	\$m	\$m
Cash and cash equivalents	9.5	27.8
Trade and other receivables	13.1	11.9
Other current assets	9.6	9.5
<b>Total current assets</b>	<b>32.2</b>	<b>49.1</b>
Deferred tax asset	7.7	4.2
Property, plant and equipment	2.1	2.9
Intangible assets	10.8	16.1
Investment in an associate	6.2	20.4
Prepayments	-	1.6
Financial assets	-	5.0
<b>Total non-current assets</b>	<b>26.8</b>	<b>50.4</b>
<b>Total assets</b>	<b>59.0</b>	<b>99.4</b>
Trade and other payables	13.7	15.8
Unearned income	0.1	0.3
Annual leave provision	0.8	0.8
Long service leave provision	0.3	0.3
<b>Total current liabilities</b>	<b>14.9</b>	<b>17.2</b>
Long service leave provision	0.1	0.1
<b>Total non-current liabilities</b>	<b>0.1</b>	<b>0.1</b>
<b>Total liabilities</b>	<b>15.0</b>	<b>17.3</b>
<b>Net assets</b>	<b>44.0</b>	<b>82.1</b>

**Note**

1 Rounding differences may exist.

104 In respect of the above, we note that:

- (a) Cash – increased to \$27.8 million due (in part) to a \$24.6 million share placement in FY16
- (b) Trade and other receivables – are net of an allowance for doubtful debts of \$0.1 million

<sup>5</sup> During the year ended 31 December 2016, Afterpay undertook an IPO and subsequent equity capital raising. As Touchcorp did not participate in the capital raising its interest in Afterpay was reduced from 35.7% to 27.7%. As a result a deemed disposal of this interest was required to be recognised for accounting purposes.



- (c) Other current assets – consist of \$6.1 million of prepaid expenses and \$2.5 million of prepaid electronic PINS, which are purchased from suppliers to facilitate transactions with customers for the mobility and retail services business units. Unutilised or expired PINS are returned to suppliers at face value
- (d) Intangible assets – arise from capitalised expenditure for work performed on development of systems with identifiable long term revenue streams. This includes \$12.1 million of core technology, \$3.9 million of core technology under development and \$0.1 million of patents. These intangible assets have finite useful lives, with patents being amortised over 20 years and core technology being amortised over five years
- (e) Investments in associates – this represents the carrying value of Touchcorp’s 50 million shares in Afterpay
- (f) Financial assets – represent the carrying value of Touchcorp’s 10 million shares in Change Up (which were acquired in August 2016 at \$0.50 per share)
- (g) Trade and other payables – consist of trade creditors and accruals
- (h) Liabilities – Touchcorp has no interest bearing debt.

### Share capital and performance

- 105 As at 31 December 2016, Touchcorp had 131,503,568 million ordinary shares on issue. Subsequent to 31 December 2016, 400,000 ordinary shares were issued and 325,000 ordinary shares held by a Touchcorp subsidiary were cancelled resulting in the total number of Touchcorp ordinary shares on issue prior to the scheme being 131,578,568.

### Substantial shareholders

- 106 As at 31 December 2016 there were four substantial shareholders in Touchcorp:

Touchcorp– substantial shareholders <sup>(1)</sup>		
Shareholder	Shares held	
	Million	% interest
J P Morgan Nominees Australia Limited <sup>(2)</sup>	33.9	25.7
Utilico Investments Limited <sup>(2)</sup>	30.9	23.5
The Estate of Mr Adrian Cleeve & his associates	22.9	17.4
Ellerston Capital	7.9	6.0

**Note:**

- 1 Rounding differences may exist.
- 2 We understand that there is significant overlap with these substantial shareholder notices, in that the JP Morgan Nominees Australia Limited holding is largely held on behalf of Utilico Investments Limited.

Source: Touchcorp FY16 Annual Report.

### Share price performance

- 107 The following chart illustrates the movement in the share price of Touchcorp from 31 March 2015 to 5 May 22 2017 :

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**Touchcorp – share price history<sup>(1)</sup>**  
**31 March 2015 to 5 May 2017**



**Note:**

<sup>1</sup> Based on closing prices.

**Source:** Bloomberg.

108 We note the following with respect to the material movements in the share price of Touchcorp above:

- (a) **24 April 2015** – Touchcorp announced that it had commenced an agreement to rollout its services to the Reitan network of retail stores in Europe following the successful completion of a pilot program
- (b) **27 August 2015** – Touchcorp announced its results for the half year ended 30 June 2015 reporting revenue from ordinary activities of \$18.4 million and net profit after tax (excluding capital raising expenses) of \$4.4 million, up 69% and 10% respectively from the corresponding half year ended 30 June 2014
- (c) **22 February 2016** – Touchcorp announced that the Afterpay board had resolved to explore a possible initial public offering of its shares on the ASX
- (d) **25 February 2016** – Touchcorp announced its results for the year ended 31 December 2015, reporting revenue from ordinary activities of \$42.3 million, up 71% from \$24.8 million in the prior year, and net profit after tax (excluding capital raising expenses) of \$12.9 million, down 4% from the prior year
- (e) **18 March 2016** – Touchcorp announced it had secured a further five year term of its agreement with Optus, one of Touchcorp's key customers
- (f) **15 April 2016** – Touchcorp announced that Afterpay had lodged its (replacement) prospectus with ASIC in connection with its \$25 million IPO
- (g) **25 July 2016** – Touchcorp announced that it had signed a software development and transaction services agreement with Change Up, with an initial payment of \$11.3 million, paid as to \$6.3 million in cash and 10 million shares in Change Up

- (h) **28 July 2016** – Touchcorp announced that it had successfully launched a secure online recharge platform for two key Cornèrcard payment products for Cornèr, an independent Swiss private bank offering a full range of traditional financial products and services
- (i) **16 August 2016** – Touchcorp announced that Change Up successfully raised \$12.5 million through a share placement
- (j) **22 August 2016** – Touchcorp announced its results for the half year ended 30 June 2016 reporting revenue from ordinary activities of \$22.2 million, up 20% to the corresponding half year ended 30 June 2016, and net profit after tax of \$9.9 million
- (k) **29 September 2016** – Touchcorp announced that it had raised \$25.6 million through a placement of 12.8 million ordinary shares. This placement included an institutional placement of 10 million shares and a director placement of 2.8 million shares to entities associated with Mr Duncan Saville
- (l) **21 December 2016** – Touchcorp announced that growth in transaction revenues in 2016 was below expectations and estimated revenue was expected to be between \$36 million to \$38 million for the year ended 31 December 2016, down from \$42 million in the previous year.
- (m) **23 February 2017** – Touchcorp announced that it had signed a heads of agreement relating to a proposed merger with Afterpay
- (n) **30 March 2017** – Touchcorp announced that it had entered into a formal Merger Implementation Agreement with Afterpay.

#### Liquidity in Touchcorp shares

- 109 The liquidity in Touchcorp shares based on trading on the ASX over the 12 month period to 22 February 2017 (being the day prior to the initial announcement of the proposed Merger) is set out below:

Touchcorp – liquidity in shares						
Period	Start date	End date	No of shares traded 000	WANOS <sup>(1)</sup> outstanding 000	Implied level of liquidity Period <sup>(2)</sup> %	Annual <sup>(3)</sup> %
1 month	23 Jan 17	22 Feb 17	5,835	131,504	4.4	53.2
3 months	23 Nov 16	22 Feb 17	18,195	131,504	13.8	55.3
6 months	23 Aug 16	22 Feb 17	34,881	127,570	27.3	54.7
1 year	23 Feb 16	22 Feb 17	85,507	122,783	69.6	69.6

**Note:**

- 1 Weighted average number of shares outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

- 110 Given the proportion of Touchcorp shares held by the substantial shareholders, we consider the level of share trading in Touchcorp to be relatively high.

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## V Value of Afterpay shares (prior to Merger)

### Methodology

- 111 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buybacks, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
  - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
  - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
  - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
  - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 112 As set out in Section III, Afterpay incurred a loss at the EBITDA level of \$0.1 million in the six months to 31 December 2016. Given Afterpay's market capitalisation immediately prior to the initial announcement of the proposed Merger on 23 February 2017 of approximately \$484 million<sup>6</sup>, it is clear that investors are valuing Afterpay based on its future earnings potential rather than by reference to current earnings or revenue.
- 113 Accordingly, a capitalisation of earnings method (based on current earnings) cannot be used to value Afterpay. Further, neither the Directors of Afterpay nor LEA have a reasonable basis for any longer term earnings or cash flow projections to enable a DCF approach to be undertaken.
- 114 Consequently, we have valued Afterpay by reference to:
- (a) recent share market trading prior to the announcement of the proposed Merger; and
  - (b) the price at which Afterpay recently raised new capital.

### Listed market prices

- 115 We set out below the recent trading in Afterpay shares prior to the initial announcement of the proposed Merger on 23 February 2017:

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<sup>6</sup> 196.6 million fully diluted shares on issue at the (then) prevailing market price of \$2.46 per share.



Listed market prices (prior to 23 February 2017)					
	Low \$	High \$	VWAP \$	Volume (000)	Value \$000
1 month prior	2.19	2.82	2.55	3,586	9,156
3 months prior	2.19	3.08	2.67	9,326	24,943
6 months prior	2.19	3.14	2.65	17,860	47,302

- 116 Given the small free float<sup>7</sup>, Afterpay shares are relatively liquid with over \$47 million worth of shares (representing around 10% of the issued capital) traded in the six months ended 22 February 2017.

### Placement price

- 117 We note that on 18 October 2016, Afterpay raised \$36 million in equity capital through the issue of 15 million new shares at a price of \$2.40 per share. This equity raising was made to sophisticated and professional investors and represented around 9% of the (then) existing capital base of Afterpay.

### Assessment of value

- 118 Having regard to the above, and the general downward trend in the share price leading up to the initial announcement of the proposed Merger<sup>8</sup>, we have adopted a valuation range for Afterpay shares of \$2.20 to \$2.60 per share.
- 119 On this basis the value of Afterpay and the value contributed to the Merger by Afterpay Shareholders other than Touchcorp (assessed on a portfolio basis) is as follows:

Value of Afterpay		
	Low	High
Fully diluted shares on issue (\$m)	196.7	196.7
Value per share	\$2.20	\$2.60
Portfolio value of Afterpay (\$m)	432.7	511.4
<b>Contribution to Merged Entity by Afterpay Shareholders<sup>(1)</sup></b>		
Fully diluted shares on issue (m)	196.7	196.7
Less shares held by Touchcorp (m)	(50.0)	(50.0)
Shares held by other Afterpay Shareholders <sup>(1)</sup> (m)	146.7	146.7
Portfolio value per share	\$2.20	\$2.60
Value contributed to Merger by Afterpay Shareholders (\$m)	322.7	381.4

**Note:**

- 1 Excluding Touchcorp.  
Rounding differences exist.

<sup>7</sup> The top three shareholders in Afterpay (Touchcorp, Mr Nicholas Molnar and Mr Anthony Eisen) own 100 million shares in total or some 55% of the shares on issue (excluding options and performance rights).

<sup>8</sup> Afterpay shares last traded at \$2.46 prior to the initial announcement of the proposed Merger on 23 February 2017, and have subsequently traded lower.

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## VI Value contributed to Merger by Touchcorp shareholders

### Methodology

120 Given Touchcorp's significant ownership interest in Afterpay we have assessed the value contributed by Touchcorp Shareholders to the Merged Entity using a sum-of-parts approach. Under this approach the value contributed comprises:

- (a) 50 million shares in Afterpay
- (b) surplus cash and other assets
- (c) the value of the Touch System Platform business.

### Shares in Afterpay

121 Touchcorp owns 50 million shares in Afterpay, which we have valued (on a portfolio basis) at between \$2.20 and \$2.60 per share in Section V.

122 Thus, the value of Touchcorp's 50 million shares in Afterpay is as follows:

Value of Touchcorp shareholding in Afterpay		
	Low \$m	High \$m
Number of shares held in Afterpay	50.0	50.0
Portfolio value per share	\$2.20	\$2.60
Portfolio value of Afterpay shareholding	110.0	130.0

123 No allowance for potential capital gains tax liabilities has been made on the Afterpay shareholding when determining the value contributed by Touchcorp Shareholders to the Merged Entity. This is because:

- (a) the main operating business of the Merged Entity will be Afterpay (which will be 100% owned)
- (b) there is no intention to dispose of the main undertaking (in contrast, a primary objective of the Merger is retention of the Afterpay business and structuring of the ownership thereof).

### Surplus assets

#### Cash

124 As at 31 December 2016, Touchcorp had cash balances of \$27.7 million and no interest-bearing debt. This cash balance reflected (in part) a capital raising by Touchcorp on 29 September 2016, which raised \$25.6 million (before transaction costs) in new equity capital at a price of \$2.00 per share.





- 125 Having regard to the normal day-to-day cash requirements of the business, and the payment obligations under a customer development contract<sup>9</sup>, we have treated \$15 million of this net cash balance as surplus for valuation purposes.

### Change Up

- 126 Touchcorp acquired a 15.3% interest (10 million shares) in Change Up Holdings Limited (Change Up) on 16 August 2016 at a price of \$0.50 per share. Change Up (which is not listed on any stock exchange) has developed a system to allow consumers to convert spare physical change that may otherwise have been collected from a sale, into a digital credit retained in a digital wallet that can be redeemed at a participating Change Up online or in-store merchant.
- 127 We have valued Touchcorp's investment in Change Up at \$5 million, representing the acquisition cost of \$0.50 per share. This is consistent with the price at which Change Up raised \$12.5 million in new equity capital at the same date as Touchcorp made its investment. As stated in Touchcorp's 2016 annual report (lodged with the ASX on 28 February 2017), there have been "*no observable inputs or significant changes in business operations following the capital raising*".
- 128 On this basis the portfolio value of surplus cash and the investment in Change Up is as follows:

	\$m
Surplus cash	15.0
Shares in Change Up	5.0
	<u>20.0</u>
Less minority interest discount <sup>(1)</sup>	(2.0)
Portfolio value of cash and investments	<u>18.0</u>

**Note:**

- 1 We have applied a 10% discount to allow for the fact that (based on observed share market trading) investors often ascribe a modest discount to cash and other surplus assets that are not expected to be distributed to shareholders in the short to medium term.

## Value of Touch System Platform business

### Methodology

- 129 When assessing the value of the Touch System Platform business we have considered (inter-alia):
- (a) the value of the business under a capitalisation of EBIT method<sup>10</sup>; and
  - (b) the indicative price range for the Touch System Platform business (Indicative Proposal) set out in an indicative, non-binding expression of interest recently received by Touchcorp (as announced to the ASX on 13 April 2017).

<sup>9</sup> Refer paragraph 135(d). The payment obligation was \$10.6 million as at 31 December 2016.

<sup>10</sup> EBIT rather than EBITDA has been adopted as Touchcorp capitalises technology development costs which are amortised below the EBITDA line. Due to recent development activities, the amount spent on development has exceeded amortisation charges in recent years.

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- 130 As the Indicative Proposal is confidential, we are unable to disclose further details in this report. However, we have considered the indicative price range, noting that it provides a reference point for the value of the business on a controlling interest basis. In this regard, it should be noted that we have assessed the value of both Afterpay and Touchcorp shares on a portfolio (or minority) interest basis, and accordingly, our assessed values for both companies exclude a takeover (control) premium.

### EBIT

- 131 As stated in Section IV, Touchcorp designed, built, owns and operates a proprietary software platform that is called the Touch System Platform. This platform enables consumers to quickly and simply purchase productions both in-store and directly via secure self-service methods and across mobile device applications, web sites, interactive voice recognition systems and a variety of other measures, and performs security and anti-fraud checks in real-time.
- 132 Touchcorp generates revenue from transaction fees for the delivery of completed transactions, integration fees for the connection of new customers to the Touch System Platform, and integration fees for granting existing customers access to additional services.
- 133 The Touch System Platform is globally accessible, and processed 72.8 million consumer self-service transactions originating from around 130 countries in the year ended 31 December 2016.
- 134 The recent financial performance of the Touch System Platform business is summarised below:

Financial performance – Touch System Platform business		
	FY15 A\$m	FY16 A\$m
Transactional revenue	19.2	22.2
Integrations and infrastructure revenue	23.1	14.6
Total revenue	42.3	36.8
EBITDA <sup>(1)</sup>	16.8	4.5
Depreciation and amortisation	(1.2)	(3.9)
EBIT <sup>(1)</sup>	15.6	0.6

**Note:**

- 1 Before one-off expenses.

- 135 In relation to the above results, we note that:
- transactional revenue is of a recurring nature and grew 15% in FY16. Further significant growth in this income stream is expected as transaction volumes on the platform increase. In particular, the significant growth in the number of retail merchants which have adopted the Afterpay payments solution over the 12 months to 31 December 2016 (from around 100 in February 2016 to over 3,100 by March 2017) should lead to higher transaction volumes, which should flow through to higher transactional revenue for Touchcorp
  - higher transactional revenue should result in higher profitability



- (c) however, integration and infrastructure fee income is project based, and therefore tends to be variable:
  - (i) in FY16, integration and infrastructure service fee income fell 36.8% as FY15 included an infrastructure access fee of \$13 million<sup>11</sup> from Afterpay for access to the Touch System Platform<sup>12</sup>
  - (ii) in FY16 infrastructure access fees of \$11 million were received from Change Up
  - (iii) current expectations are that integration and infrastructure service fee income in FY17 will be lower than in FY16
- (d) customer development expenditure of \$5.7 million was incurred in both FY15 and FY16, and relates to business development fees, access fees or rebates paid to a single party with whom Touchcorp seeks to co-operate to increase the number of transactions carried on the Touch Platform. Touchcorp's obligation to make these payments ceases in September 2018. Accordingly, this expense is not expected to be incurred beyond 30 September 2018<sup>13</sup>
- (e) EBIT (before one-off expenses) prior to this customer development expenditure was therefore \$21.3 million in FY15 and \$6.3 million in FY16.

136 Given the above, we have adopted EBIT for valuation purposes of \$7 million. This reflects:

- (a) likely increases in recurring transactional revenue
- (b) the uncertain nature and level of integration and infrastructure revenue, which is likely to be lower in FY17 compared to that achieved in FY15 and FY16
- (c) the add back of customer development expenditure (for the reasons stated above)
- (d) the current cost base of the business, noting that reported operating expenses increased in FY16 by around \$3.4 million (26%) compared to FY15.

### **EBIT multiple**

137 We set out below the EBIT multiples of ASX listed companies involved in electronic payments processing and related activities. Whilst not directly comparable to the Touch System Platform business, the values attributable to these companies and their implied EBIT multiples provide some guidance on the appropriate EBIT multiple for the Touch System Platform business:

<sup>11</sup> Part of which was received as scrip in Afterpay.

<sup>12</sup> We understand that further integration and infrastructure fees will be generated from Afterpay, should Afterpay seek to enter overseas jurisdictions.

<sup>13</sup> Further, no loss of revenue is expected following the expiry of the arrangement.

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Listed company multiples				
	Enterprise value <sup>(1)</sup>	EBIT multiples		
	A\$m	FY17 forecast <sup>(2)</sup>	FY18 forecast <sup>(2)</sup>	FY19 forecast <sup>(2)</sup>
Afterpay	450	nm	39.3	17.2
Cabcharge	438	11.4	13.1	12.6
Pushpay Holdings <sup>(3)</sup>	409	wna	na	na
EML Payments	349	nm	18.4	12.1
Zip Money <sup>(3)</sup>	168	nm	nm	26.1
BPS Technology	91	7.1	5.3	4.6
eServCorp <sup>(3)</sup>	63	nm	16.2	na
Smartpay	57	16.6	10.0	7.5
Mint Payments <sup>(3)</sup>	48	nm	nm	28.5
Novatti <sup>(3)</sup>	11	na	na	na

**Note:**

- 1 As at 6 April 2017, with the exception of Afterpay which is as at 22 February 2017 (being the day prior to the initial announcement of the Merger).
  - 2 Based on average broker forecasts (sourced from Bloomberg).
  - 3 The company is currently loss making at the EBIT level.
  - 4 A brief description of each listed company's activities is set out in Appendix C.
- na – not available, nm – not meaningful.

138 In relation to the above we note that:

- (a) the above EBIT multiples have been calculated based on the listed market prices of each company as at 6 April 2017<sup>14</sup>. Accordingly, the EBIT multiples have been calculated on a portfolio (or minority interest) basis and therefore exclude a premium for control<sup>15</sup>
- (b) none of the above companies are directly comparable to the Touch Systems Platform business. However, the above table highlights the high values currently being placed on listed companies involved in electronic payments processing and related activities
- (c) the high EBIT multiples for Afterpay, EML Payments, Zip Money, Mint Payments and eServCorp reflect the low level (or lack) of current earnings and expectations of significant future earnings growth. In particular, as indicated above, Afterpay's EBIT multiple is expected to reduce materially by FY19 due to significant forecast earnings growth, which reflects (inter-alia) the impact of increasing transaction volumes on the platform
- (d) a number of the listed companies (including Pushpay Holdings) are not yet profitable at the EBIT level (despite their high valuations)
- (e) in contrast, the EBIT multiple for Cabcharge reflects its established market position and reliance on the taxi industry (which is being negatively impacted by Uber).

139 Given the above, and after considering the EBIT multiple implied by the Indicative Proposal, we have adopted an EBIT multiple of 10 to 11 times the level of EBIT adopted for valuation purposes.

<sup>14</sup> With the exception of Afterpay, which is based on its share price on 22 February 2017 (being the day prior to the initial announcement of the Merger).

<sup>15</sup> This is appropriate as we have determined the value of the business on a portfolio (minority) interest basis.



### Value of Touch System Platform

- 140 On this basis the value of the Touch System Platform business (on a portfolio interest basis) is as follows:

Value of Touch System Platform business		
	Low A\$m	High A\$m
EBIT	7.0	7.0
EBIT multiple	10.0	11.0
Valuation (on a portfolio interest basis)	70.0	77.0

### Sum-of-parts value of Touchcorp

- 141 Based on the above the sum-of-parts value of Touchcorp is as follows:

Sum-of-parts value		
	Low A\$m	High A\$m
Afterpay shares	110.0	130.0
Surplus assets <sup>(1)</sup>	18.0	18.0
Touch System Platform business	70.0	77.0
Total portfolio value	198.0	225.0

**Note:**

- 1 Surplus cash and shares in Change Up.

### Cross-checks

- 142 Touchcorp currently has 131.6 million shares on issue. Accordingly, our assessed portfolio value of Touchcorp's contribution to the Merged Entity implies a value of between \$1.50 and \$1.71 per Touchcorp share.

### Listed market prices

- 143 In comparison, the recent listed market prices of Touchcorp shares (prior to the initial announcement of the proposed Merger on 23 February 2017) are shown below:

Listed market prices (prior to 23 February 2017)					
	Low \$	High \$	VWAP \$	Volume (000)	Value \$000
1 month prior	1.03	1.13	1.06	5,835	6,181
3 months prior	0.96	1.93	1.19	18,195	21,575
6 months prior	0.96	2.20	1.57	34,881	54,875

- 144 We note that our assessed portfolio value of Touchcorp's contribution to the Merged Entity of between \$1.50 and \$1.71 per Touchcorp share exceeds the recent listed market price of Touchcorp shares.
- 145 Whilst the factors that drive investor sentiment are inherently unknown, in our opinion, this difference can reasonably be explained by the potential capital gains tax (CGT) liability which

Annexure A  
Independent Expert's Report  
(continued)



Touchcorp would incur if it sold its 50 million Afterpay shares. Based on the mid-point of our assessed value of Touchcorp's shares in Afterpay (\$120 million) and the low tax cost base of the Afterpay shares held by Touchcorp (\$10 million), this CGT liability would potentially be around 25 cents per Touchcorp share.

**Placement**

146 As stated above, Touchcorp raised \$25.6 million (before transaction costs) in late September 2016 from the placement of 12.8 million new shares<sup>16</sup> at \$2.00 per share. However:

- (a) the market price of Afterpay shares (which was around \$2.80 at the time of Touchcorp's placement) has fallen since that date
- (b) on 21 December 2016, Touchcorp announced that growth in transaction revenues in 2016 was below expectations and estimated revenue was expected to be between \$36 million to \$38 million for the year ended 31 December 2016, down from \$42 million in the previous year. As a result, we note that the Touchcorp share price fell approximately 34% on the day of the announcement.

**Conclusion**

147 Based on the above, we have concluded that our assessed value of Touchcorp's contribution to the Merged Entity of \$198 million to \$225 million is reasonable and appropriate.

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<sup>16</sup> Ten million shares were issued to sophisticated, professional and institutional investors, and 2.8 million shares were issued to entities associated with a Director. The placement represented around 11% of the (then) existing capital base of Touchcorp.



## VII Value of Merged Entity

### Methodology

148 We have assessed the value of the Merged Entity using a sum-of-parts approach. Under this approach the value of the Merged Entity comprises:

- (a) 100% of Afterpay
- (b) surplus cash and other assets (contributed by Touchcorp)
- (c) the value of the Touch System Platform business (contributed by Touchcorp).

### Value of Afterpay

149 As set out in Section V, we have assessed the value of Afterpay on a portfolio basis at between \$432.7 million and \$511.4 million (equivalent to \$2.20 to \$2.60 per Afterpay share).

### Assets contributed by Touchcorp

150 In addition to 50 million shares in Afterpay (which is reflected above), Touchcorp's other net assets comprise:

- (a) cash and shares in Change Up; and
- (b) the Touch System Platform business.

151 As set out in Section VI, these assets have been valued on a portfolio basis at \$18.0 million (for the cash and Change Up shares) and between \$70 million and \$77 million (for the Touch System Platform business).

### Shares on issue

152 Pursuant to the Merger:

- (a) Afterpay Shareholders (other than Touchcorp) will receive one share in the Merged Entity for every Afterpay share held
- (b) Touchcorp Shareholders will receive 0.64 shares in the Merged Entity for every Touchcorp share held.

153 On this basis, the number of shares on issue in the Merged Entity is as follows:

Number of shares on issue in the Merged Entity <sup>(1)</sup>	
Number of Touchcorp shares <sup>(1)</sup>	131.6
Exchange ratio	0.64
Number of Merged Entity shares issued to Touchcorp Shareholders	84.2
Number of Afterpay shares on issue <sup>(1)(2)</sup> (excluding those held by Touchcorp)	146.7
Number of shares on issue in the Merged Entity	230.9

**Note:**

- 1 On a fully diluted basis.
- 2 As stated above, Afterpay Shareholders (other than Touchcorp) will receive one share in the Merged Entity for every share held.



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(continued)



### Value of Merged Entity

154 Based on the above the value of the Merged Entity is as follows:

Sum-of-parts value	Low A\$m	High A\$m
Afterpay	432.7	511.4
Surplus assets <sup>(1)</sup>	18.0	18.0
Touch System Platform business	70.0	77.0
Total portfolio value	520.7	606.4
Fully diluted shares on issue	230.9	230.9
Portfolio value per share	\$2.26	\$2.63

**Note:**

1 Surplus cash and shares in Change Up.

155 It should be noted that the above value of the Merged Entity does not take into account the value of any potential synergy benefits (refer Section VIII for further details).



## VIII Evaluation of the Merger

156 In our opinion, the terms of the Merger are fair and reasonable to, and in the best interests of, Afterpay Shareholders, in the absence of a superior proposal. We have formed this opinion for the reasons detailed below.

### Assessment of the Merger

157 As discussed in Section II, in our opinion, the Merger should be evaluated as a merger rather than a change of control transaction. The key issues in a merger from the perspective of the Afterpay Shareholders are whether:

- (a) Afterpay Shareholders obtain a collective ownership interest in the Merged Entity that is consistent with (or greater than) the relative value they contribute to the Merged Entity
- (b) Afterpay Shareholders are better off as a result of the Merger from a value perspective
- (c) the advantages of the Merger outweigh the disadvantages.

158 We consider each of these factors below.

### Relative value contribution

159 As stated above, in assessing a merger, a key consideration is whether the value contributed by each of the merger partners is consistent with the merger terms (i.e. whether the value contributed to the Merged Entity is consistent with the respective collective ownership interests each group of shareholders will hold in the Merged Entity). Consequently, when assessing mergers it is important that a consistent basis of valuation be used. That is, when assessing the relative value contribution both companies should be valued either with or without a premium for control. This reflects the fact that it is the relative value of each company which is relevant rather than each company's absolute value. This is consistent with RG 111, which states that where there is a *"merger of entities of equivalent value when control of the Merged Entity will be shared between the 'bidder' and 'target' ... the expert may be justified in using an equivalent approach to valuing the securities of the 'bidder' and the 'target'."*

160 Given the above, LEA has compared Afterpay Shareholders' aggregate interest in the Merged Entity (i.e. 64%) with the relative value contributed to the Merged Entity by Afterpay Shareholders.

161 Our analysis of the relative value contribution (assessed on a portfolio or minority interest basis) by each group of shareholders is as follows:

Relative value contribution			
	Section	Low \$m	High \$m
Afterpay Shareholders	V	322.7	381.4
Touchcorp Shareholders	VI	198.0	225.0
Relative value contribution – Afterpay		62.0%	62.9%
Relative value contribution – Touchcorp		38.0%	37.1%

## Annexure A

### Independent Expert's Report

(continued)



- 162 Based upon the above valuation analysis, Afterpay Shareholders will have a collective interest in the Merged Entity that is slightly greater than their relative contribution to underlying value.

### Value implications of the Merger

- 163 We set out below the value implications of the Merger from the perspective of Afterpay Shareholders:

	Section	Low \$	High \$
Portfolio value of Afterpay shares pre-Merger	V	2.20	2.60
Portfolio value of Merged Entity shares issued as consideration post-Merger <sup>(1)(2)</sup>	VII	2.26	2.63
Value uplift per share <sup>(2)</sup>		0.06	0.03

**Note:**

- 1 Pursuant to the Merger, Afterpay Shareholders (other than Touchcorp) will receive one share in the Merged Entity for every share held in Afterpay.
- 2 Excluding the value of any potential synergy benefits.

- 164 As indicated above, in our view, the merger has a small positive impact on Afterpay Shareholder value. Consequently, in our opinion, the terms of the Merger are fair and reasonable to Afterpay Shareholders.

### Advantages

#### Ownership of Touchcorp's intellectual property

- 165 If the Merger proceeds, the Merged Entity will own both Afterpay and Touchcorp, including the intellectual property associated with the Touch System Platform (which is used by Afterpay to provide its product offerings). As a result, in our view, the Merged Entity is likely to be more attractive to potential investors as all intellectual property will be owned by the one company.

#### The Afterpay and Touchcorp businesses are complementary

- 166 Afterpay and Touchcorp are highly complementary businesses and the combination of both companies should, in our view, benefit both groups of shareholders in the long term (compared to their status quo position as standalone companies). In this regard we note that:
- (a) Touchcorp owns a proprietary software platform that enables the electronic delivery of products, services and entitlements through mobile device applications, websites and interactive voice recognition systems, etc
  - (b) Afterpay has demonstrated an ability to adapt and commercialise the Afterpay System, developed on its behalf by Touchcorp, to transform the way consumers shop in Australia by developing a business model that is attractive to consumers and retailers.



- 167 Pursuant to the Merger, these skill sets will be combined in a single entity. Accordingly, in our view, the Merged Entity is likely to be better placed to commercialise the business opportunities available.

### **Synergy benefits**

- 168 The Merger is also expected to result in cost savings for the merged group in the first year of combined operations. The key drivers of these cost synergies include savings from the following areas:
- (a) duplicated public company costs
  - (b) rationalisation of resources
  - (c) insurances
  - (d) general overheads and administrative costs
  - (e) transaction processing costs as a result of economies of scale.
- 169 Whilst there will be one-off costs associated with achieving these cost savings, management have stated in the Afterpay Scheme Booklet that these will be significantly less than the synergies which can be achieved in the medium term.
- 170 In addition to the cost savings, the Merger has the potential to provide revenue synergies including:
- (a) cross selling of the merged group's complementary "pay later" and "pay now" products
  - (b) more focused relationships which can better leverage Touchcorp's innovative technology to meet customer payment and fraud management needs
  - (c) leveraging an enlarged database for fraud and repayment capability.

### **Disadvantages**

- 171 In our opinion, there are no material disadvantages for Afterpay Shareholders arising from the Merger.

### **Impact on Ineligible Foreign Shareholders**

- 172 However, it should be noted that restrictions in certain foreign countries make it impractical or unlawful to offer or receive securities in those countries. Accordingly, some foreign shareholders will not be eligible to receive ATG shares.
- 173 Afterpay management have advised that it expects that not more than 0.2% of Afterpay Shareholders will be Ineligible Foreign Shareholders.
- 174 All Ineligible Foreign Shareholders will have their ATG shares transferred to a Sale Nominee, who will sell the ATG shares received and remit the proceeds to Ineligible Foreign Shareholders.

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(continued)

LONERGAN EDWARDS  
& ASSOCIATES LIMITED

- 175 Ineligible Foreign Shareholders will therefore be divested of their ATG shares<sup>17</sup>, which may crystallise tax liabilities. However, as noted above, Afterpay Shareholders holding only 0.2% of Afterpay shares on issue will be in this position.

### Taxation implications

- 176 We understand that the Merger has no adverse tax implications for either Afterpay or Afterpay Shareholders. Further information on the tax implications of the Merger for Afterpay Shareholders is set out in the Afterpay Scheme Booklet.

### Other matters

- 177 Afterpay Shareholders should note that the initial announcement of the proposed Merger occurred on 23 February 2017<sup>18</sup>. Following this announcement:
- (a) the Afterpay share price fell from \$2.46 on 22 February 2017 to a low of \$1.965 (on 6 April 2017). However, the Afterpay share price has since recovered and last traded at \$2.45 per share on 5 May 2017
  - (b) the Touchcorp share price increased from \$1.05 on 22 February 2017 to \$1.32 on 23 February 2017, and last traded on 5 May 2017 at \$1.49 per share.
- 178 Based on share market trading, Touchcorp shareholders are therefore receiving a premium for their shares under the terms of the Merger.
- 179 This is consistent with our valuation conclusion, as our assessed portfolio value of the Merged Entity's shares implies a value for Touchcorp shareholders of \$1.45 to \$1.68 per Touchcorp share<sup>19</sup>. However, whilst this represents a premium to the 3 month VWAP of Touchcorp shares prior to the initial announcement of the Merger (\$1.19 per share), we do not consider that the share market trading in Touchcorp shares in this period appropriately reflected the underlying value of Touchcorp's assets.

### Conclusion

- 180 Based on the above, we have concluded that the advantages of the Merger materially outweigh the disadvantages. As a result, in our opinion, the Merger is in the best interests of Afterpay Shareholders.
- 181 As noted above, in our opinion, the terms of the Merger are also fair and reasonable to Afterpay Shareholders.

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<sup>17</sup> Ineligible Foreign Shareholders will be able to buy-back ATG shares on-market following the implementation date. However, transaction costs will be incurred and tax liabilities may be incurred. The buy-back price may also differ from the sale price.

<sup>18</sup> The final terms of the Merger were consistent with the proposed terms announced on 23 February 2017.

<sup>19</sup> Being our assessed portfolio value of the Merged Entity's shares multiplied by the exchange ratio of 0.64 Merged Entity shares for every one Touchcorp share.



## Appendix A

### Financial Services Guide

#### Lonergan Edwards & Associates Limited

182 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

183 LEA holds Australian Financial Services Licence No. 246532.

#### Financial Services Guide

184 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Scheme Booklet to be sent to Afterpay Shareholders in connection with the Merger.

185 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

#### Financial services we are licensed to provide

186 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

#### General financial product advice

187 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

188 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

#### Fees, commissions and other benefits we may receive

189 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$60,000 plus GST.

190 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Annexure A  
Independent Expert's Report  
(continued)



**Appendix A**

- 191 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 192 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

**Complaints**

- 193 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 194 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

**Contact details**

- 195 LEA can be contacted by sending a letter to the following address:

Level 7  
64 Castlereagh Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)





## Appendix B

### Qualifications, declarations and consents

#### Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 23 years and 30 years experience respectively in the provision of valuation advice (and related advisory services).

#### Declarations

- 3 This report has been prepared at the request of the Directors of Afterpay to accompany the Afterpay Scheme Booklet to be sent to Afterpay Shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Merger is fair and reasonable to, and in the best interests of, Afterpay Shareholders.

#### Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Merger. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with Afterpay or Touchcorp prior to the preparation of this report.

#### Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Afterpay agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Afterpay which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

#### Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Afterpay Scheme Booklet.

Annexure A  
Independent Expert's Report  
(continued)



## Appendix C

### Listed company descriptions

#### BPS Technology

- 1 BPS Technology produces software for the trade exchange industry. The company offers trade exchange software management systems, mobile payment platforms and trade exchange platforms. Its brands include Bartercard, buqi and Trade Exchange Software Services. The company operates primarily in Australia, the United Kingdom, the US, New Zealand and internationally.

#### Cabcharge

- 2 Cabcharge's customer base spans accounts ranging from large corporations and government bodies to small businesses and individuals. The company holds merchant agreements with a range of taxi companies and the Cabcharge electronic payment system is found in approximately 97% of Australian taxis as well as limousines and water taxis. As well as processing Cabcharge products, the company provides booking and dispatch services for Taxis Combined Services, Yellow Cabs, ABC Taxis, South Western Cabs and Silver Service. It also provides a wide range of additional services to taxi operators in these fleets including vehicle leasing, loans, insurance, smash repairs and driver training.

#### EML Payments

- 3 EML Payments is a financial services company, specialising in prepaid stored value products, in Australia, the UK and the USA. The company offers prepaid debt card programs for commercial entities, corporations and government departments. Uses of the company's card products include salary packaging, reloadable electronic gaming and betting, online shopping and gift cards. Merchants using the company's products include Ladbrokes (payout cards), Pandora (gift cards) and McMillan Shakespeare (salary packaging prepaid cards).

#### eServGlobal

- 4 eServGlobal provides innovative mobile financial technology. eServGlobal covers the full spectrum of mobile financial services, mobile wallet, mobile commerce, analytics, advanced recharge, promotions and agent management. The company's clients include mobile, fixed, internet and telecom providers. eServGlobal's value-added services include promotions, loyalty and messaging for service providers to engage with their customers.

#### Mint Payments

- 5 Mint Payments processes mobile payments and transactions in Australia. The company provides a mobile payments technology platform that enables corporate enterprises to accept credit and debit card payments on various mobile phones, tablets and mobile devices. It provides the four product categories of Minterprise, Mintegrate, Minternet and Mint mobile point of sale solution through its payment platform.

#### Novatti

- 6 Novatti markets its proprietary transactions platform to telecommunications companies, financial institutions and alternative payment system providers for enterprise or SaaS/PaaS sales. The Group has deployed the Novatti Platform into its controlled subsidiaries



## Appendix C

TransferBridge and Flexewallet (Flexepin) and its joint ventures of Monisend and Novatti (Malaysia), where the platform generates income on a transactional basis. Novatti is a global software technology and payment services provider. Both through technology and services, Novatti helps economies, corporations and consumers digitise cash transactions. Novatti's software solutions include Consumer Digital Wallets, Electronic Top-Ups, Mobile Money, Bill Payments, Remittance Services and Voucher Management Systems. Novatti's transaction processing services include Flexepin, an open-loop cash voucher service and TransferBridge, a global remittance network.

### Pushpay

- 7 Pushpay designs and develops mobile payment application and solutions that allows users to donate to charities and non-profit organisations. It is a New Zealand based company that conducts its business worldwide. The company provides solutions including Event Registration, 3D Touch, echurch apps, Pushpay Fastpay, and Virtual Terminal/Envelope Giving.

### Smartpay

- 8 Smartpay is an independent full service EFTPOS provider which services over 20,000 merchants with approximately 40,000 EFTPOS terminals across New Zealand and Australia. The company also provides in-car payments solutions to the taxi industry and a payments system employed as part of the Victorian Government's Public Transport "myki" travel card. The company is a developer and distributor of electronic prepay solutions including network distribution for mobile phones, international calling cards, internet services, gift cards and a range of other products.

### ZipMoney

- 9 ZipMoney offers point-of-sale credit and payments to consumers and merchants. The company provides a variety of integrated retail finance solutions to small, medium and enterprise merchants across numerous industries, both online and in-store. Merchants using the company's products include 99Bikes, Baby Bunting, Redhill Education and Coco Republic.

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(continued)



## Appendix D

### Glossary

Term	Meaning
ACCC	Australian Competition and Consumer Commission
Afterpay	Afterpay Holdings Limited
Afterpay Shareholders	Afterpay shareholders excluding Touchcorp
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATG	Afterpay Touch Group Limited
AUD	Australian dollar
CAGR	Compound annual growth rate
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Corporations Regulations	<i>Corporations Regulations 2001</i>
CY	Calendar year
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation of acquired intangibles
EBITDA	Earnings before interest, tax depreciation and amortisation
EPS	Earnings per share
EV	Enterprise value
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
IER	Independent expert's report
IPO	Initial public offering
LEA	LonerGAN Edwards & Associates Limited
Merged Entity	ATG
Merger	The merger of Afterpay and Touchcorp
Merger Ratio	1 ATG share for each Afterpay share and 0.64 ATG shares for each Touchcorp share
NPAT	Net profit after tax
NPATA	Net profit after tax but before amortisation of acquired intangibles
NPV	Net present value
Touchcorp	Touchcorp Limited
Touchcorp Shareholders	Touchcorp shareholders
PBT	Profit before tax
PE	Price earnings
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
MIA	Merger Implementation Agreement
TSR	Total shareholder return
US	United States of America
VWAP	Volume weighted average price
WANOS	Weighted average number of shares outstanding

## Annexure B

**Independent Limited Assurance Report**

Ernst & Young Transaction Advisory  
Services Limited  
8 Exhibition Street  
Melbourne VIC 3000 Australia  
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000  
Fax: +61 3 8650 7777  
ey.com/au

12 May 2017

The Directors  
Afterpay Touch Group Limited  
Level 16  
380 Latrobe Street  
Melbourne VIC 3000

The Directors  
Afterpay Holdings Limited  
Level 6  
406 Collins Street  
Melbourne VIC 3000

Dear Directors

**PART 1 – INDEPENDENT LIMITED ASSURANCE REPORT ON THE PRO FORMA  
HISTORICAL FINANCIAL INFORMATION OF AFTERPAY TOUCH GROUP LIMITED**

**1. Introduction**

We have been engaged by Afterpay Touch Group Limited (“Afterpay Touch Group” or the “Company”) and Afterpay Holdings Limited (“Afterpay”) to report on the Afterpay Touch Group pro forma historical financial information for inclusion in the Afterpay scheme booklet to be dated on or about 12 May 2017, and to be issued by Afterpay (“the Afterpay Scheme Booklet”), in respect of the proposed merger (the “Transaction”) of Afterpay and Touchcorp Limited (“Touchcorp”). As part of the Transaction, Afterpay Touch Group, a newly incorporated Australian company, will acquire Afterpay and Touchcorp by two separate interconditional schemes of arrangement (following which Afterpay and Touchcorp would each become wholly-owned subsidiaries of Afterpay Touch Group (indirectly, in the case of Afterpay)) and will issue new shares in Afterpay Touch Group to Afterpay shareholders (excluding Touchcorp) and to Touchcorp shareholders.

Expressions and terms defined in the Afterpay Scheme Booklet have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services Licence under the *Corporations Act 2001*. Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services”) holds an appropriate Australian Financial Services Licence (AFS Licence Number 240585). Jo Barker is a Director and Representative of Ernst & Young Transaction Advisory Services. We have included our Financial Services Guide as Part 2 of this report.

## Annexure B

### Independent Limited Assurance Report

(continued)



## 2. Scope

### ***Pro Forma Historical Financial Information***

You have requested Ernst & Young Transaction Advisory Services to review the following pro forma historical financial information of Afterpay Touch Group:

- ▶ the pro forma historical consolidated income statement of Afterpay Touch Group for the 12 months ended 31 December 2016 as set out in Section 6.11(c) of the Afterpay Scheme Booklet; and
- ▶ the pro forma historical consolidated statement of financial position of Afterpay Touch Group as at 31 December 2016 as set out in Section 6.11(b) of the Afterpay Scheme Booklet

which assumes completion of the Transaction and includes the pro forma adjustments described in Sections 6.11(b) and 6.11(c) of the Afterpay Scheme Booklet.

(Hereafter the “Pro Forma Historical Financial Information”).

The Pro Forma Historical Financial Information has been:

- ▶ derived from the Afterpay general purpose financial statements for the year ended 30 June 2016, which was audited by Ernst & Young in accordance with Australian Auditing Standards and on which an unqualified audit opinion was issued, and Afterpay interim financial statements for the six months ended 31 December 2015 and 31 December 2016, which were reviewed by Ernst & Young and on which unqualified limited assurance conclusions were issued;
- ▶ derived from the Touchcorp general purpose financial statements for the year ended 31 December 2016, which was audited by Ernst & Young in accordance with Australian Auditing Standards and on which an unqualified audit opinion was issued; and
- ▶ adjusted for the effects of pro forma adjustments described in Sections 6.11(b) and 6.11(c) of the Afterpay Scheme Booklet.

The Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards (“AAS”), other than that it includes adjustments which have been prepared in a manner consistent with AAS that reflect: (i) the exclusion of certain transactions that occurred in the relevant period; and (ii) the impact of certain transactions as if they had occurred on 1 January 2016 in the pro forma historical consolidated income statement or on 31 December 2016 in the pro forma historical consolidated statement of financial position.

Due to its nature, the Pro Forma Historical Financial Information does not represent the Company’s actual or prospective financial position and financial performance.

The Pro Forma Historical Financial Information is presented in the Afterpay Scheme Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by AAS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.



### 3. Directors' Responsibility

The directors of Afterpay Touch Group are responsible for the preparation and presentation of the Pro Forma Historical Financial Information, including the basis of preparation, selection and determination of pro forma adjustments made to the historical income statement of Afterpay for the 12 months ended 31 December 2016 and the historical income statement of Touchcorp for the year ended 31 December 2016 and the historical statements of financial position of Afterpay and Touchcorp as at 31 December 2016. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of Pro Forma Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### 4. Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

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

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Pro Forma Historical Financial Information.

### 5. Conclusions

#### ***Pro Forma Historical Financial Information***

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information comprising:

- ▶ the pro forma historical consolidated income statement of Afterpay Touch Group for the 12 months ended 31 December 2016 as set out in Section 6.11(c) of the Afterpay Scheme Booklet; and
- ▶ the pro forma historical consolidated statement of financial position of Afterpay Touch Group as at 31 December 2016 as set out in Section 6.11(b) of the Afterpay Scheme Booklet

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 6.11(a) of the Afterpay Scheme Booklet.



Annexure B  
Independent Limited Assurance Report  
(continued)



**6. Restriction on Use**

Without modifying our conclusions, we draw attention to Section 6.11(a) of the Afterpay Scheme Booklet, which describes the purpose of the Pro Forma Historical Financial Information. As a result, the Pro Forma Historical Financial Information may not be suitable for use for another purpose.

**7. Consent**

Ernst & Young Transaction Advisory Services has consented to the inclusion of this limited assurance report in the Afterpay Scheme Booklet in the form and context in which it is included.

**8. Independence or Disclosure of Interest**

Ernst & Young Transaction Advisory Services does not have any interests in the outcome of this Transaction other than in the preparation of this report (a version which is included in the Afterpay Scheme Booklet and the Touchcorp Scheme Booklet) for which normal professional fees will be received.

Yours faithfully  
Ernst & Young Transaction Advisory Services Limited

A handwritten signature in black ink, appearing to read 'Jo Barker', is written over a horizontal line.

Jo Barker  
Director and Representative



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Services Limited  
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Melbourne VIC 3000 Australia  
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ey.com/au

12 May 2017

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT  
LIMITED ASSURANCE REPORT**

**PART 2 - FINANCIAL SERVICES GUIDE**

**1. Ernst & Young Transaction Advisory Services**

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Limited Assurance Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

**2. Financial Services Guide**

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

**3. Financial services we offer**

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

**4. General financial product advice**

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

## Annexure B

### Independent Limited Assurance Report

(continued)



#### 5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report relating to Afterpay and Afterpay Touch Group is \$22,000 (inclusive of GST), additional fees relating to the Report for Touchcorp and Afterpay Touch Group are disclosed in the TouchCorp Scheme Booklet.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits disclosed in the Afterpay Scheme Booklet in Section 9.7 and the Touchcorp Scheme Booklet in Section 9.9 and the Independent Limited Assurance Report, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

#### 6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

#### 7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

#### 8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or the Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

#### 9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

<b>Contacting Ernst &amp; Young Transaction Advisory Services</b> AFS Compliance Manager Ernst & Young 200 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	<b>Contacting the Independent Dispute Resolution Scheme:</b> Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

Annexure C  
**Scheme of Arrangement**



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## **Scheme of Arrangement**

**Afterpay Holdings Limited**

**Scheme Shareholders**

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ABN 32 266 778 912  
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50 Bridge Street  
Sydney NSW 2000  
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Annexure C  
Scheme of Arrangement  
(continued)

## Scheme of Arrangement

under section 411 of the *Corporations Act 2001* (Cth)

**between**        **Afterpay Holdings Limited** (ACN 606 589 520) of Level 16, 380 La Trobe Street, Melbourne VIC 3000 (**Afterpay**)

**and**            **Scheme Shareholders**

## Operative provisions

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### 1. Definitions and interpretation

#### Definitions

1.1 In this document, unless the context requires otherwise:

**Afterpay Share** means an issued fully paid ordinary share in the capital of Afterpay.

**Afterpay Shareholder** means each person who is registered in the Register as a holder of an Afterpay Share.

**Afterpay Share Registry** means Computershare Investor Services Pty Ltd (ACN 078 279 277).

**Afterpay Touch Group** means Afterpay Touch Group Limited (ACN 618 280 649).

**Afterpay Touch Group Share** means an issued fully paid ordinary share in the capital of Afterpay Touch Group.

**Afterpay Touch Group Sub** means a wholly-owned Subsidiary of Afterpay Touch Group.

**ASIC** means the Australian Securities and Investments Commission.

**ASPL** means ASX Settlement Pty Ltd (ACN 008 504 532).

**ASX** means ASX Limited (ACN 008 624 691) or, where the context requires, the securities market which it operates.

**ASX Settlement Rules** means the ASX Settlement Operating Rules.

**Business Day** means a day that is not a Saturday, Sunday, public holiday or bank holiday in Melbourne, Victoria.

**CHESS** means the Clearing House Electronic Subregister System of share transfers operated by ASPL.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Court** means the Federal Court of Australia or such other court of competent jurisdiction under the Corporations Act agreed in writing by Afterpay, Afterpay Touch Group and Touchcorp.

**Deed Poll** means the deed poll in respect of the Scheme executed by Afterpay Touch Group in favour of each Scheme Shareholder.

**Effective** means, when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the Scheme Order.

**Effective Date** means the date on which the Scheme becomes Effective.

**End Date** means the later of:

- (a) 30 September 2017; and
- (b) such other date and time agreed in writing between Afterpay and Touchcorp.

**Excluded Shareholder** means any Afterpay Shareholder which is Touchcorp or a Subsidiary of Touchcorp.

**Implementation Date** means the third Business Day following the Scheme Record Date, or such other Business Day as Afterpay and Touchcorp agree in writing.

**Ineligible Foreign Shareholder** means a Scheme Shareholder whose address as shown in the Register as at the Scheme Record Date is in a place which Afterpay and Afterpay Touch Group reasonably determine is a place that it is unlawful or unduly onerous to issue that Scheme Shareholder with new Afterpay Touch Group Shares when the Scheme becomes Effective.

**Listing Rules** means the official listing rules of ASX as amended from time to time.

**Merger Implementation Agreement** means the Merger Implementation Agreement dated 30 March 2017, between Afterpay, Touchcorp and Afterpay Touch Group.

**Register** means the register of shareholders of Afterpay.

**Registered Address** means the address of each Scheme Shareholder as recorded in the Register as at the Scheme Record Date.

**Scheme** means this scheme of arrangement under Part 5.1 of the Corporations Act between Afterpay and Scheme Shareholders, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by Afterpay and Touchcorp.

**Scheme Consideration** means the consideration payable to Scheme Shareholders, being 1 new Afterpay Touch Group Share for each Scheme Share held by a Scheme Shareholder.

**Scheme Meeting** means the meeting of Afterpay Shareholders (other than the Excluded Shareholder) ordered by the Court to be convened under section 411(1) of the Corporations Act in relation to the Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

**Scheme Order** means the orders of the Court approving the Scheme, with or without modification, under section 411(4)(b) of the Corporations Act.

**Scheme Record Date** means 5.00pm on the third Business Day (or such other Business Day as Afterpay and Touchcorp agree in writing) following the Effective Date.

**Scheme Share** means an Afterpay Share on issue as at the Scheme Record Date other than any Afterpay Share then held by an Excluded Shareholder (but including any such Afterpay Share held on behalf of one or more third parties or otherwise in a fiduciary capacity).

**Scheme Shareholder** means a person who holds one or more Scheme Shares.

## Annexure C

### Scheme of Arrangement

(continued)

**Second Court Date** means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.

**Subsidiary** has the meaning given to that term in section 46 of the Corporations Act.

**Touchcorp** means Touchcorp Limited (ARBN 603 731 184).

**Touchcorp Scheme** means the proposed scheme of arrangement pursuant to the *Companies Act 1981* of Bermuda, between Touchcorp and its shareholders.

### Interpretation

#### 1.2 In this document:

- (a) unless the context requires otherwise, a reference:
  - (i) to the singular includes the plural and vice versa;
  - (ii) to a gender includes all genders;
  - (iii) to a document or instrument is a reference to that document or instrument as amended, consolidated, supplemented, novated or replaced;
  - (iv) to a clause, paragraph, Schedule or Annexure is to a clause, paragraph, Schedule or Annexure of or to this document;
  - (v) to a law includes any legislation, judgment, rule of common law or equity or rule of any applicable stock exchange, and is a reference to that law as amended, consolidated, supplemented or replaced and includes a reference to any regulation, by-law or other subordinate legislation;
  - (vi) to any time is to Melbourne, Australia time;
  - (vii) to "\$" is to the lawful currency of Australia;
  - (viii) to a party means a party to this Scheme;
  - (ix) to a "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any regulatory authority;
- (b) the words "including" or "includes" means "including, but not limited to", or "includes, without limitation" respectively;
- (c) where a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (d) headings are for convenience only and do not affect interpretation of this document;
- (e) if a payment or other act must (but for this clause) be made or done on a day that is not a Business Day, then it must be made or done on the next Business Day; and
- (f) if a period must be calculated from, after or before a day or the day of an act or event, it must be calculated excluding that day.



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## **2. Preliminary**

### **Afterpay**

- 2.1 Afterpay is a public company limited by shares, incorporated in Australia and taken to be registered in Victoria.
- 2.2 Afterpay is admitted to the official list of ASX and Afterpay Shares are quoted on ASX.

### **Afterpay Touch Group**

- 2.3 Afterpay Touch Group is a public company limited by shares, incorporated in Australia and taken to be registered in Victoria.

### **Effect of Scheme**

- 2.4 If the Scheme becomes Effective:
  - (a) all of the Scheme Shares will be transferred to Afterpay Touch Group and Afterpay will enter Afterpay Touch Group in the Register as the holder of the Scheme Shares; and
  - (b) in consideration for the transfer of the Scheme Shares, Afterpay will procure that Afterpay Touch Group provide the Scheme Consideration to each Scheme Shareholder,

in accordance with the terms of the Scheme.

### **Merger Implementation Agreement**

- 2.5 Afterpay, Touchcorp and Afterpay Touch Group have entered into the Merger Implementation Agreement which sets out, among other things, the terms on which Afterpay and Afterpay Touch Group have agreed to implement the Scheme.

### **Deed Poll**

- 2.6 Afterpay Touch Group has entered into the Deed Poll under which it has covenanted in favour of each Scheme Shareholder, subject to the Scheme becoming Effective, to perform its obligations as contemplated by this Scheme and to do all things necessary or desirable to implement the Scheme, including to provide or procure the provision of the Scheme Consideration.
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## **3. Conditions precedent**

### **Conditions precedent to Scheme**

- 3.1 The Scheme is conditional on and will have no force or effect until, the satisfaction of each of the following conditions precedent:
  - (a) all of the conditions precedent set out in clause 3.1 of the Merger Implementation Agreement, other than those in clauses 3.1(c) and 3.1(d) having been satisfied or waived in accordance with the terms of the Merger Implementation Agreement, before 8:00 am on the Second Court Date; and
  - (b) as at 8.00 am on the Second Court Date, neither the Merger Implementation Agreement nor the Deed Poll having been terminated in accordance with its terms;

## Annexure C

### Scheme of Arrangement

(continued)

- (c) subject to clause 4.15 of the Merger Implementation Agreement, the Court making the Scheme Order either unconditionally or on conditions that do not impose unduly onerous obligations upon any party (acting reasonably);
- (d) any other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme, and which are acceptable to Afterpay and Touchcorp, having been satisfied; and
- (e) an office copy of the Scheme Order (and, if applicable, any orders under section 411(6) of the Corporations Act) is lodged with ASIC as contemplated by section 411(10) of the Corporations Act on or before the End Date,

and the provisions of clauses 4, 5 and 6 will not come into effect unless and until each of these conditions precedent has been satisfied.

#### **Certificate in relation to conditions precedent**

- 3.2 Prior to or at the Court hearing on the Second Court Date, Afterpay and Touchcorp will provide to the Court a joint certificate, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent to the Scheme other than those in clauses 3.1(c) and 3.1(d) and have been satisfied or waived.
- 3.3 The giving of a certificate by Afterpay and Touchcorp under clause 3.2 will, in the absence of manifest error, be conclusive evidence of the satisfaction or waiver of the conditions precedent referred to in the relevant certificate.

#### **Termination**

- 3.4 Without limiting any rights under the Merger Implementation Agreement, if the Merger Implementation Agreement is terminated in accordance with its terms before the Scheme becomes Effective, Scheme Shareholders release each of Afterpay and Afterpay Touch Group from:
  - (a) any further obligation to take steps to implement the Scheme; and
  - (b) any liability with respect to the Scheme.

#### **End Date**

- 3.5 The Scheme will lapse and have no further force or effect if the Effective Date has not occurred on or before the End Date.

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## **4. Implementation of Scheme**

### **Lodgement of Scheme Order**

- 4.1 Afterpay must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Scheme Order as soon as practicable and no later than 5.00pm on the first Business Day after the date on which the Court makes that Scheme Order (or such later time as Afterpay and Touchcorp agree in writing).

### **Transfer of Scheme Shares**

- 4.2 Subject to the Scheme becoming Effective and implementation of the Touchcorp Scheme having completed, the following actions will occur on the Implementation Date (after 12 noon) in the order set out below:

- (a) the Scheme Consideration will be provided in the manner contemplated by clause 4.5(a); and
  - (b) the Scheme Shares, together with all rights and entitlements attaching to them as at the Implementation Date, will be transferred to Afterpay Touch Group without the need for any further act by any Scheme Shareholder (other than acts performed by Afterpay as attorney and agent for Scheme Shareholders under clause 7.1 of this Scheme) by:
    - (i) Afterpay delivering to Afterpay Touch Group a duly completed share transfer form executed on behalf of the Scheme Shareholders (which may be a master share transfer form) to transfer all the Scheme Shares to Afterpay Touch Group;
    - (ii) Afterpay procuring that Afterpay Touch Group duly execute this transfer form and deliver this transfer form to Afterpay for registration; and
    - (iii) to the extent applicable, Afterpay effecting a valid transfer of Scheme Shares under section 1074D of the Corporations Act.
- 4.3 As soon as practicable after receipt of the transfer form or completion of the transfer procedure, Afterpay will enter, or procure the entry of, the name and address of Afterpay Touch Group in the Register as the holder of all the Scheme Shares.
- 4.4 To the extent permitted by law, the Scheme Shares will be transferred to Afterpay Touch Group free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind.

#### **Provision of Scheme Consideration**

- 4.5 Afterpay will procure that Afterpay Touch Group will:
- (a) on the Implementation Date, allot and issue to the Scheme Shareholders (or, in accordance with clause 4.6, to a nominee appointed by Afterpay Touch Group where a Scheme Shareholder is an Ineligible Foreign Shareholder) the new Afterpay Touch Group Shares that comprise the Scheme Consideration on terms such that each new Afterpay Touch Group Share will be free from any mortgage, charge, lien, encumbrance or other security interest and rank equally in all respects with each existing fully paid ordinary share in the capital of Afterpay Touch Group; and
  - (b) apply to ASX for the commencement of trading of the new Afterpay Touch Group Shares that comprise the Scheme Consideration on the ASX (other than any Afterpay Touch Group Shares that will not be quoted by reason of being classified by ASX as restricted securities for the purposes of the Listing Rules) on a deferred settlement basis as from the Business Day after the Effective Date (or such later date as the ASX requires) and on an ordinary settlement basis as from the Business Day after the Implementation Date (or such later date as the ASX requires).

#### **Ineligible Foreign Shareholders**

- 4.6 Afterpay Touch Group will be under no obligation to issue, and will not issue, any new Afterpay Touch Group Shares that comprise the Scheme Consideration to any Ineligible Foreign Shareholder, and instead (unless otherwise agreed in writing by Afterpay and Touchcorp), Afterpay will procure that Afterpay Touch Group issues on the Implementation Date the new Afterpay Touch Group Shares to which that Ineligible Foreign Shareholder would otherwise have been entitled (if they were a Scheme Shareholder who was not an Ineligible Foreign Shareholder) to a nominee appointed by Afterpay Touch Group.

## Annexure C

### Scheme of Arrangement

(continued)

- 4.7 Where new Afterpay Touch Group Shares are issued to a nominee pursuant to clause 4.6, Afterpay will procure that Afterpay Touch Group procures that, as soon as reasonably practicable and in any event not more than 15 Business Days after the Implementation Date, the nominee:
- (a) sells on the ASX or another prescribed financial market all of the new Afterpay Touch Group Shares issued to the nominee in accordance with clause 4.6 in such manner, at such price and on such other terms as the nominee determines in good faith, and at the risk of the Ineligible Foreign Shareholders; and
  - (b) remits to Afterpay Touch Group the proceeds of sale (after deducting any applicable brokerage, stamp duty and other selling costs, taxes and charges).
- 4.8 Where new Afterpay Touch Group Shares are issued to a nominee pursuant to clause 4.6, promptly after the last remittance in accordance with clause 4.7(b), Afterpay will procure that Afterpay Touch Group pays to each Ineligible Foreign Shareholder the proportion of the net proceeds of sale received by Afterpay Touch Group pursuant to clause 4.7(b) to which that Ineligible Foreign Shareholder is entitled.

#### Obligations of Scheme Shareholders

- 4.9 Each Scheme Shareholder who will be issued Afterpay Touch Group Shares under the Scheme agrees:
- (a) to become a shareholder of Afterpay Touch Group;
  - (b) to have their name and address entered into the register of shareholders maintained by Afterpay Touch Group; and
  - (c) to be bound by the constitution of Afterpay Touch Group in force from time to time in respect of the Afterpay Touch Group Shares.

#### Joint holders

- 4.10 In the case of Scheme Shares held in joint names, any Scheme Consideration will be issued to and registered in the names of the joint holders and holding statements or notices confirming the issue of the Scheme Consideration will be forwarded to the holder whose name appears first in the Register as at the Scheme Record Date.

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## 5. Dealings in Scheme Shares

#### Determination of Scheme Shareholders

- 5.1 Each Scheme Shareholder will be entitled to participate in the Scheme.
- 5.2 For the purpose of determining who is a Scheme Shareholder, dealings in Afterpay Shares will only be recognised if:
- (a) in the case of dealings of the type to be effected by CHESS, the transferee is registered in the Register as the holder of the relevant Afterpay Shares by the Scheme Record Date; and
  - (b) in all other cases, share transfer forms in registrable form or registrable transmission applications in respect of those dealings are received by the Afterpay Share Registry by the Scheme Record Date,

and Afterpay must not accept for registration, nor recognise for any purpose (except a transfer to Afterpay Touch Group pursuant to this Scheme and any subsequent transfer by Afterpay Touch Group or its successors in title), any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

#### **Afterpay's obligation to register**

- 5.3 Afterpay must register any registrable transfers or transmission applications of the kind referred to in clause 5.2(b) by the Scheme Record Date.

#### **Transfers after the Scheme Record Date**

- 5.4 If the Scheme becomes Effective, a Scheme Shareholder (and any person claiming through that holder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them after the Scheme Record Date (other than a transfer to Afterpay Touch Group in accordance with the Scheme and any subsequent transfers by Afterpay Touch Group or its successors in title).
- 5.5 Afterpay will not accept for registration, nor recognise for any purpose, any transfer or transmission application in respect of Scheme Shares received after the Scheme Record Date (other than a transfer to Afterpay Touch Group in accordance with the Scheme and any subsequent transfers by Afterpay Touch Group or its successors in title).

#### **Maintenance of Register**

- 5.6 For the purpose of determining entitlements to the Scheme Consideration, Afterpay will, until the Scheme Consideration has been provided to Scheme Shareholders, maintain or procure the maintenance of the Register in accordance with this clause 5. The Register in this form will solely determine entitlements to the Scheme Consideration.

#### **Effect of certificates and holding statements**

- 5.7 From the Scheme Record Date, each certificate or holding statement for Scheme Shares will cease to have any effect as a document of title in respect of the Scheme Shares or otherwise (other than holding statements in favour of Afterpay Touch Group and its successors in title).
- 5.8 Each entry on the Register as at the Scheme Record Date (other than entries in respect of the Excluded Shareholders, Afterpay Touch Group and its successors in title) will cease to have any effect other than as evidence of the entitlements of Scheme Shareholders to the Scheme Consideration in respect of the Scheme Shares relating to that entry.

#### **Information to be made available to Afterpay Touch Group**

- 5.9 As soon as reasonably practicable after the Scheme Record Date and in any event at least two Business Days before the Implementation Date, Afterpay will give to Afterpay Touch Group or as it directs, or procure that Afterpay Touch Group be given or as it directs, details of the name, address and number of Scheme Shares held by each Scheme Shareholder as shown in the Register at the Scheme Record Date in the form Afterpay Touch Group reasonably requires.

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### **6. Quotation of Afterpay Shares**

- 6.1 Afterpay will apply to ASX for suspension of trading of Afterpay Shares on ASX with effect from the close of trading on the Effective Date.

## Annexure C

### Scheme of Arrangement

(continued)

- 6.2 If the Scheme has been fully implemented in accordance with its terms, on the date determined by Afterpay Touch Group, Afterpay will apply to ASX for the termination of the official quotation of Afterpay Shares on ASX and to have Afterpay removed from the official list of ASX.

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## 7. General Scheme provisions

### Appointment of Afterpay as agent and attorney

- 7.1 Each Scheme Shareholder, without the need for any further act, irrevocably appoints Afterpay and each of the directors and officers of Afterpay (jointly and severally) as its agent and attorney for the purpose of doing all things and executing all deeds, instruments, transfers and other documents that may be necessary or desirable to give full effect to the Scheme and the transactions contemplated by it, including but not limited to:
- (a) enforcing the Deed Poll against Afterpay Touch Group;
  - (b) in the case of Scheme Shares in a CHESS holding:
    - (i) causing a message to be transmitted to ASPL in accordance with the ASX Settlement Rules to transfer the Scheme Shares held by the Scheme Shareholder from the CHESS subregister of Afterpay to the issuer sponsored subregister operated by Afterpay or the Afterpay Share Registry at any time after Afterpay Touch Group has paid or procured the payment of the Scheme Consideration which is due under this Scheme to Scheme Shareholders; and
    - (ii) completing and signing on behalf of Scheme Shareholders any required form of transfer of Scheme Shares;
  - (c) in the case of Scheme Shares registered in the issuer sponsored subregister operated by Afterpay or the Afterpay Share Registry, completing and signing on behalf of Scheme Shareholders any required form of transfer; and
  - (d) in all cases, executing any document or doing any other act necessary or desirable to give full effect to this Scheme and the transactions contemplated by it, including executing a proper instrument of transfer of Scheme Shares for the purposes of section 1071B of the Corporations Act (which may be a master transfer),
- and Afterpay accepts such appointment.
- 7.2 Afterpay may sub-delegate its functions, authorities or powers under clause 7.1 as agent and attorney of each Scheme Shareholder to any or all of its directors or officers.

### Agreement by Scheme Shareholders

- 7.3 Each Scheme Shareholder agrees to:
- (a) the transfer of its Scheme Shares together with all rights and entitlements attaching to those Scheme Shares to Afterpay Touch Group in accordance with the terms of the Scheme; and
  - (b) the variation, cancellation or modification (if any) of the rights attached to its Afterpay Shares constituted by or resulting from the Scheme.

**Warranty by Scheme Shareholders**

- 7.4 Each Scheme Shareholder is deemed to have warranted to Afterpay, and is deemed to have authorised Afterpay to warrant to Afterpay Touch Group as agent and attorney for the Scheme Shareholder, that:
- (a) all of its Scheme Shares (including all rights and entitlements attaching to them) transferred to Afterpay Touch Group under the Scheme will, on the date of the transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests and other interests of third parties of any kind; and
  - (b) it has full power and capacity to sell and transfer its Scheme Shares (including all rights and entitlements attaching to them) to Afterpay Touch Group.

**Title to Scheme Shares**

- 7.5 On and from the Implementation Date, subject to Afterpay Touch Group providing the Scheme Consideration in accordance with clause 4.5, and pending registration by Afterpay of Afterpay Touch Group in the Register as the holder of the Scheme Shares, Afterpay Touch Group will be beneficially entitled to the Scheme Shares.

**Appointment of Afterpay Touch Group as sole proxy**

- 7.6 Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by this Scheme, on and from the Implementation Date and until registration by Afterpay of Afterpay Touch Group in the Register as the holder of the Scheme Shares, each Scheme Shareholder:
- (a) without the need for any further act irrevocably appoints Afterpay Touch Group and each of its directors, officers and secretaries (jointly and each of them separately) as its agent and attorney to appoint an officer or agent nominated by Afterpay Touch Group as its sole proxy and where applicable, corporate representative to:
    - (i) attend shareholders' meetings of Afterpay;
    - (ii) exercise the votes attached to the Scheme Shares registered in the name of the Scheme Shareholder; and
    - (iii) sign any shareholders' resolution of Afterpay;
  - (b) undertakes not to attend or vote at any such meetings or sign any such resolutions, whether in person, by proxy or by corporate representative other than under clause 7.6;
  - (c) must take all other actions in the capacity of a registered holder of Scheme Shares as Afterpay Touch Group reasonably directs; and
  - (d) acknowledges and agrees that in exercising the powers referred to in this clause 7.6, Afterpay Touch Group and each of the directors, officers and secretaries of Afterpay Touch Group may act in the best interests of Afterpay Touch Group as the intended registered holder of the Scheme Shares.
- 7.7 Afterpay undertakes in favour of each Scheme Shareholder that it will appoint the officer or agent nominated by Afterpay Touch Group as that Scheme Shareholder's proxy or, where applicable, corporate representative in accordance with clause 7.6(a).



## Annexure C

### Scheme of Arrangement

(continued)

#### **Scheme alterations and conditions**

- 7.8 If the Court proposes to approve the Scheme subject to any alterations or conditions under section 411(6) of the Corporations Act, Afterpay may, by its counsel or solicitors, and with the consent of Touchcorp, consent to those alterations or conditions on behalf of all persons concerned, including, for the avoidance of doubt, all Scheme Shareholders.

#### **Effect of Scheme**

- 7.9 The Scheme binds Afterpay and all Scheme Shareholders (including those who do not attend the Scheme Meeting, do not vote at the meeting or vote against the Scheme) and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of Afterpay.

#### **No liability when acting in good faith**

- 7.10 Neither Afterpay nor Afterpay Touch Group, nor any of their respective officers or agents, will be liable to an Afterpay Shareholder for anything done or omitted to be done in the performance of the Scheme in good faith.

#### **Notices**

- 7.11 Where a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to Afterpay, it will not be deemed to be received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at Afterpay's registered office or at the Afterpay Share Registry.
- 7.12 The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Afterpay Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

#### **Further assurances**

- 7.13 Each party must, at its own expense, whenever requested by the other party, promptly do or, to the extent reasonably practicable, arrange for others to do everything, including executing any documents, reasonably necessary to give full effect to this Scheme and the transactions contemplated by this Scheme.

#### **Costs and stamp duty**

- 7.14 Afterpay Touch Group must pay all stamp duties (if any) and any fines, penalties and interest in respect of this Scheme or the steps to be taken under this Scheme (including the acquisition or transfer of Scheme Shares and the issue of Afterpay Touch Group Shares under the Scheme).

#### **Governing law and jurisdiction**

- 7.15 This Scheme is governed by the laws of Victoria. Each party irrevocably and unconditionally:
- (a) submits to the non-exclusive jurisdiction of the courts of Victoria; and
  - (b) waives, without limitation, any claim or objection based on absence of jurisdiction or inconvenient forum.

Annexure D  
**Deed Poll**

**Baker  
McKenzie.**

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**Deed Poll**

**By Afterpay Touch Group Limited  
in favour of each Scheme Shareholder**

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Baker & McKenzie  
ABN 32 266 778 912  
AMP Centre  
Level 27  
50 Bridge Street  
Sydney NSW 2000  
Australia  
[www.bakermckenzie.com](http://www.bakermckenzie.com)

Annexure D  
Deed Poll  
(continued)

**Title**                      **Deed Poll**

**Date**                        10 May 2017

**By**                           **Afterpay Touch Group Limited** (ACN 618 280 649 of Level 16, 380 La Trobe Street, Melbourne VIC 3000 (**Afterpay Touch Group**))

**in favour of**           **each Scheme Shareholder**

**Recitals**

- A      Afterpay, Afterpay Touch Group and Touchcorp are parties to a Merger Implementation Agreement dated 30 March 2017 in respect of the Scheme and associated matters.
- B      Afterpay Touch Group is entering into this Deed Poll to covenant in favour of Scheme Shareholders that it will perform all of its obligations under the Merger Implementation Agreement and all actions attributed to it under the Scheme.
- C      The effect of the Scheme will be to transfer all Scheme Shares to Afterpay Touch Group in exchange for the Scheme Consideration.

**Operative provisions**

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**1.      Definitions and interpretation**

- 1.1      In this Deed Poll, capitalised words and phrases have the same meaning as given to them in the proposed scheme of arrangement under Part 5.1 of the Corporations Act between Afterpay and Scheme Shareholders in respect of all Scheme Shares (**Scheme**), unless otherwise defined or the context requires otherwise.
- 1.2      Clause 1.2 of the Scheme applies to the interpretation of this Deed Poll except that references to "this document" in that clause are to be read as references to "this Deed Poll".

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**2.      Nature of Deed Poll**

- 2.1      Afterpay Touch Group acknowledges that:
  - (a)      this Deed Poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms, even though the Scheme Shareholder is not a party to it; and
  - (b)      under the Scheme, each Scheme Shareholder irrevocably appoints Afterpay and each of the directors and officers of Afterpay (jointly and severally) as its agent and attorney to enforce this Deed Poll against Afterpay Touch Group.

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### **3. Condition precedent and termination**

#### **Conditions precedent**

- 3.1 Afterpay Touch Group's obligations under clause 4 are subject to the Scheme becoming Effective.

#### **Termination**

- 3.2 Afterpay Touch Group's obligations under this Deed Poll will automatically terminate and the terms of this Deed Poll will have no further force or effect if:
- (a) the Merger Implementation Agreement is terminated in accordance with its terms prior to the occurrence of the Effective Date for the Scheme; or
  - (b) the Scheme does not become Effective on or before the End Date.

#### **Consequences of termination**

- 3.3 If this Deed Poll is terminated under clause 3.2, then, in addition and without prejudice to any other rights, powers or remedies available:
- (a) Afterpay Touch Group is released from its obligations to further perform this Deed Poll except those obligations contained in clause 8.1 and any other obligations which by their nature survive termination; and
  - (b) each Scheme Shareholder retains the rights or remedies it has against Afterpay Touch Group in respect of any breach of this Deed Poll which occurred before its termination.
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### **4. Provision of Scheme Consideration**

- 4.1 Subject to clause 3, Afterpay Touch Group undertakes to each Scheme Shareholder to:
- (a) issue to each Scheme Shareholder (or to a nominee appointed by Afterpay Touch Group, on its behalf, where that Scheme Shareholder is an Ineligible Foreign Shareholder) the Scheme Consideration on terms such that each new Afterpay Touch Group Share will be free from any mortgage, charge, lien, encumbrance or other security interest and rank equally in all respects with each existing fully paid ordinary share in the capital of Afterpay Touch Group;
  - (b) enter the name of each Scheme Shareholder in the Afterpay Touch Group Share register in respect of the Afterpay Touch Group Shares which that Scheme Shareholder is entitled to receive under the Scheme;
  - (c) send or procure the dispatch by pre-paid ordinary post (or, if the address of the Scheme Shareholder in the register is outside Australia, by pre-paid airmail post) to each Scheme Shareholder to their address recorded in the register as at the Scheme Record Date, a holding statement for the Afterpay Touch Group Shares issued to that Scheme Shareholder; and
  - (d) undertake all other actions attributed to it under, otherwise comply with its obligations in, and do all other acts and things necessary or desirable on its part to give full effect to, the Scheme as if it were a party to the Scheme,

subject to and in accordance with the provisions of the Scheme.

Annexure D  
Deed Poll  
(continued)

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**5. Representations and warranties**

- 5.1 Afterpay Touch Group represents and warrants in favour of each Scheme Shareholder that:
- (a) it is a corporation validly existing under the laws of the place of its incorporation;
  - (b) it has the corporate power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll;
  - (c) it has taken all necessary corporate action to authorise the entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll; and
  - (d) this Deed Poll is valid and binding upon it and enforceable against it in accordance with its terms.

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**6. Continuing obligations**

- 6.1 This Deed Poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:
- (a) Afterpay Touch Group having fully performed its obligations under this Deed Poll; and
  - (b) the termination of this Deed Poll under clause 3.2.

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**7. Notices**

- 7.1 Any notice or other communication given to Afterpay Touch Group under or in connection with this Deed Poll must be:
- (a) in legible writing and in English;
  - (b) directed to Afterpay Touch Group at the address for notices set out below:  

Address:	Level 16, 380 LaTrobe Street, Melbourne, VIC 3000
Attn:	Company Secretary
  - (c) signed by the sender or a person duly authorised by the sender; and
  - (d) sent to Afterpay Touch Group by hand, prepaid post (airmail if to or from a place outside Australia) or email.
- 7.2 Without limiting any other means by which a party may be able to prove that a notice has been received by Afterpay Touch Group, a notice will be considered to have been received:
- (a) if sent by hand, when left at the address of Afterpay Touch Group;
  - (b) if sent by pre-paid post, 1 Business Day after the date of posting; or
  - (c) if sent by email:
    - (i) when the sender receives an automated message confirming delivery; or
    - (ii) 2 hours after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered,

whichever happens first,

but if a notice is served on a day that is not a Business Day, or after 5.00 pm on a Business Day, the notice will be considered to have been received by Afterpay Touch Group at 9.00 am on the next Business Day.

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## **8. General**

### **Stamp duty**

#### **8.1 Afterpay Touch Group:**

- (a) must pay all stamp duties (if any) and any fines, penalties and interest with respect to stamp duty in respect of the Scheme or this Deed Poll or the steps to be taken under them (including the acquisition or transfer of Scheme Shares and the issue of Afterpay Touch Group Shares under the Scheme); and
- (b) indemnifies each Scheme Shareholder on demand against any liability arising from failure to comply with clause 8.1(a).

### **Waiver**

- 8.2 Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this Deed Poll by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other right, power or remedy provided by law or under this Deed Poll.
- 8.3 No waiver of a breach of any term of this Deed Poll will operate as a waiver of another breach of that term or of a breach of any other term of this Deed Poll.
- 8.4 Nothing in this Deed Poll obliges a party to exercise a right to waive any conditional term of this agreement that may be in its power.
- 8.5 A provision of or right under this Deed Poll may not be waived except in writing signed by the person granting the waiver.

### **Variation**

- 8.6 A provision of this Deed Poll may not be varied unless the variation is agreed to in writing by Afterpay Touch Group, Afterpay and Touchcorp, and if the variation occurs on or after the First Court Date, the Court indicates that the variation would not of itself preclude approval of the Scheme. A variation which complies with this clause is effective when Afterpay Touch Group enters into a further deed poll in favour of each Scheme Shareholder giving effect to the amendment.

### **Rights cumulative**

- 8.7 The rights, powers and remedies of Afterpay Touch Group and of each Scheme Shareholder under this Deed Poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this Deed Poll.

### **Assignment**

- 8.8 The rights and obligations of Afterpay Touch Group and of each Scheme Shareholder under this Deed Poll are personal and must not be assigned, encumbered or otherwise dealt with at law or in equity.

Annexure D  
Deed Poll  
(continued)

**Further assurances**

- 8.9 Each party must, at its own expense, whenever requested by the other party, promptly do or, to the extent reasonably practicable, arrange for others to do everything, including executing any documents, reasonably necessary to give full effect to this Deed Poll and the transactions contemplated by this Deed Poll.

**Governing law and jurisdiction**

- 8.10 This Deed Poll is governed by the laws of Victoria.
- 8.11 Afterpay Touch Group irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Victoria.



## Execution


**Executed** as a deed.

**Signed sealed and delivered**  
by **Afterpay Touch Group Limited**  
in accordance with section 127 of the  
*Corporations Act 2001* by a director and  
secretary/director:

  
\_\_\_\_\_  
Signature of director

**DAVID HANCOCK**

\_\_\_\_\_  
Name of director (please print)

  
\_\_\_\_\_  
Signature of ~~director~~/secretary

**SOPHIE KARZIS**

\_\_\_\_\_  
Name of ~~director~~/secretary (please print)

## Annexure E

# Notice of Scheme Meeting

Afterpay Holdings Limited  
(ACN 606 589 520)

Notice is given that by an order of the Federal Court of Australia (**Court**) made on 12 May 2017 pursuant to section 411(1) of the *Corporations Act 2001* (Cth) (**Corporations Act**), a meeting of the holders of ordinary shares in Afterpay Holdings Limited (**Afterpay**) (other than the Excluded Shareholders) will be held at 10.00am on Monday, 19 June 2017 at the offices of Baker McKenzie, Level 19, CBW, 181 William Street, Melbourne VIC 3000.

### Business of the Meeting

To consider and, if thought fit, to pass the following resolution in accordance with section 411 of the Corporations Act:

‘That pursuant to and in accordance with section 411 of the Corporations Act, the Scheme proposed to be entered into between Afterpay and the holders of its ordinary shares other than the Excluded Shareholders (the details of which are described in the Scheme Booklet of which the notice convening this meeting forms part) is agreed to (with or without any modification that may be approved by the Court)’.

By order of the Board of Afterpay Holdings Limited



**Sophie Karzis**  
Company Secretary  
12 May 2017

### Explanatory Notes:

This Notice of Scheme Meeting, including the resolution and the Notes should be read in conjunction with the Scheme Booklet of which this notice forms part.

A copy of the Scheme is contained in Annexure C to this Scheme Booklet.

A proxy form also accompanies this Notice of Scheme Meeting.

### Terminology

Capitalised terms which are defined in section 10 of the Scheme Booklet which accompanies this Notice of Scheme Meeting have the same meaning when used in this notice (including these notes) unless the context requires otherwise.

### Chair

The Court has directed that Anthony Eisen act as Chair of the Scheme Meeting or, failing them, David Hancock (unless the members at the meeting elect some other person to act as Chair of the meeting) and has directed the Chair to report the result of the meeting to the Court.

### Voting

The Directors unanimously recommend that you vote in favour of the resolution at the Scheme Meeting. Each Director intends to vote all their ordinary shares held by or on behalf of them at the time of the Scheme Meeting in favour of the resolution on the Scheme, in the absence of a superior proposal.

### Majority required

In accordance with section 411(4)(a) of the Corporations Act, the resolution contained in this Notice of Scheme Meeting must be passed by:

- a majority in number holders of ordinary shares present and voting (either in person or by proxy, attorney or by corporate representative); and
- at least 75 per cent of the votes cast on the resolution contained in this Notice of Scheme Meeting.

The vote will be conducted by poll.

### Court approval

If the resolution contained in this Notice of Scheme Meeting is approved at the Scheme Meeting by the Requisite Majorities, the implementation of the Scheme (with or without modification) will be subject to, among other things, the subsequent approval of the Court.

### Entitlement to vote

The Court has ordered that, for the purposes of the Scheme Meeting, Shares will be taken to be held by the persons who are registered as Shareholders at 7.00pm on 17 June 2017 (other than the Excluded Shareholders). Accordingly, registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

### How to vote

Voting will be by poll. If you are a Shareholder entitled to attend and vote at the Scheme Meeting, you may vote by:

- attending the Scheme Meeting in person;
- appointing a proxy to attend on your behalf using the proxy form accompanying the Scheme Booklet;
- appointing an attorney to vote on your behalf; or
- in the case of a corporation, appointing an authorised corporate representative to attend on its behalf.

### Jointly held securities

If the Shares are jointly held, only one of the joint Shareholders is entitled to vote. If more than one joint Shareholder votes, only the vote of the Shareholder whose name appears first in the Share Register will be counted.

### Voting in person

To vote in person at the Scheme Meeting, you must attend the Scheme Meeting to be held at 10.00am on Monday, 19 June 2017 at the offices of Baker McKenzie, Level 19, CBW, 181 William Street, Melbourne VIC 3000.

You will be admitted to the Scheme Meeting and given a voting card upon disclosure at the point of entry of your name and address.

### Voting by attorney

Unless the Share Registry already has this, original or certified copies of powers of attorney must be received by the Share Registry either at its registered office or at the Scheme Meeting before the Scheme Meeting commences.

The power of attorney appointing the attorney in respect of the Scheme Meeting must be duly executed and specify the name of the applicable Shareholder, Afterpay and the attorney. The instruction may be a standing one.

An attorney will be admitted to the Scheme Meeting and given a voting card on providing at the entrance to the Scheme Meeting, their name and address and the identity of their appointer.

The appointment of an attorney will not preclude a shareholder from attending in person and voting at the Scheme Meeting if the Shareholder is entitled to attend and vote. In such circumstances only the Shareholder, and not the attorney, will be entitled to vote.

### Voting by corporate representative

To vote at the Scheme Meeting (other than by proxy or by attorney), a corporation that is a Shareholder and entitled to vote must appoint a person to act as its representative. The appointment must comply with section 250D of the Corporations Act, meaning that the Afterpay will require a Certificate of Appointment of Corporate Representative (Certificate) executed in accordance with the Corporations Act. A copy of the Certificate may be obtained from the Share Registry. The Certificate must be received by the Share Registry either at its registered office or at the Scheme Meeting before the Scheme Meeting commences. Afterpay will retain the Certificate of Appointment.

If a Certificate is completed by an individual or a corporation under a power of attorney, the power of attorney under which the Certificate is signed, or a certified copy of that power of attorney, must accompany the completed Certificate, unless the power of attorney has already been noted by Afterpay.

An authorised corporate representative will be admitted to the Scheme Meeting and given a voting card on providing at the entrance to the Scheme Meeting, written evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointer.

### Voting by proxy

A Shareholder entitled to attend and vote at the meeting is also entitled to vote by proxy. You may appoint not more than two proxies to attend and act for you at the Scheme Meeting. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes. A proxy need not be a Shareholder.

The proxy form is enclosed with this Scheme Booklet. Please refer to the proxy form for instructions on completion and lodgement.

For the appointment of your proxy to be effective, correctly completed proxy forms (and any authority under which the proxy form is signed, or a certified copy of the completed proxy forms must be received by the Share Registry by no later than 10.00am on Saturday, 17 June 2017.

You should consider how you wish the proxy to vote. That is, whether you wish for the proxy to vote 'For' or 'Against', or abstain from voting on, the resolution for approval of the Scheme, or whether to leave the decision to the appointed proxy after discussion at the Scheme Meeting.

## Annexure E

### Notice of Scheme Meeting

(continued)

If you do not instruct your proxy on how to vote, your proxy may vote, or abstain from voting, as he or she sees fit at the Scheme Meeting. If a proxy is instructed to abstain from voting on an item of business, that person is directed not to vote on a Shareholder's behalf on a show of hands or on a poll, and the Shares the subject of the proxy appointment will not be counted in computing the required majority.

**The Directors intend to vote all valid undirected proxies which they receive in favour of the resolution at the Scheme Meeting.**

Shareholders entitled to attend and vote at the meeting who return their proxy forms but do not nominate the identity of their proxy will be taken to have appointed the Chair of the Scheme Meeting as their proxy to vote on their behalf. If a proxy form is returned but the nominated proxy does not attend the Scheme Meeting, the Chair of the Scheme Meeting will act in place of the nominated proxy and vote in accordance with the directions on the proxy form. Proxy appointments in favour of the Chair of the Scheme Meeting, the Company Secretary, or any Director which do not contain a direction will be used to support the resolution to approve the Scheme.

A proxy will be admitted to the Scheme Meeting and given a voting card on providing at the entrance to the Scheme Meeting, written evidence of their name and address.

The sending of a proxy form will not preclude a shareholder from attending in person, revoking a proxy and voting at the Scheme Meeting if the Shareholder is entitled to attend and vote. In such circumstances only the Shareholder, and not the proxy, will be entitled to vote.

The instrument appointing a proxy is required to be in writing under the hand of the appointor or of that person's attorney and, if the appointor is a corporation, in accordance with the Corporations Act or under the hand of an authorised officer or attorney. Where two or more persons are registered as a shareholder, each person must sign the proxy form. If a proxy form is completed by an individual or a corporation under power of attorney:

- the power of attorney under which the form is signed, or a certified copy of that power of attorney, must accompany the completed proxy form; and
- the proxy form may only be lodged in person or by post,

unless the power of attorney has previously been noted by the Share Registry.

**Lodgement of proxies, powers of attorney and authorities**

Proxy forms, powers of attorney and authorities should be sent to the Share Registry using the enclosed reply paid envelope, or as indicated on the proxy form.

**Online lodgement of proxies**

If you are entitled to vote at the Scheme Meeting, you may lodge a proxy online by going to [www.investorvote.com.au](http://www.investorvote.com.au) and following the instructions on the secure website.

The access information that you will need to vote is set out in your proxy form for the Scheme Meeting.





Afterpay Holdings Limited  
ACN 606 589 520

## Lodge your proxy:



**Online:**

[www.investorvote.com.au](http://www.investorvote.com.au)



**By Mail:**

Computershare Investor Services Pty Limited  
GPO Box 242 Melbourne  
Victoria 3001 Australia

Alternatively you can fax your form to  
(within Australia) 1800 783 447  
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only  
(custodians) [www.intermediaryonline.com](http://www.intermediaryonline.com)

## For all enquiries call:

(within Australia) 1300 560 339  
(outside Australia) +61 2 8011 0354

AFY

MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

## Scheme Meeting - Proxy Form

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### Lodge your proxy online

- Go to [www.investorvote.com.au](http://www.investorvote.com.au) or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to lodge your proxy.

### Your access information that you will need to lodge your proxy online:

**Control Number: 9999999**

**SRN/HIN: I9999999999**

**PIN: 99999**

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.



**For your proxy to be effective it must be received by 10:00am (Melbourne time) on Saturday, 17 June 2017**

This is an important document and requires your immediate attention. You should read it carefully and in its entirety before deciding whether or not to vote in favour of the Afterpay Scheme. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser. If you have recently sold all your Afterpay Shares, please ignore this document. Afterpay has established a Shareholder Information Line which you should call if you have any questions in relation to the Scheme or the Merger. The telephone number for the Shareholder Information Line is 1300 560 339 (within Australia) and +61 2 8011 0354 (outside Australia). The Shareholder Information Line is open between Monday and Friday from 9.00am to 5.30pm.

### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite the item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on the item your vote will be invalid.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

### Signing Instructions for Postal Forms

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

### Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the help tab, "Printable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO LODGE YOUR PROXY,  
or turn over to complete the form →**



MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

☐

**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

## Proxy Form

Please mark ☒ to indicate your directions

### STEP 1 Appoint a Proxy to Vote on Your Behalf

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I/We being a member/s of Afterpay Holdings Limited hereby appoint

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the Chairman  
of the Meeting **OR**



**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Scheme Meeting of Afterpay Holdings Limited to be held at the offices of Baker & McKenzie, Level 19, 181 William Street, Melbourne, Victoria on Monday, 19 June 2017 at 10:00am (Melbourne time) and at any adjournment or postponement of that meeting.

### STEP 2 Item of Business



**PLEASE NOTE:** If you mark the **Abstain** box for the item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

'That pursuant to and in accordance with section 411 of the Corporations Act, the Scheme proposed to be entered into between Afterpay and the holders of its ordinary shares other than the Excluded Shareholders (the details of which are described in the Scheme Booklet of which the notice convening this meeting forms part) is agreed to (with or without any modification that may be approved by the Court)'

For

☐

Against

☐

Abstain

☐

The Chairman of the Meeting intends to vote undirected proxies in favour of the item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

### SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact  
Name

\_\_\_\_\_

Contact  
Daytime  
Telephone

\_\_\_\_\_

Date / /

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