

The logo for SurfStitch.com, featuring the brand name in a blue, sans-serif font. The background of the entire page is a photograph of a beach at sunset, with silhouettes of people and waves in the foreground and a bright orange and yellow sky above.

SurfStitch.com

SurfStitch Group Limited ACN 602 288 004

# SURFSTITCH GROUP LIMITED PROSPECTUS

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INITIAL PUBLIC  
OFFERING OF  
ORDINARY SHARES

**J.P.Morgan**

Lead Manager and Underwriter

# TABLE OF CONTENTS

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Important Information	1
Chairman's Letter	3
Key Dates and Offer Statistics	4
1. Investment Overview	5
2. Industry Overview	21
3. Company Overview	29
4. Financial Information	43
5. Risks	62
6. Key People, Interests and Benefits	72
7. Details of the Offer	91
8. Investigating Accountant's Report	105
9. Additional Information	116
10. Summary of Significant Accounting Policies	125
11. Glossary	131
12. Corporate Directory	IBC

# IMPORTANT INFORMATION

## OFFER

This Prospectus is issued by SurfStitch Group Limited (ACN 602 288 004) ("SurfStitch Group" or "the Company"). The Offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares in SurfStitch Group ("Shares") (the "Offer").

## LODGEMENT AND LISTING

This Prospectus is dated 27 November 2014 and was lodged with the Australian Securities and Investments Commission ("ASIC") on that date. Neither ASIC nor ASX Limited ("ASX") takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. SurfStitch Group will apply within seven days after the date of this Prospectus to ASX for the listing of SurfStitch Group and quotation of the Shares on ASX.

## EXPIRY DATE

This Prospectus expires on the date which is 13 months after the date of this Prospectus ("Expiry Date") and no Shares will be issued or transferred on the basis of this Prospectus after the Expiry Date.

## NOTE TO APPLICANTS

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs of any prospective investor. It is important that you read this Prospectus carefully and in full before deciding whether to invest in SurfStitch Group. In particular, in considering the prospects of SurfStitch Group, you should consider the risks that could affect the financial performance of SurfStitch Group. You should carefully consider these risks in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in SurfStitch Group. Some of the risks that should be considered by prospective investors are set out in Section 5. There may be risks in addition to the risks set out in Section 5 that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, guarantees the performance of SurfStitch Group, the repayment of capital by SurfStitch Group or the payment of a return on the Shares. No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by SurfStitch Group or the Directors of SurfStitch Group ("the Directors").

SurfStitch Group disclaims all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statements.

## EXPOSURE PERIOD

The Corporations Act prohibits SurfStitch Group from processing applications to subscribe for Shares under this Prospectus ("Applications") in the seven day period after the date of lodgement of this Prospectus ("Exposure Period"). The Exposure Period may be extended by ASIC by up to a further seven days. The Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act.

Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period.

## FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, at the date of this Prospectus, are expected to take place (including the assumptions set out in Section 4.7). Such forward-looking statements are not guarantees of future performance and involve uncertainties, assumptions and known and unknown risks, including the risks set out in Section 5 many of which are beyond the control of SurfStitch Group and the Directors. SurfStitch Group and the Directors cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. Except where required by law, SurfStitch Group has no intention of updating or revising forward-looking statements, or publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus.

## STATEMENTS OF PAST PERFORMANCE

This Prospectus includes information regarding the past performance of SurfStitch. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

## FINANCIAL YEAR PERIODS

All references to FY2012, FY2013, FY2014 and FY2015 appearing in this Prospectus are to the historical financial years ended 30 June 2012, 30 June 2013 or 30 June 2014 and the forecast financial year ending 30 June 2015, respectively, unless otherwise indicated.

## FINANCIAL INFORMATION

Section 4 sets out the Financial Information referred to in this Prospectus. The basis of preparation of the Financial Information is also set out in Section 4.2. The Pro Forma Historical Financial Information and the Forecast Financial Information in this Prospectus should be read in conjunction with, and are qualified by reference to, the information contained in Sections 4 and 5.

## OBTAINING A COPY OF THIS PROSPECTUS

A hard copy of this Prospectus is available free of charge to any Broker Firm Applicant in Australia by calling 1300 553 490 (within Australia) or +61 1300 553 490 (outside Australia) from 8.30am to 5.00pm (Sydney time) during the Retail Offer period from 8 December 2014 to 12 December 2014. This Prospectus is available on the Company's website (<http://www.SurfStitch.com>).

## NO COOLING OFF RIGHTS

Cooling off rights do not apply to an investment in Shares issued under this Prospectus. This means that, in most circumstances, you cannot withdraw your Application.

## PHOTOGRAPHS AND DIAGRAMS

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by SurfStitch. Diagrams and maps used in this Prospectus are illustrative only and may not be drawn to scale.

# IMPORTANT INFORMATION

## DEFINED TERMS AND ABBREVIATIONS

Defined terms and abbreviations used in this Prospectus have the meanings defined in the Glossary set out in Section 11. Unless otherwise stated or implied, references to times in this Prospectus are to the time in Sydney, Australia. All financial amounts contained in this Prospectus are expressed in Australian dollars unless otherwise stated. There may be discrepancies between totals and sums of components in tables contained in this Prospectus due to rounding.

## SELLING RESTRICTIONS

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction in the United States and may not be offered or sold, directly or indirectly, in the United States unless the Shares are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities Act and any other applicable securities laws is available.

Accordingly, the Shares are being offered and sold only outside the United States in reliance on the exemption from registration provided by Regulation S.

See Section 7.14 for more detail on selling restrictions that apply to the offer and sale of Shares in jurisdictions outside of Australia.

## PRIVACY

By filling out the Application Form to apply for Shares you are providing personal information to SurfStitch Group and its service provider, Link Market Services Limited ("Share Registry"), which is contracted by SurfStitch Group to manage Applications. SurfStitch Group and the Share Registry on its behalf, may collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and administer SurfStitch Group. If you do not provide the information requested in the Application Form, SurfStitch Group and the Share Registry may not be able to process or accept your Application.

Your personal information may also be used from time to time to inform you about other products and services offered by SurfStitch, which it considers may be of interest to you. Your personal information may also be provided to SurfStitch Group's group members, agents and service providers on the basis that they deal with such information in accordance with SurfStitch Group's privacy policy and applicable laws. The members, agents and service providers of SurfStitch Group may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law.

The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the Shareholder register;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

You may request access to your personal information held by or on behalf of SurfStitch Group. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information by writing to or telephoning the Share Registry as follows:

Telephone: +61 1800 502 355

Address: Privacy Officer, Link Group,  
Locked Bag A14,  
Sydney South NSW 1235

## OFFER MANAGEMENT

The Offer is being arranged, managed and underwritten by J.P. Morgan.

## REPORT ON FINANCIAL INFORMATION AND FINANCIAL SERVICES GUIDE

The provider of the Investigating Accountant's Report is required to provide Australian retail clients with a financial services guide in relation to the review under the Corporations Act.

The financial services guide is provided in Section 8.

## QUESTIONS

If you have any questions about how to apply for Shares, please call your Broker. If you have any questions about whether to invest in SurfStitch Group you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in SurfStitch Group.

# CHAIRMAN'S LETTER

Dear Investor,

On behalf of the Directors, it gives me great pleasure to offer you the opportunity to become a shareholder in SurfStitch Group. SurfStitch was founded by Justin Cameron and Lex Pedersen in 2007 on Sydney's Northern Beaches. From its beginnings selling surf wear via the eBay marketplace, SurfStitch has grown to become a leading pure play retail e-Commerce business globally, offering a broad array of multi-branded Action Sports products, to customers in more than 125 countries around the world.

SurfStitch has a balanced brand and product portfolio, offering consumers the choice of more than 700 brands and 30,000 products in the Action Sports segment. Its brand and product offering includes surf, snow, ski, skate, motocross and street based apparel, footwear, hard goods and accessories. SurfStitch's ability to grow its brand and product portfolio and to move into new markets is greatly enhanced by the scale of its back-end infrastructure. With established warehousing and technology infrastructure in Australia, France and the USA, SurfStitch has the excess capacity needed to handle increased volume with minimal further investment.

SurfStitch's growth over the past seven years has been driven by a number of factors, including the growth of online retailing, which has seen many consumers make their purchases via e-Commerce websites rather than from traditional "bricks and mortar" retailers. In recent times, acquisitions have also played an important role in SurfStitch's growth strategy. SurfStitch completed the acquisition of Swell in the USA in September 2014 and immediately following Completion of the Offer and using part of the Offer proceeds, SurfStitch will complete the acquisition of SurfDome, one of Europe's leading pure play online Action Sports retailers. The Directors believe that the SurfDome acquisition is a highly attractive and complementary acquisition which will further enhance SurfStitch's scale and market position in Europe. Immediately following the acquisition, SurfStitch is expected to have in excess of 1.6 million Active Customers across its Websites based on figures as at 30 June 2014. For the foreseeable future, the Directors intend to reinvest cash generated by SurfStitch back into the business in support of future growth initiatives.

Whilst its business structure and focus distinguish SurfStitch from its competitors, the cornerstone of SurfStitch's success is the quality of its people and the continued efforts of its founding partners. The revenue growth and improved market position the business has achieved recently are a testament to their ongoing energy, enthusiasm and expertise.

The Offer provides an opportunity for you to share in our exciting future. This Prospectus contains detailed information about the Offer, the industry in which SurfStitch operates, SurfStitch's operating and financial performance and outlook. SurfStitch is subject to a range of risks including website and database integrity, reduced growth in retail e-Commerce and demand for Action Sports products, a decline in growth of internet penetration, increased competition, reliance on third party suppliers, changes in technology, the demands placed on the business due to rapid growth and execution risk when expanding into new markets. The key risks of investing in SurfStitch Group are detailed in Section 5.

I encourage you to read this document carefully and in its entirety before making your investment decision. On behalf of my fellow Directors, I look forward to welcoming you as a shareholder.



**Howard McDonald**  
Chairman



# KEY DATES AND OFFER STATISTICS

Key Offer statistics	
Offer Price	\$1.00 per Share
Total number of Shares offered under this Prospectus <sup>1</sup>	83.2 million
Total value of Shares offered under this Prospectus at the Offer Price	\$83.2 million
Total number of Shares on issue after Completion of the Offer and completion of the Surfdomo acquisition	214.0 million
Total number of Shares held by Existing Shareholders on Completion of the Offer <sup>2</sup>	116.3 million
Market capitalisation at the Offer Price <sup>3</sup>	\$214.0 million
Enterprise value at the Offer Price <sup>4</sup>	\$182.8 million
Enterprise value/pro forma forecast FY2015 revenue <sup>5,7</sup>	0.9x
Enterprise value/pro forma forecast FY2015 EBITDA <sup>6,7</sup>	35.8x

<sup>1</sup> The total number of Shares to be offered under the Offer excludes the Shares to be offered under the Employee Gift Offer. The offer of Shares to Eligible Employees under the Employee Gift Offer is also made under this Prospectus.

<sup>2</sup> Subject to certain exceptions, the Shares held by Management Shareholders, Pre-IPO Investors and Stephen Goddard on Completion of the Offer will be subject to voluntary escrow arrangements as described further in Section 7.10.

<sup>3</sup> Calculated as the total number of Shares on issue after Completion of the Offer and completion of the Surfdomo acquisition multiplied by the Offer Price.

<sup>4</sup> Calculated as the market capitalisation of the Company, based on the Offer Price, of \$214.0 million less pro forma net cash of \$31.3 million as at 30 June 2014.

<sup>5</sup> The enterprise value/revenue multiple is calculated as the expected enterprise value of the Company at the Offer Price divided by pro forma forecast FY2015 revenue of \$199.1 million.

<sup>6</sup> The enterprise value/EBITDA multiple is calculated as the expected enterprise value of the Company at the Offer Price divided by pro forma forecast FY2015 EBITDA of \$5.1 million.

<sup>7</sup> The Forecast Financial Information is based on assumptions and accounting policies set out in Section 4 and Section 10, and is subject to the key risks set out in Section 5. There is no guarantee that forecasts will be achieved. Certain financial information included in this Prospectus is described as pro forma for the reasons described in Section 4.2.

Important dates	
Prospectus lodgement date	Thursday, 27 November 2014
Retail Offer opens	Monday, 8 December 2014
Retail Offer closes	Friday, 12 December 2014
Settlement of the Offer	Monday, 15 December 2014
Completion of the Offer (Allotment and issue of Shares under the Offer)	Monday, 15 December 2014 to Tuesday, 16 December 2014
Expected commencement of trading on the ASX on a deferred settlement basis	Tuesday, 16 December 2014
Expected dispatch of holding statements	Wednesday, 17 December 2014
Expected commencement of trading on the ASX on a normal settlement basis	Thursday, 18 December 2014

The timetable above is indicative only. Unless indicated otherwise, all times are stated in Sydney time. SurfStitch Group, in consultation with the Lead Manager, reserves the right to amend any or all of these dates and times subject to the Corporations Act, the ASX Listing Rules and other applicable laws, including closing the Offer early, extending the Offer, deferring the Completion Date or accepting late Applications either generally or in particular cases, allotting Shares at different times to investors, or to withdrawing the Offer, without prior notice. The quotation and commencement of trading of the Shares is subject to confirmation from ASX.

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# INVESTMENT OVERVIEW





# 1. INVESTMENT OVERVIEW

Topic	Summary	For more information
<b>A. Introduction</b>		
<b>What is SurfStitch Group?</b>	<p>SurfStitch Group will, following Completion of the Offer and completion of the SurfDome acquisition, be the ultimate holding company of:</p> <ul style="list-style-type: none"> <li>▪ SurfStitch Pty Limited (“SSA”) and SurfStitch (Europe) Pty Ltd (“SSE”), which own and operate the e-Commerce businesses trading through SurfStitch.com;</li> <li>▪ SurfStitch USA Inc. (“SSUSA”), which owns and operates the e-Commerce business trading through Swell.com; and</li> <li>▪ SurfDome Shop Limited (“SDUK”), which owns and operates the e-Commerce business trading through SurfDome.com and SurfDome.fr.</li> </ul>	<b>Sections 7.1.4 and 9.3</b>
<b>What is SurfStitch?</b>	<p>SurfStitch is one of the leading pure play online Action Sports retailers globally. It is the only major pure play online Action Sports retailer in Australia and New Zealand (“NZ”), and has developed a growing presence in the European and the United States of America (“USA”) online Action Sports segments. SurfStitch provides over 700 brands and 30,000 products to consumers in more than 125 countries.</p> <p>SurfStitch Australia has been consistently recognised as one of Australia’s leading pure play retailers, having been awarded Best Pure Play Online Retailer in each of 2011, 2012 and 2014 by the Online Retailer Industry Awards (“ORIA”). SurfStitch Australia was also recognised as one of Australia’s fastest growing technology companies in the Deloitte Technology Fast 50 program in 2011, 2012 and 2013.</p> <p>SurfStitch.com was the most visited Action Sports retail website in Australia over the three years to August 2014<sup>1</sup>. In addition, SurfStitch.com has consistently ranked in the top 10 most visited apparel and accessories websites in Australia over the same period<sup>1</sup>.</p> <p>SurfStitch had 271 full-time equivalent employees across its operations in Australia, Europe and the USA as at 30 September 2014. The number of employees will increase to 389 full-time equivalent employees following completion of the SurfDome acquisition, based on employee numbers as at 30 September 2014.</p>	<b>Sections 3.1, 3.5 and 3.6</b>
<b>What is the SurfDome acquisition?</b>	<p>On 7 November 2014, SurfStitch Holdings entered into binding share sale and purchase agreements (“SPAs”) with each of the shareholders of SDUK (“SurfDome Shareholders”). SDUK owns and operates the SurfDome business.</p> <p>SurfDome is one of Europe’s leading pure play online Action Sports retailers, and is based in the United Kingdom (“UK”). SurfDome offers a broad range of apparel, footwear, accessories and hard goods. SurfDome’s products are sold through its website SurfDome.com, as well as through its fully translated French site SurfDome.fr. SurfDome is headquartered in London and operates a distribution centre in the UK.</p> <p>SurfStitch has undertaken due diligence on SurfDome and believes it represents a highly attractive and complementary acquisition opportunity for SurfStitch, which will provide scale and depth to SurfStitch’s existing European business, and enhance its market position in Europe.</p> <p>The SPAs are interconditional and remain subject only to the condition precedent that Completion of the Offer occurs. The SPAs will complete on the same day as and following Completion of the Offer. The terms of the SPAs are summarised in Section 9.5.</p>	<b>Sections 3 and 9.5</b>

<sup>1</sup> Source: Experian Hitwise.



Topic	Summary	For more information
<b>A. Introduction</b>		
<p>What is the Action Sports segment of the retail market and what is its estimated size?</p>	<p>The Action Sports segment of the retail market (“Action Sports segment”) is defined by equity research firm Piper Jaffray as the market for skate, surf, snowboard, street, bicycle motocross and motocross apparel, footwear, accessories and hard goods.</p> <p>The Action Sports segment sits within the broader retail market with a significant proportion of this segment related to clothing and footwear retail.</p> <p>There are no official published statistics on the value of retail sales in the Action Sports segment given its numerous components. However, publicly available information for certain major Action Sports brand owners<sup>2</sup> and three publicly listed multi-brand Action Sports retailers (Pacific Sunwear of California (“PacSun”), Tilly’s and Zumiez) indicates that these businesses earned combined revenue in excess of US\$16 billion from the sale of Action Sports products. SurfStitch therefore believes the value of the global Action Sports segment (as measured by retail sales) is in excess of US\$16 billion.</p>	<p>Section 2.3</p>
<p>What is SurfStitch’s history?</p>	<p>The SurfStitch business was founded by Justin Cameron and Lex Pedersen in Sydney, Australia in 2007. In 2008, SurfStitch.com was launched. In December 2009, the SurfStitch Australia business was transferred to SSA. Through a series of transactions between December 2009 and October 2012, Billabong acquired a 51% interest in SSA.</p> <p>In September 2012, SSE was established as a joint venture between Billabong and Online Brands No.2 Limited (“OB2”) (an entity associated with SurfStitch’s founders Justin Cameron and Lex Pedersen). Billabong held a 51% interest in SSE, with the remaining 49% held by OB2.</p> <p>In August 2014, Justin Cameron and Lex Pedersen incorporated SurfStitch Holdings, which raised \$65 million from a group of Australian and offshore institutional and sophisticated investors. This capital allowed SurfStitch Holdings to acquire all the shares in SSA and SSE, including Billabong’s 51% shareholding in SSA and SSE and to acquire 100% of the assets of Billabong’s USA-based e-Commerce Action Sports business, Swell.</p> <p>On 7 November 2014, SurfStitch Holdings entered into binding SPAs to acquire all of the shares in SDUK including the 51% interest held by the Quiksilver group (“Quiksilver”). The acquisition of SurfStitch will complete on the same day as and following Completion of the Offer.</p>	<p>Section 3.2</p>
<p>Why is the Offer being conducted?</p>	<p>The Offer is being conducted to:</p> <ul style="list-style-type: none"> <li>▪ provide Existing Shareholders an opportunity to realise part of their investment in SurfStitch;</li> <li>▪ attract and retain high quality management by building SurfStitch’s profile and reputation via a listing;</li> <li>▪ provide SurfStitch with access to the capital markets to improve financial flexibility for both organic and acquisitive growth;</li> <li>▪ partially fund the acquisition of the shares in SDUK;</li> <li>▪ align the interests of Management with those of Shareholders through providing remuneration under broader equity-based incentive schemes, as well as through substantial and measurable Share ownership; and</li> <li>▪ provide a liquid market for the Shares.</li> </ul>	<p>Section 7.1.2</p>

<sup>2</sup> Limited public information is available for Action Sports brands as a number of brands are privately owned. Information is publicly available for the following Action Sports brand owners: Billabong, GoPro, Kering (Volcom), Luxottica (Oakley), Nike (Converse and Hurley), Quiksilver, Rip Curl and VF Corp.

# 1. INVESTMENT OVERVIEW

Topic	Summary	For more information
<b>B. Key features of SurfStitch's business model</b>		
<p>How does SurfStitch generate its income?</p>	<p>SurfStitch's business model centres around the sale of third party produced and branded Action Sports goods via its websites, SurfStitch.com, Swell.com and following completion of the SurfDome acquisition, SurfDome.com and SurfDome.fr ("Websites"). SurfStitch operates a hybrid model whereby the business acts as both a third party reseller on behalf of suppliers and a traditional retailer, which sells stock that it has purchased.</p> <p>SurfStitch sources products from over 500 suppliers globally, with the majority of inventory being sourced directly from brand owners. SurfStitch also has relationships with wholesale distributors and agents/resellers, through which it procures inventory. The strength of SurfStitch's supplier relationships enables SurfStitch to negotiate trading arrangements that it considers to be attractive.</p> <p>While SurfStitch has physical locations in Australia, France, the UK (following completion of the SurfDome acquisition) and the USA, SurfStitch's revenues are generated from a range of geographies, including: Australia, New Zealand, Japan, South East Asia, the Americas (USA, Canada and Latin America), France, Germany, Spain, Italy, Portugal, the UK and various Nordic countries. As a pure play online retailer, SurfStitch does not have any "bricks and mortar" retail outlets.</p>	<p>Section 3.3</p>
<p>What is SurfStitch's growth strategy?</p>	<p>SurfStitch's key business strategies are to:</p> <ul style="list-style-type: none"> <li>▪ Drive operational synergies across SurfStitch's businesses           <ul style="list-style-type: none"> <li>▪ SurfStitch's primary strategic focus will be on driving operational synergies across SurfStitch Australia, SurfStitch Europe, Swell and SurfDome to create a global leader in online Action Sports retail. SurfStitch's strategy is to:               <ul style="list-style-type: none"> <li>– share operational best practices across SurfStitch's businesses to enhance customers' site experience, improve inventory management and increase customer targeting/engagement;</li> <li>– assess the potential to integrate its existing e-Commerce technology platforms onto a single unified technology platform and thereby remove duplicate costs;</li> <li>– seek out operational efficiencies in areas such as product sourcing, technology development, fulfilment, shipping and warehousing; and</li> <li>– to the extent possible, obtain more favourable trading terms from its technology service providers such as payment gateways and email service providers through increased bargaining power and scale.</li> </ul> </li> </ul> </li> </ul>	<p>Section 3.10</p>

Topic	Summary	For more information
	<ul style="list-style-type: none"> <li>▪ Grow SurfStitch’s share of the online Action Sports segment in key geographies by building on SurfStitch’s customer proposition through:               <ul style="list-style-type: none"> <li>▪ increased and deeper analysis of SurfStitch’s customer database to improve customer targeting, personalisation and relevance;</li> <li>▪ increased personalisation of email marketing content and targeted promotions;</li> <li>▪ increased search engine optimisation (“SEO”) to increase brand awareness and lower customer acquisition costs;</li> <li>▪ additional “above the line” marketing;</li> <li>▪ an expanded brand and product range including international product selections;</li> <li>▪ improved site navigation functionality;</li> <li>▪ enhanced user experience functionality including improved content and design;</li> <li>▪ dynamic delivery options; and</li> <li>▪ increased efficiency of customer payment and check-out options.</li> </ul> </li> <li>▪ Assess and execute acquisitions where SurfStitch sees a strategic opportunity to build scale or enter new geographies (such as the recent acquisition of Swell in the USA and SurfDome in the UK).</li> <li>▪ SurfStitch may also seek to explore organic expansion opportunities into new markets including Asia.</li> </ul>	
<p><b>Who are SurfStitch’s competitors?</b></p>	<p>SurfStitch competes in the Action Sports segment. Action Sports products are sold through different retail channels, including:</p> <ul style="list-style-type: none"> <li>▪ multi-branded “bricks and mortar” retailers;</li> <li>▪ omni-channel retailers (“bricks and mortars” retailers with an online channel);</li> <li>▪ brand owner operated “bricks and mortar” and/or online stores (also referred to as “mono-branded” retailers); and</li> <li>▪ specialist online retailers (often referred to as “pure play” online retailers).</li> </ul> <p>SurfStitch therefore competes with Action Sports retailers in each of these channels. SurfStitch believes its key competitors across the key geographic regions in which it operates are:</p> <ul style="list-style-type: none"> <li>▪ Pure play online retailers: SurfDome (UK)<sup>3</sup>, Dogfunk (USA) and Karmaloop (USA)</li> <li>▪ Omni-channel retailers:               <ul style="list-style-type: none"> <li>▪ Multi-branded: City Beach (Australia), Surf Dive ‘n’ Ski (Australia), Amazon Surf (NZ), North Beach (NZ), Blue Tomato (Europe), Two Seasons (UK), PacSun (USA), Tilly’s (USA) and Zumiez (USA).</li> <li>▪ Mono-branded (Global): Billabong, GoPro, Kering (Volcom), Luxottica (Oakley), Nike (Converse/Hurley), Quiksilver, Rip Curl and VF Corp (Reef/Vans).</li> </ul> </li> </ul>	<p><b>Section 2.5</b></p>
<p><b>How is SurfStitch differentiated from its competitors?</b></p>	<p>SurfStitch’s business model is differentiated from that of multi-branded “bricks and mortar” retailers, whose product offering and brand assortment is constrained by limited shelf space, and mono-branded retailers, which do not offer the same variety proposition as a multi-branded retailer.</p> <p>SurfStitch’s global presence and dual-hemisphere fulfilment capabilities allow customers to access products spanning all seasons and differentiate SurfStitch from omni-channel retailers and other pure play online retailers.</p>	<p><b>Sections 2.5 and 3.8</b></p>

3 SurfStitch has entered into SPAs with the SurfDome Shareholders.



# 1. INVESTMENT OVERVIEW

Topic	Summary	For more information																																																										
How does SurfStitch expect to fund its operations?	SurfStitch expects to fund its operations from the revenues generated from its business activities as well as the cash on the balance sheet following Completion of the Offer and completion of the SurfDome acquisition.	Section 4.4																																																										
What is SurfStitch's historical and forecast financial performance?	<p>The following table contains selected pro forma financial information<sup>4</sup> for SurfStitch for the periods indicated. Whilst this does not represent the statutory results for SurfStitch, SurfStitch Group believes it provides useful information as it permits investors to examine what it considers to be the underlying financial performance of the business:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2"></th> <th colspan="3" style="background-color: #00A0C0; color: white;">Pro forma historical</th> <th style="background-color: #00A0C0; color: white;">Pro forma forecast</th> </tr> <tr> <th style="background-color: #333333; color: white;">FY2012</th> <th style="background-color: #333333; color: white;">FY2013</th> <th style="background-color: #333333; color: white;">FY2014</th> <th style="background-color: #333333; color: white;">FY2015</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>75.5</td> <td>109.1</td> <td>153.7</td> <td>199.1</td> </tr> <tr> <td>Gross profit</td> <td>35.0</td> <td>48.9</td> <td>67.0</td> <td>89.7</td> </tr> <tr> <td>EBITDA before significant items</td> <td>4.0</td> <td>(1.7)</td> <td>(2.1)</td> <td>5.1</td> </tr> <tr> <td>EBITDA</td> <td>3.8</td> <td>(3.6)</td> <td>(3.0)</td> <td>5.1</td> </tr> <tr> <td>EBIT</td> <td>3.1</td> <td>(6.1)</td> <td>(7.6)</td> <td>0.2</td> </tr> <tr> <td>NPAT</td> <td>2.7</td> <td>(6.5)</td> <td>(8.1)</td> <td>0.1</td> </tr> </tbody> </table> <p>The following table contains selected statutory financial information for SurfStitch for the periods indicated:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2"></th> <th colspan="3" style="background-color: #00A0C0; color: white;">Statutory financial information<sup>1</sup></th> <th style="background-color: #00A0C0; color: white;">Statutory forecast<sup>2</sup></th> </tr> <tr> <th style="background-color: #333333; color: white;">FY2012</th> <th style="background-color: #333333; color: white;">FY2013</th> <th style="background-color: #333333; color: white;">FY2014</th> <th style="background-color: #333333; color: white;">FY2015</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>32.1</td> <td>56.9</td> <td>72.7</td> <td>95.2</td> </tr> <tr> <td>NPAT</td> <td>(2.4)</td> <td>(7.3)</td> <td>(11.2)</td> <td>(11.1)</td> </tr> </tbody> </table> <p><sup>1</sup> The statutory historical aggregated income statements for FY2012, FY2013 and FY2014 are sourced from the statutory accounts of SSA and financial records of SSE.  <sup>2</sup> The statutory period reflects the results expected to be reported in the period from incorporation of the Company on 13 October 2014 to 30 June 2015.</p> <p>The full details of the Financial Information are set out in Section 4. The Financial Information presented above should be read in conjunction with the more detailed discussions of the Financial Information disclosed in Section 4 and the risk factors in Section 5.</p>		Pro forma historical			Pro forma forecast	FY2012	FY2013	FY2014	FY2015	Revenue	75.5	109.1	153.7	199.1	Gross profit	35.0	48.9	67.0	89.7	EBITDA before significant items	4.0	(1.7)	(2.1)	5.1	EBITDA	3.8	(3.6)	(3.0)	5.1	EBIT	3.1	(6.1)	(7.6)	0.2	NPAT	2.7	(6.5)	(8.1)	0.1		Statutory financial information <sup>1</sup>			Statutory forecast <sup>2</sup>	FY2012	FY2013	FY2014	FY2015	Revenue	32.1	56.9	72.7	95.2	NPAT	(2.4)	(7.3)	(11.2)	(11.1)	Section 4.3
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<sup>4</sup> The pro forma financial information presented above assumes that SSA, SSE, Swell and SDUK were acquired on 1 July 2011.

Topic	Summary	For more information
<b>C. Key strengths</b>		
<b>Exposure to attractive and growing market segments</b>	<p>SurfStitch is well placed to benefit from its exposure to growing markets and segments. Between 2013 and 2018, the key markets in which SurfStitch operates are forecast to grow at attractive rates:</p> <ul style="list-style-type: none"> <li>▪ The global business to consumer (“B2C”) retail e-Commerce market is forecast to grow at a compound annual growth rate (“CAGR”) of 14.7%;</li> <li>▪ The B2C retail e-Commerce markets in Australia, Europe and the USA are forecast to grow at a CAGR of 6.3%, 10.2% and 8.2% respectively; and</li> <li>▪ The B2C clothing and footwear retail e-Commerce segments in Australia, Europe and the USA are forecast to grow at a CAGR of 4.1%, 10.6% and 8.8% respectively.</li> </ul> <p>Online penetration rates<sup>5</sup> are expected to increase across SurfStitch’s key markets as growth in online retail outpaces traditional “bricks and mortar” retail.</p> <p>While specific growth forecasts are not available for the online Action Sports segment, the vast majority of SurfStitch’s revenue is derived from clothing and footwear sales. SurfStitch therefore believes the B2C clothing and footwear retail e-Commerce segment provides a relevant indicator of potential market growth in the online Action Sports segment.</p>	<b>Section 2.2</b>
<b>Scalable model underpinned by well established e-Commerce infrastructure</b>	<p>SurfStitch’s established and highly scalable e-Commerce technology platforms underpin SurfStitch’s key business functions. These e-Commerce technology platforms require minimal additional capital expenditure to support higher transaction volumes and provide an efficient means to grow SurfStitch’s business into new geographic markets. SurfStitch’s technology platforms are serviced and supported by information technology (“IT”) resources including an internal enterprise resource planning team, an e-Commerce team and an IT support team.</p>	<b>Section 3.5</b>
<b>Superior breadth of product offering relative to “bricks and mortar” and mono-branded retailers</b>	<p>Through its pure play online retail model, SurfStitch provides its customers with access to more than 700 brands and 30,000 products sourced from over 500 global suppliers.</p> <p>SurfStitch is differentiated from multi-branded “bricks and mortar” retailers, whose product offering and assortment is constrained by limited shelf space, and mono-branded retailers, which do not offer the same variety proposition as a multi-branded retailer.</p>	<b>Sections 2.5, 3.4 and 3.8</b>

<sup>5</sup> Online penetration rates are defined as the percentage of the market which is sold online.

# 1. INVESTMENT OVERVIEW

Topic	Summary	For more information
<b>Attractive dual-hemisphere fulfilment capabilities</b>	SurfStitch's dual-hemisphere supply model limits the need for end of season clearances due to the ability to leverage seasonal differences across geographies as well as providing protection against exchange rate fluctuations. Furthermore, SurfStitch enjoys attractive supply terms with many key brands in relation to return provisions and/or rebates which help to manage inventory levels.	Section 3.8
<b>Successful customer acquisition and retention strategies</b>	<p>SurfStitch's customer acquisition strategy is predominantly focused on SEO to organically drive site traffic to SurfStitch.com and Swell.com. This reduces the need for search engine marketing ("SEM"), which is expensive relative to SEO.</p> <p>To drive growth in its Active Customer<sup>6</sup> database, SurfStitch has implemented strategies to increase conversion rates including free shipping and returns, ease of payment, check-out speed and promotions.</p> <p>SurfStitch has developed successful customer retention strategies, including its targeted email marketing campaigns, which have led to a highly engaged and loyal customer base, with over 40% of customers visiting SurfStitch.com more than 10 times per month<sup>7</sup>. Customers are also reordering more frequently, with customer re-order rates increasing significantly following a customer's second order<sup>8</sup>.</p> <p>SurfStitch's scale also facilitates ongoing investment in marketing to help support these customer acquisition and retention strategies.</p>	Section 3.7
<b>Attractive growth profile and segment performance</b>	<p>Growing business with pro forma forecast FY2015 revenue of \$199.1 million, which represents growth of 29.5% over the prior year's pro forma revenue, and EBITDA of \$5.1 million.</p> <p>Attractive segment performance:</p> <ul style="list-style-type: none"> <li>▪ Australia (SurfStitch Australia): pro forma revenue has increased from \$30.0 million in FY2012 to \$57.8 million in FY2014 representing a 38.7% CAGR over the period;</li> <li>▪ Europe (Surfdome and SurfStitch Europe): pro forma revenue has increased from \$25.7 million in FY2012 to \$71.1 million in FY2014 representing a 66.2% CAGR over the period; and</li> <li>▪ USA (Swell): pro forma revenue has increased from \$19.7 million in FY2012 to \$24.8 million in FY2014 representing a 12.2% CAGR over the period.</li> </ul>	Sections 4.3 and 4.6
<b>Experienced management team</b>	<p>Justin Cameron (CEO and Managing Director) and Lex Pedersen (Managing Director and President of Swell) co-founded SurfStitch in 2007 and are responsible for leading its workforce. Together Justin and Lex have more than 30 years of experience across surfwear retailing and finance.</p> <p>SurfStitch's management team is comprised of experienced professionals, with expertise in retailing, procurement, supply chain, distribution, technology and marketing.</p>	Sections 6.1 and 6.2

<sup>6</sup> Defined as customers who have made a purchase in the last 12 months.

<sup>7</sup> Management data; frequency of visits per month to SurfStitch Australia.

<sup>8</sup> Management data.



Topic	Summary	For more information
<b>D. Key risks</b>		
Integrity and performance of SurfStitch's Websites, databases and systems	The performance of SurfStitch's Websites and databases is critically important to SurfStitch's ability to attract and retain customers and to make sales to customers. SurfStitch relies upon third party operators for key aspects of maintaining its Websites and databases and selling its products. If a prolonged system failure or corruption were to occur, it could damage SurfStitch's business reputation and brand name thereby reducing the attractiveness of its Websites to visitors and negatively impacting its ability to make sales to customers, which could have a material adverse effect on SurfStitch's business, financial performance and operations.	Section 5.2.1
Continued growth of retail e-Commerce in general and growth in demand for Action Sports products may be affected by factors outside of SurfStitch's control	<p>Whilst e-Commerce sales in the categories in which SurfStitch's business operates have been growing, there can be no guarantee that this growth will continue in the future. The B2C retail e-Commerce market and the Action Sports segment in which SurfStitch's business operates are subject to factors outside SurfStitch's control. This includes factors such as the market outlook for economic growth, the availability and cost of credit, interest rates, taxation, unemployment levels, and consumer confidence and sentiment.</p> <p>If one or more of these factors leads to growth slowing or a contraction in this segment or market, SurfStitch may be unable to meet its business objectives which could have a material adverse effect on SurfStitch's business, financial performance and operations.</p>	Section 5.2.2
The growth of internet penetration and rate of migration to online platforms	A number of factors including the migration from more traditional retailing to online retailing platforms have underpinned growth in e-Commerce. There can be no assurance that the rate of penetration and migration will continue to increase in the future despite increased internet penetration and a migration of retail sales to online platforms in many geographies in recent years. If the rate of penetration and migration does not increase in line with SurfStitch's expectations, it may have a material adverse effect on its business, financial performance and operations.	Section 5.2.3
Competition could adversely affect prices and demand for Action Sports products and decrease its market share	The Action Sports segment is highly competitive. Competition can arise from a number of sources including traditional retailers, omni-channel mono and multi-branded retailers, and pure play e-Commerce competitors. SurfStitch's market share in online Action Sports may decline if its competitors increase their focus on growing online sales through increasing investment in their online operations. In addition, competitors may also merge or form strategic partnerships, which could increase competition and could have a material adverse effect on SurfStitch's business, financial performance and operations.	Section 5.2.4
SurfStitch relies on third party suppliers for its products and IT platform	SurfStitch relies on products and IT platform supplied by third parties. Any disruption to the availability or supply of products and IT services to SurfStitch or any deterioration to the terms on which products and services are supplied to SurfStitch could have a material adverse effect on SurfStitch's business, financial performance and operations.	Section 5.2.5

# 1. INVESTMENT OVERVIEW

Topic	Summary	For more information
Changes in technology	<p>SurfStitch's ability to compete effectively in the future may be impacted by its ability to maintain or develop appropriate technology platforms for the efficient delivery of its services. The cost of implementing emerging and future technologies could be significant. No assurance can be given that SurfStitch will have the resources to acquire or the ability to develop new competitive technologies. In addition, maintaining or developing appropriate technologies may require significant capital investment by SurfStitch.</p> <p>SurfStitch's Websites may experience a reduction in visits if SurfStitch is significantly slower than its competitors to adapt to technological change. This could impact SurfStitch's ability to attract new and retain existing customers, which could materially adversely affect SurfStitch's business, financial performance and operations.</p>	Section 5.2.6
SurfStitch's future growth may place significant demands on management and its infrastructure	<p>In recent periods, SurfStitch has experienced significant revenue growth and SurfStitch intends to continue with the rapid growth of its operations, which may include entering into new markets. SurfStitch expects that this growth will result in an increased level of responsibility for both existing and new management personnel and require the recruitment, training, integration and management of the staff to support this expected growth. Furthermore, as SurfStitch's operations grow further, it will need to continue to improve and upgrade its systems and infrastructure.</p> <p>If SurfStitch is unable to manage the demands placed onto management and its infrastructure, its business, financial performance and operations may be materially adversely affected.</p>	Section 5.2.7
SurfStitch's expansion into new markets may not be successful	<p>SurfStitch may explore expansion opportunities into new markets. Any expansion into markets outside SurfStitch's key markets would expose it to a number of risks including different regulatory requirements, difficulties managing staffing and foreign operations, differences in consumer behaviour, exchange rates fluctuations, potential political and economic instability, potential difficulties in enforcing contracts and intellectual property rights, the potential for higher rates of fraud and adverse tax consequences.</p> <p>Any of these factors could materially adversely affect SurfStitch's business, financial performance and operations.</p>	Section 5.2.8
SurfStitch's Websites may be excluded from or ranked lower in organic search results due to changes to search engines' algorithms or terms of services	<p>A significant proportion of SurfStitch's customers access SurfStitch's Websites by clicking on a link in search engines' "organic" listings, which are listings not dependent on advertising or other payments. Search engines rely on algorithms to determine which websites are included in the search results. Search engines often modify their algorithms and ranking criteria to prevent their organic listings from being manipulated, which could hinder SurfStitch's SEO activities. These algorithms and ranking criteria may be confidential or proprietary information, and SurfStitch may not understand or have access to complete information on the methods used to rank its Websites. If SurfStitch is unable to recognise and adapt quickly to such changes in search engine algorithms, or if the effectiveness of SurfStitch's SEO activities is affected for any other reason, SurfStitch could suffer a significant decrease in traffic to its Websites and conversion rates.</p> <p>In addition, a website can be excluded from a search engine's organic listing if it is found to violate the search engine's terms of services, which could be modified in the future. Such exclusion may significantly affect SurfStitch's ability to direct higher margin customer traffic to SurfStitch's Websites, which could materially adversely affect SurfStitch's business, financial performance and operations.</p>	Section 5.2.9

Topic	Summary	For more information
SurfStitch may experience a significant increase in the cost of, or become more reliant on, SEM	<p>A significant proportion of SurfStitch's revenues are attributable to customers who access SurfStitch's Websites by clicking on links that SurfStitch paid to list on search engines' results pages. SurfStitch frequently places a very large number of bids on key words at a certain cost per click, which is paid to the search engine, in order to place these listings with a search engine.</p> <p>The cost of search engine marketing generally increases as the importance of online advertising increases and competition to be ranked higher in paid listings increases. Furthermore, SurfStitch might have to submit higher bids in order to purchase certain key words to offset a reduction in its click-through rate. In addition, if SurfStitch's Websites were to experience a reduction in natural search visibility in search engines (i.e. a fall in its websites' organic search ranking), it may increase SurfStitch's reliance on SEM. If this were to occur there is no guarantee that SurfStitch's Websites' natural search visibility will improve in a timely manner or at all.</p> <p>SurfStitch's business, financial performance and operations may be materially adversely affected by any increase in the cost of or in its reliance on SEM, or any decrease in the effectiveness of its SEM.</p>	Section 5.2.10
SurfStitch's acquisition strategy may be unsuccessful	<p>SurfStitch may make acquisitions in circumstances where the Directors believe that those acquisitions are complementary to SurfStitch's strategy and enhances its growth prospects. SurfStitch may encounter a number of issues associated with making acquisitions including the difficulties involved in integrating companies, businesses or assets, as well as the diversion of financial and management resources from SurfStitch's core business. SurfStitch is currently integrating the systems and personnel of Swell, which may influence the success of the acquisition of Swell and the benefits flowing from the purchase of the business. To the extent that the Swell acquisition and future acquisitions are not successfully integrated with SurfStitch's existing business, SurfStitch's business, financial performance and operations could be materially adversely affected.</p> <p>Whilst SurfStitch has executed definitive transaction documentation in respect of the acquisition of SurfDome, the agreements are subject to a condition precedent which may not be satisfied and may result in the transaction not proceeding. If the SurfDome acquisition does not complete, SurfStitch will not derive the benefits expected to arise from that acquisition. Even if the acquisition does complete, the SurfDome business may not perform in the manner expected and it may not prove possible to achieve the desired synergies on the integration of the SurfDome business with SurfStitch Europe.</p>	Section 5.2.11
Other key risks	A number of other key risks relating specifically to an investment in SurfStitch Group and generally to an investment in the Shares are included in Section 5, including risks associated with changes in customer preferences, changes in seasonal trading patterns, SurfStitch's reliance on the efficient operation of its distribution centres, SurfStitch's dependence on recruiting and retaining experienced and high-performing staff and SurfStitch's dependence on its Executive Directors, reputational and operational risks (such as IT risks) and general risks.	Section 5



# 1. INVESTMENT OVERVIEW

Topic	Summary	For more information
<b>E. Key Offer statistics</b>		
What are the key Offer statistics?	<b>Key Offer statistics</b>	
	Offer Price	\$1.00 per Share
	Total number of Shares offered under this Prospectus <sup>1</sup>	83.2 million
	Total value of Shares offered under this Prospectus at the Offer Price	\$83.2 million
	Total number of Shares on issue after Completion of the Offer and completion of the SurfDome acquisition	214.0 million
	Total number of Shares held by Existing Shareholders on Completion of the Offer	116.3 million
	Market capitalisation at the Offer Price <sup>2</sup>	\$214.0 million
	Pro forma net cash	\$31.3 million
	Enterprise value at Offer Price <sup>3</sup>	\$182.8 million
	<p>1 The total number of Shares to be offered under the Offer excludes the Shares to be offered under the Employee Gift Offer. The offer of Shares to Eligible Employees is also made under this Prospectus.</p> <p>2 Calculated as the total number of Shares on issue after Completion of the Offer and completion of the SurfDome acquisition multiplied by the Offer Price.</p> <p>3 Calculated as the market capitalisation of the Company, based on the Offer Price, of \$214.0 million less pro forma net cash of \$31.3 million as at 30 June 2014.</p>	
What are the key investment metrics?	<b>Key Offer valuation multiples</b>	
	Enterprise value/pro forma forecast FY2015 revenue <sup>1,3</sup>	0.9x
	Enterprise value/pro forma forecast FY2015 EBITDA <sup>2,3</sup>	35.8x
	<p>1 The enterprise value/revenue multiple is calculated as the expected enterprise value of the Company at the Offer Price divided by pro forma forecast FY2015 revenue of \$199.1 million.</p> <p>2 The enterprise value/EBITDA multiple is calculated as the expected enterprise value of the Company at the Offer Price divided by pro forma forecast FY2015 EBITDA of \$5.1 million.</p> <p>3 The Forecast Financial Information is based on assumptions and accounting policies set out in Section 4 and Section 10, and is subject to the key risks set out in Section 5. There is no guarantee that forecasts will be achieved. Certain financial information included in this Prospectus is described as pro forma for the reasons described in Section 4.2.</p>	
<b>F. SurfStitch Directors and Key Management</b>		
Who are the Directors of SurfStitch Group?	<p><b>Howard McDonald</b> – Independent non-executive Chairman</p> <p><b>Justin Cameron</b> – Chief Executive Officer and Managing Director</p> <p><b>Lex Pedersen</b> – Managing Director and President of Swell</p> <p><b>Stephen Goddard</b> – Independent non-executive Director</p>	Section 6.1
Who are the key management of SurfStitch?	<p><b>Justin Cameron</b> – Chief Executive Officer and Managing Director</p> <p><b>Lex Pedersen</b> – Managing Director and President of Swell</p> <p><b>Karen Birner</b> – Chief Financial Officer and Company Secretary</p> <p><b>Mark Storey</b> – Chief Operations Officer</p>	Section 6.2
Who is the proposed Director and key management of SurfStitch?	<p><b>Justin Stone</b> – Managing Director, Europe</p> <p>Appointment will be made as soon as practicable following completion of the SurfDome acquisition.</p>	Section 6.1.1

Topic	Summary	For more information				
<b>G. Significant interests of key people and related party transactions</b>						
Who are the Existing Shareholders and what will be their interest in SurfStitch after Completion of the Offer and completion of the SurfDome acquisition?	Shareholder	Existing shares in SurfStitch Holdings after Settlement and the vesting of Performance Rights	%	Shares in SurfStitch Group after Completion of the Offer and completion of the SurfDome acquisition <sup>2</sup>	%	Section 7.1.6
	Management Shareholders	33.7 million	21.9%	23.6 million	11.0%	
	Pre-IPO Investors	97.5 million	63.3%	90.3 million	42.2%	
	Other Existing Shareholders	22.6 million <sup>1</sup>	14.7%	2.4 million	1.1%	
	Justin Stone	0.2 million	0.1%	11.4 million	5.3%	
	Rolling SurfDome Shareholders	–	–	3.1 million	1.4%	
	New Shareholders	–	–	83.2 million	38.9%	
	<b>Total</b>	<b>154.0 million</b>	<b>100.0%</b>	<b>214.0 million</b>	<b>100.0%</b>	
<p><sup>1</sup> Includes 397,381 shares in SurfStitch Holdings that will be issued to SurfStitch employees following the vesting of Performance Rights granted under the SurfStitch Holdings Plan on Settlement.</p> <p><sup>2</sup> Excludes any shares in which Management Shareholders or other shareholders in SurfStitch Holdings may acquire an interest as part of the Offer at the Offer Price.</p>						
What significant benefits and interests are payable to Directors and other persons connected with the issuer or the Offer?	Key people	Interest or benefit	For more information		Sections 6.3, 7.1 and 9.6.3	
	Existing Shareholders	Ownership of Shares	Sections 6.3, 7.1 and 9.6.3			
	Management team	Remuneration	Section 6.3			
	Other non-executive Directors	Directors' fees	Section 6.3			
	Advisers and other service providers	Fees for services	Section 6.3			

# 1. INVESTMENT OVERVIEW

Topic	Summary	For more information
<p>Will any Shares be subject to restrictions on disposal following Completion of the Offer and completion of the Surfdom acquisition?</p>	<p>The Shares held at Completion of the Offer and completion of the Surfdom acquisition by the Escrowed Shareholders (other than any Shares purchased by them under the Offer) will be subject to disposal restrictions as follows:</p> <ul style="list-style-type: none"> <li>▪ Management Shareholders and Surfdom Shareholders           <ul style="list-style-type: none"> <li>▪ Any Shares that the Management Shareholders or the Surfdom Shareholders hold at Completion of the Offer and completion of the Surfdom acquisition will be subject to voluntary escrow arrangements as follows:               <ul style="list-style-type: none"> <li>– 50% of the Escrowed Shares will be released on the date on which the audited financial statements for SurfStitch Group for the financial year ending on 30 June 2015 have been released to ASX; and</li> <li>– the remaining 50% of the Escrowed Shares will be released on the date that is six months after the date on which SurfStitch Group's audited financial statements for the financial year ending on 30 June 2015 have been released to ASX.</li> </ul> </li> </ul> </li> <li>▪ Pre-IPO Investors and Stephen Goddard           <ul style="list-style-type: none"> <li>▪ Any Shares that the Pre-IPO Investors or Stephen Goddard hold at Completion of the Offer will be subject to voluntary escrow arrangements as follows:               <ul style="list-style-type: none"> <li>– 50% of the Escrowed Shares will be released on the date on which the reviewed financial statements of SurfStitch Group for the half-year ending on 31 December 2014 have been released to ASX; and</li> <li>– the remaining 50% of the Escrowed Shares will be released on the date on which the audited financial statements of SurfStitch Group for the financial year ending on 30 June 2015 have been released to ASX.</li> </ul> </li> </ul> </li> </ul> <p>As part of the Surfdom acquisition, Shares will be issued to Justin Stone and the Rolling Surfdom Shareholders. The Shares issued to Justin Stone and the Rolling Surfdom Shareholders will be subject to the same voluntary escrow arrangements as the Management Shareholders, which are described above and detailed further in Section 7.10.</p> <p>After these dates, all of the relevant existing Shares will be released from the voluntary escrow or other disposal restrictions.</p>	<p>Section 7.10</p>



Topic	Summary	For more information
<b>H. Summary of the Offer</b>		
Who is the issuer of this Prospectus?	SurfStitch Group is the issuer of this Prospectus.	Section 7.1
What is the Offer?	<p>The Offer is an invitation to subscribe for 83.2 million Shares in SurfStitch Group.</p> <p>The Shares to be issued under the Offer will represent 38.9% of the Shares on issue after Completion of the Offer and completion of the SurfDome acquisition.</p> <p>The offer of Shares to Eligible Employees under the Employee Gift Offer is also made under this Prospectus.</p>	Section 7.1
What is the proposed use of funds raised pursuant to the Offer?	<p>Proceeds received by SurfStitch Group for the issue of Shares will be used as follows:</p> <ul style="list-style-type: none"> <li>▪ partially fund the acquisition of all of the existing shares in SurfStitch Holdings from the Existing Shareholders;</li> <li>▪ pay the costs of the Offer;</li> <li>▪ provide funding to support SurfStitch's future expansion strategies including funding for future acquisitions;</li> <li>▪ partially fund the acquisition of the shares in SDUK; and</li> <li>▪ provide working capital for the ongoing operation of SurfStitch.</li> </ul>	Section 7.1
Will the Shares be quoted on the ASX?	The Company will apply within seven days of the date of this Prospectus to ASX for its admission to the Official List and quotation of Shares on ASX (which is expected to be under the code: SRF).	Section 7.1
How is the Offer structured?	<p>The Offer comprises:</p> <ul style="list-style-type: none"> <li>▪ The Retail Offer, which consists of the: <ul style="list-style-type: none"> <li>▪ Broker Firm Offer;</li> <li>▪ Chairman's List Offer; and</li> </ul> </li> <li>▪ The Institutional Offer.</li> </ul>	Section 7.1
Is the Offer underwritten?	The Offer is fully underwritten by the Lead Manager, pursuant to the Underwriting Agreement.	Sections 7.2 and 9.4
What is the allocation policy?	<p>The allocation of Shares between the Retail Offer and the Institutional Offer was determined by the Lead Manager in consultation with the Company.</p> <p>The Lead Manager, in consultation with the Company, will determine the allocation of Shares among Institutional Investors.</p> <p>For Broker Firm Offer Applicants, Brokers will determine how they allocate Shares among their retail clients.</p> <p>The Company, in consultation with the Lead Manager, will determine the allocation of Shares among Applicants under the Chairman's List Offer.</p>	Sections 7.3, 7.4, 7.5 and 7.8
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on an acquisition of Shares under the Offer.	Section 7.2
What is SurfStitch Group's dividend policy?	The Directors have no current intention to declare and pay a dividend. It is the Directors' current intention to reinvest future available cash flows in the further development of SurfStitch's businesses.	Section 4.9

# 1. INVESTMENT OVERVIEW

Topic	Summary	For more information
What are the tax implications of investing in the Shares?	The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.	Section 9.10
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be mailed by standard post on or around Wednesday, 17 December 2014.	Section 7.2
What is the minimum Allocation size under the Offer and the Employee Gift Offer?	<p>The minimum Application under the Broker Firm Offer is \$2,000, and in multiples of \$500 thereafter, as directed by the Applicant's Broker. There is no maximum value of Shares that may be applied for under the Broker Firm Offer.</p> <p>Under the Employee Gift Offer, Eligible Employees will be offered the opportunity to apply for up to \$1,000 worth of Shares at no cost.</p> <p>The minimum application size under the Chairman's List Offer is \$2,000. There is no maximum value of Shares that may be applied for under the Chairman's List Offer.</p>	Section 7.2
How can I apply?	<p>Applicants under the Broker Firm Offer should follow the instructions provided by their Broker.</p> <p>If you have received a personalised invitation to apply for Shares under the Employee Gift Offer or the Chairman's List Offer and you wish to apply for all or some of those Shares, you should follow the instructions on your personalised invitation to apply.</p> <p>The Lead Manager has separately advised Institutional Investors of the application procedure under the Institutional Offer.</p> <p>To the extent permitted by law, an application by an Applicant under the Offer is irrevocable.</p>	Sections 7.3, 7.4 and 7.5
Can the Offer or the Employee Gift Offer be withdrawn?	<p>Yes. The Company reserves the right not to proceed with the Offer or the Employee Gift Offer at any time before the issue of Shares to successful Applicants.</p> <p>If the Offer does not proceed, Application Monies will be refunded.</p> <p>No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.</p>	Section 7.2
Where can I find more information about this Prospectus or the Offer?	<p>Call the SurfStitch Offer Information Line on 1300 553 490 (within Australia) or +61 1300 553 490 (outside Australia) between 8.30am and 5.00pm, Monday to Friday, for further information on the Company, this Prospectus or the Offer.</p> <p>If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.</p>	Section 7.2

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2

INDUSTRY  
OVERVIEW





## 2. INDUSTRY OVERVIEW

### 2.1 THE B2C E-COMMERCE MARKET

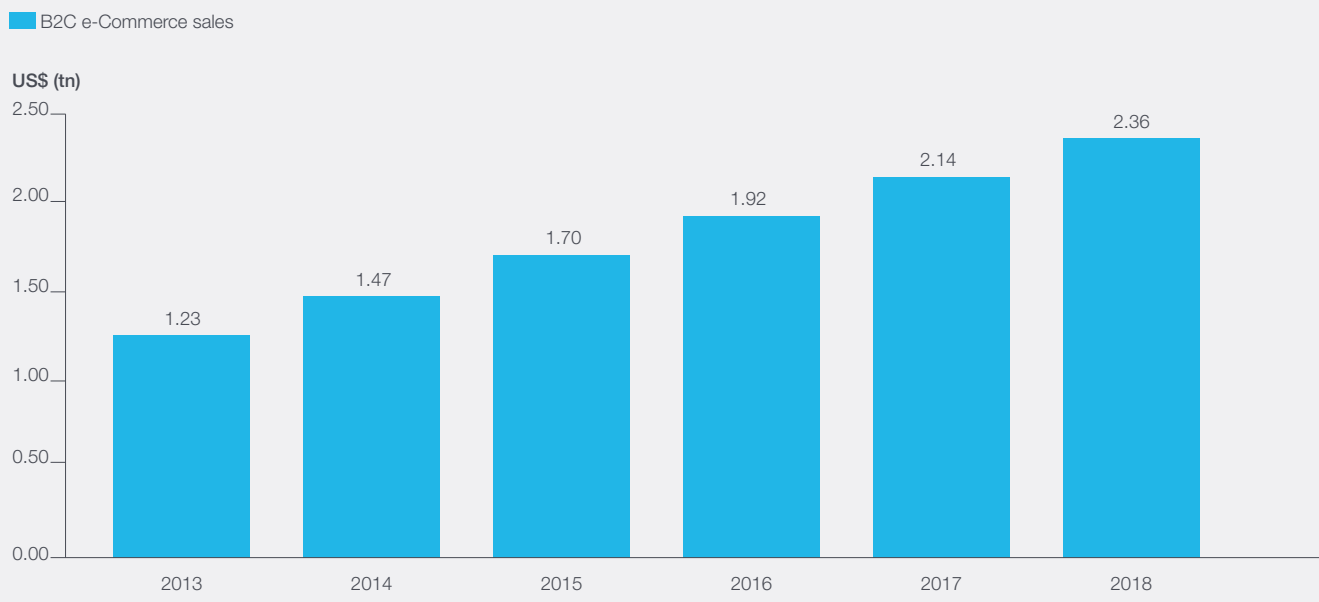
According to the Organisation of Economic Co-operation and Development, electronic commerce (more commonly known as e-Commerce) is defined as: “the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing orders. The goods or services are ordered by those methods, but the payment and the ultimate delivery of the goods or services do not have to be conducted online”. e-Commerce transactions can be between a business and a consumer (generally called Business-to-Consumer or B2C), a business and a business (B2B) or a consumer and a consumer (C2C). SurfStitch principally conducts B2C retail e-Commerce transactions.

The B2C e-Commerce market evolved as the public internet became more widely used and the use of web browsers became common practice. The National Science Foundation, an independent US government agency, lifted its restriction on commercial use of the internet in 1991. The use of images alongside text on web browsers was introduced in 1993, greatly enhancing the experience for non-technical users. According to the International Telecommunication Union, the number of global internet users has increased from an

estimated 10 million in 1994 to almost 3 billion by the end of 2014, with approximately 40% of the world’s population now using the internet.

e-Commerce market research firm, eMarketer, estimates that global e-Commerce will grow at a CAGR of 13.8% from 2013 to 2018 and that the global e-Commerce market will be worth over US\$2.3 trillion by 2018. eMarketer estimates that in 2018 Asia-Pacific, North America and Western Europe will account for 37.4%, 30.6%, and 22.7% of the global e-Commerce market respectively.

**Exhibit 2.1** Estimated B2C global e-Commerce sales



Source: eMarketer.



## 2.2 B2C RETAIL E-COMMERCE MARKET

Consumer market research company, Canadean, estimates that the B2C retail e-Commerce market<sup>1</sup> in Australia, Europe<sup>2</sup> and the USA (the key markets in which SurfStitch operates) will be worth US\$17 billion, US\$204 billion and US\$346 billion respectively by 2018. Globally, the B2C retail e-Commerce market is expected to grow at a CAGR of 14.7% from 2013 to 2018 and is estimated to be worth over US\$1 trillion by 2018. Growth in the B2C retail e-Commerce market in these geographies from 2013 to 2018 is expected to significantly outpace sales from physical retailing formats.

The B2C retail e-Commerce market includes a number of categories in which SurfStitch does not compete including, but not limited to, the retailing of food, furniture and floor coverings, books, news and stationery. The majority of SurfStitch's revenues are generated from the clothing and footwear retail segment.

According to Canadean, the online clothing and footwear segment of the retail market is expected to be worth US\$4 billion, US\$42 billion and US\$96 billion by 2018 in Australia, Europe and the USA respectively. Globally, the online clothing and footwear segment of the retail market is expected to grow at a CAGR of 17.2% from 2013 to 2018 and is estimated to be worth US\$302 billion by 2018.

**Exhibit 2.2** Online retail sales compared to total retail sales (offline and online) by geography

	Total (offline and online)					Online			
	US\$bn	Australia	Europe <sup>2</sup>	USA	Global <sup>3</sup>	Australia	Europe <sup>2</sup>	USA	Global <sup>3</sup>
<b>Retail</b>	Value (2013A)	242	1,884	2,960	15,010	12	126	234	579
	Value (2018E)	251	2,198	3,328	19,777	17	204	346	1,147
	CAGR '13A-'18E	0.7%	3.1%	2.4%	5.7%	6.3%	10.2%	8.2%	14.7%
<b>Clothing and footwear</b>	Value (2013A)	24	228	383	1,638	3	26	63	137
	Value (2018E)	23	265	453	2,158	4	42	96	302
	CAGR '13A-'18E	(0.9)%	3.0%	3.4%	5.7%	4.1%	10.6%	8.8%	17.2%

Source: Canadean.

1 Canadean define the total e-Commerce retail market as apparel, accessories, luggage and leather goods, books, news and stationery, electrical and electronics, food and grocery, furniture and floor coverings, home and garden products, music, video and entertainment software and sports and leisure equipment categories.

2 Europe is defined as SurfStitch's top five markets in Europe in FY2014 (UK, France, Germany, Spain and Portugal).

3 Global sales is estimated based on available data for the 50 countries available in Canadean's research databases.

## 2. INDUSTRY OVERVIEW

Online penetration rates are expected to increase across SurfStitch's key markets as growth in online retail outpaces traditional "bricks and mortar" retail. Online penetration rates are expected to increase significantly between 2013 and 2018 for both the broader retail market and the clothing and footwear segments as shown below in Exhibit 2.3.

Online penetration rates are generally higher in the clothing and footwear segment than the broader retail market. Online penetration rates in the clothing and footwear segment are also generally expected to increase at a greater rate than the broader retail market over the 2013 to 2018 period. This is due to the characteristics of clothing and footwear products (for example, relatively small physical size, ease of shipping and returns, and relatively low price points) which makes the category more suited to online channels relative to other retail categories.

### 2.3 THE ACTION SPORTS SEGMENT

#### 2.3.1 Overview

The Action Sports segment is defined by equity research firm Piper Jaffray as the market for skate, surf, snowboard, street, bicycle motocross and motocross apparel, footwear, accessories and hard goods.

Many of the well known brands in the Action Sports segment are owned by aggregated brand managers<sup>3</sup> such as Billabong, Nike, Quiksilver, Rip Curl and VF Corp. These products are generally sold through wholesalers or directly to the consumer

through a network of company owned stores. Multi-brand retailers such as PacSun, Tilly's and Zumiez are also seeking to invest in and grow their proprietary brand offerings.

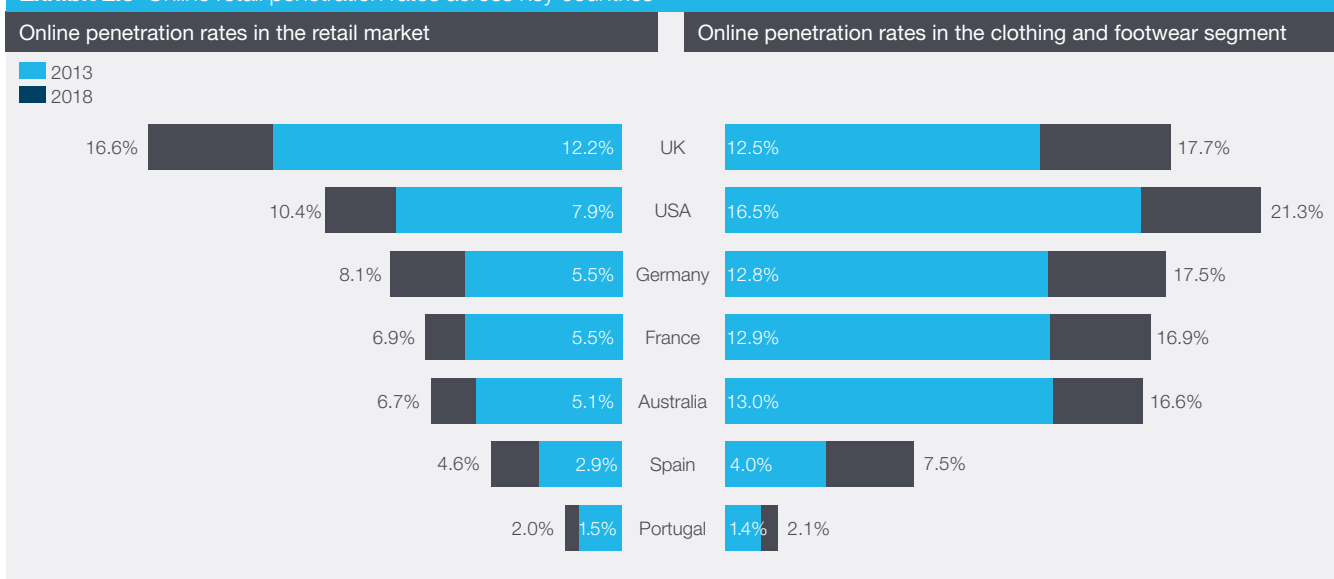
The core consumers in the Action Sport segment include teens and young adults that participate in Action Sports and those that identify with the Action Sports lifestyle. SurfStitch believes that Action Sports are an important and growing aspect of youth culture.

A recent trend in the Action Sports segment is the growth in consumer demand for niche brands and cross-over brands (street, skate, urban). When questioned about their spending behaviour, brand preferences and influences in Piper Jaffray's Spring 2014 Taking Stock With Teens survey, teenagers<sup>4</sup> in the USA named 59 unique brands and retailers in the Action Sports lifestyle category, up from 47 in Autumn 2013 and 35 in Spring 2013<sup>5</sup>. This indicates increased awareness of Action Sports brands amongst youth culture.

#### 2.3.2 The Action Sports segment size

There are no official published statistics on the value of retail sales in the Action Sports segment given its numerous components. However, publicly available information for certain major Action Sports brand owners<sup>6</sup> and three publicly listed multi-brand Action Sports retailers (PacSun, Tilly's and Zumiez) indicates that these businesses earned combined revenue in excess of US\$16 billion from Action Sports products. SurfStitch believes that this estimate does not reflect the full value of retail sales given brand owners' revenues are predominantly wholesale revenues.

**Exhibit 2.3** Online retail penetration rates across key countries



Source: Canadean.

<sup>3</sup> Brand owners with a portfolio of brands.

<sup>4</sup> For teens in the average income category.

<sup>5</sup> References to Spring and Autumn in Piper Jaffray's surveys refer to seasons in USA.

<sup>6</sup> Limited information is publicly available for Action Sports brands as a number of brands are privately owned. Information is publicly available for the following Action Sports brand owners: Billabong, GoPro, Kering (Volcom), Luxottica (Oakley), Nike (Converse and Hurley), Quiksilver, Rip Curl and VF Corp (Vans, Reef).

## 2.4 E-COMMERCE DRIVERS

### 2.4.1 e-Commerce market growth drivers

#### 2.4.1.1 Number of internet users

The take-up of B2C e-Commerce is being assisted by the increasing number of individuals who have access to the internet. Basic internet access, whether provided through a copper wire, fibre or wirelessly is now available to and utilised by c.78% of the population in developed countries and c.32% of the population in developing countries according to the International Telecommunication Union, ICT Facts & Figures, 2014.

#### 2.4.1.2 Increasing adoption of mobile internet

Advances in wireless connection standards over the past two decades has led to significant growth in smartphone and tablet penetration in many developed markets around the world. Smartphones enable users to access the internet from any location with a mobile phone signal or WiFi connection, rather than being tied to a fixed internet connection. According to Ericsson's Mobility Report 2014, the total number of global smartphone subscriptions was estimated to be 1.9 billion in 2013, and is forecast to increase at a CAGR of 21.4% from 2013 to 2018 to reach 5.0 billion by 2018. As outlined in Exhibit 2.4, Australia has one of the highest smartphone penetration levels in the world. Of those smartphone users, 78% of the Australian population have used their device to research products online, with 41% having made a purchase on the device. Exhibit 2.4 provides selected internet, broadband and social media reach statistics for SurfStitch's key markets (for which data is available).

#### 2.4.1.3 Increased internet connection speeds and reliability

The growth in e-Commerce has been assisted by improvements in the online shopping experience. Wider access to wireless networks, faster and more reliable internet connectivity, faster responses from websites and lower incidence of issues such as connection drop-outs have all assisted e-Commerce providers to make the online shopping experience as user friendly as possible.









































#### 2.4.1.4 Increased consumer confidence and willingness to transact online

The growth in e-Commerce has been assisted by greater consumer confidence in e-Commerce websites as a means of conducting business and an increased willingness by consumers to transact online. Improvements in areas such as credit card security and delivery fulfilment have encouraged greater use of the online channel by consumers.

#### 2.4.1.5 Convenience

e-Commerce operators compete directly with store-based retailers for customers. The choice, value and convenience offered by shopping online have attracted consumers to e-Commerce operators. Convenience, along with price and range availability, is often cited by consumers as one of the key reasons for shopping online.

**Exhibit 2.4** Selected internet, broadband and social media reach statistics<sup>1</sup>

	Australia	France	Germany	UK	USA
Population (million)	22.3	66.0	81.1	63.4	316.7
Internet penetration (%)	 81%	 83%	 84%	 87%	 80%
Mobile internet penetration (%)	 59%	 54%	 62%	 64%	 60%
Average daily time spent on desktop/laptop internet (hours)	 4.5	 4.1	 3.8	 4.2	 5.2
Average daily time spent on mobile internet (hours)	 1.7	 1.0	 1.5	 1.5	 2.4
Social media penetration (%)	 73%	 68%	 74%	 76%	 75%
Smartphone penetration (%)	 65%	 42%	 40%	 62%	 56%
Smartphone users researching products (%)	 78%	 74%	 76%	 73%	 77%
Smartphone users buying products (%)	 41%	 26%	 32%	 39%	 46%

Source: We Are Social: Global Digital Statistics 2014.

<sup>1</sup> Statistics shown for France, Germany and the UK, being SurfStitch's three largest European markets by FY2014 sales.

## 2. INDUSTRY OVERVIEW

### 2.4.2 B2C e-Commerce business drivers

#### 2.4.2.1 Traffic

Internet traffic can be directed to an e-Commerce website via a range of means. One of the most important drivers of traffic is SEO, which is the art of ensuring that search engine algorithms deem an e-Commerce site to be of high enough importance to be given a high ranking on the search display page. SEO can create a meaningful advantage for an e-Commerce provider as customers usually only view the first page of search results. Traffic can also be directed to a site through SEM, or paid search. SEM is the purchasing of space in the sponsored regions of search pages which typically appear above or beside the highest ranked organic results. SEM is relatively expensive compared to SEO. e-Commerce sites also often use display ads and traditional media channels to drive traffic through increased site awareness. Active engagement in social media can also increase traffic via recommendations from contacts in their virtual social spheres.

#### 2.4.2.2 Conversion

Conversion rates depend upon many factors including, but not limited to, product range, ease of site navigation, delivery options and price. Additionally, a reliable payment system with a limited number of steps to checkout can help minimise cart abandonment rates. Free shipping has come to be expected by many consumers and is typically more important than express shipping in determining whether or not to purchase a product. Free returns are increasingly being used by e-Commerce operators in a bid to drive conversion rates.

#### 2.4.2.3 Promotions

As with many traditional “bricks and mortar” retailers, promotional activity is an important marketing strategy that is often used to clear excess inventory and/or to drive an increase in customers’ basket sizes and average order volume (“AOV”). For e-Commerce businesses, promotional activity can include, for example, short-term price reductions, free gifts with purchase, free returns or free delivery.

#### 2.4.2.4 Purchase frequency

Purchase frequency is an important variable in estimating the lifetime value of a customer. This also impacts the return on marketing investment in new customer acquisition. Several factors contribute to purchase frequency, including security, retention mechanisms (e.g. email, rewards), customer service and merchandising.

### 2.4.3 B2C e-Commerce key success factors

Whilst there are a range of different business strategies that B2C e-Commerce retailers use to drive site visitation and sales growth, SurfStitch believes that successful online retailers tend to share a number of common practices, namely:

- typically offer unique products which could be from boutique suppliers that may lack broad-scale distribution;
- have an ability to identify and connect with their core audience, by establishing the website as the go-to destination for the niche market, thereby creating an exclusive shopping experience;
- have a strong merchandising department that is able to gain access to “in-demand” inventory through strong supplier relationships;
- use marketing sources effectively and efficiently such as Google and direct email;
- continually refresh merchandise to maintain customer engagement and encourage frequent visitation;
- ensure orders can be fulfilled promptly and accurately in order to create a positive customer experience; and
- are less likely to experience “stock-outs” than “bricks and mortar” retailers.



## 2.5 COMPETITIVE LANDSCAPE

SurfStitch competes in the Action Sports segment. Action Sports products are sold through different retail channels, including:

- multi-branded “bricks and mortar” retailers;
- omni-channel retailers (“bricks and mortar” retailers with an online channel);
- brand owner operated “bricks and mortar” and/or online stores; and
- specialist online retailers (often referred to as “pure play” online retailers).

Specialist online retailers’ business models are differentiated from those of multi-branded “bricks and mortar” retailers, whose product offering and brand assortment is constrained by limited “shelf space”, and from that of mono-branded retailers, which do not offer the same variety proposition as a multi-branded retailer.

Multi-branded online retailers such as SurfStitch may be able to more easily tailor their product offering to best suit consumer demand. Multi-branded online retailers also offer emerging brands a network for distribution and provide teens and young adult consumers the boutique style shopping environments that they desire.

SurfStitch considers that its key competitors include both omni-channel retailers and pure play online retailers. SurfStitch’s ability to service customers in over 125 countries and its dual-hemisphere fulfilment capabilities allow customers to access both summer and winter stock across its Websites and differentiate SurfStitch from many omni-channel retailers.

Exhibit 2.5 provides further detail on the competitive landscape in SurfStitch’s key markets.

Exhibit 2.5 Action Sports competitive landscape <sup>1</sup>						
		Australia and New Zealand	Europe	USA	Channel characteristics	
Key competitors	Pure play online	<ul style="list-style-type: none"> <li>▪ SurfStitch</li> </ul>	<ul style="list-style-type: none"> <li>▪ SurfStitch</li> <li>▪ SurfDome<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Swell</li> <li>▪ Dogfunk</li> <li>▪ Karmaloop</li> </ul>	<ul style="list-style-type: none"> <li>▪ No physical store presence</li> <li>▪ Highly scalable model with relatively few direct competitors</li> </ul>	
	Omni channel	Multi-brand	<ul style="list-style-type: none"> <li>▪ City Beach (Australia)</li> <li>▪ Surf Dive ‘n’ Ski (Australia)</li> <li>▪ Amazon Surf (NZ)</li> <li>▪ North Beach (NZ)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Blue Tomato</li> <li>▪ Two Seasons</li> </ul>	<ul style="list-style-type: none"> <li>▪ PacSun</li> <li>▪ Tilly’s</li> <li>▪ Zumiez</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sell multiple brands across a mix of physical stores and online channels</li> </ul>
		Mono-brand	<ul style="list-style-type: none"> <li>▪ Billabong</li> <li>▪ GoPro</li> <li>▪ Kering (Volcom)</li> <li>▪ Luxottica (Oakley)</li> <li>▪ Nike (Converse/Hurley)</li> <li>▪ Quiksilver</li> <li>▪ Rip Curl</li> <li>▪ VF Corp (Reef/Vans)</li> </ul>	<ul style="list-style-type: none"> <li>▪ As per Australia and New Zealand</li> </ul>	<ul style="list-style-type: none"> <li>▪ As per Australia and New Zealand</li> </ul>	<ul style="list-style-type: none"> <li>▪ Global brand owners with physical and online presence competing across all key geographic markets</li> </ul>
	“Bricks and mortar”	<ul style="list-style-type: none"> <li>▪ No major players</li> </ul>	<ul style="list-style-type: none"> <li>▪ No major players</li> </ul>	<ul style="list-style-type: none"> <li>▪ No major players</li> </ul>	<ul style="list-style-type: none"> <li>▪ Typically small local players such as surf shops</li> <li>▪ Major players have diversified into omni-channel space</li> </ul>	
Regional characteristics		<ul style="list-style-type: none"> <li>▪ SurfStitch is the only major pure play online retailer in Australia and New Zealand</li> <li>▪ There are a number of small pure play online retailers in the market</li> </ul>	<ul style="list-style-type: none"> <li>▪ SurfStitch holds growing presence in a relatively underpenetrated market</li> </ul>	<ul style="list-style-type: none"> <li>▪ SurfStitch has recently acquired an established presence in the well developed US market</li> </ul>		

<sup>1</sup> Represents the key markets in which SurfStitch has a presence.  
<sup>2</sup> SurfStitch has entered into SPAs with the SurfDome Shareholders.

## 2. INDUSTRY OVERVIEW

According to Experian Hitwise, SurfStitch.com was the most visited Action Sports retail website in Australia over the three years to August 2014. In Europe and the USA, SurfStitch, through SurfStitch.com and Swell.com respectively, has developed a growing presence in the online Action Sports segment. The acquisition of SurfDome, one of Europe's leading pure play online Action Sports retailers, will further enhance SurfStitch's scale and market position in Europe.

SurfStitch.com consistently ranks in the top 10 most visited apparel and accessories websites in Australia. Exhibit 2.6 compares SurfStitch's ranking by visits to that of other apparel websites in the apparel and accessories category in August 2014.

**Exhibit 2.6** Australian market position – apparel and accessories websites ranked by total visits (August 2014)

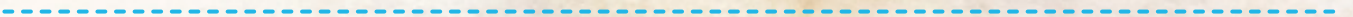
Rank	Websites	Domain
1	ASOS	www.asos.com
2	The Iconic	www.theiconic.com.au
3	OZsale.com.au	www.ozsale.com.au
4	Cotton On	www.cottonon.com
5	boohoo.com	www.boohoo.com
<b>6</b>	<b>SurfStitch</b>	<b>www.SurfStitch.com</b>
7	Popcherry	www.popcherry.com.au
8	Rebel Sport Australia	www.rebelsport.com.au
9	Forever New	www.forevernew.com.au
10	EziBuy Australia	www.ezibuy.com.au

Source: Experian Hitwise (August 2014).

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# 3

## COMPANY OVERVIEW





## 3. COMPANY OVERVIEW

### 3.1 INTRODUCTION

SurfStitch is one of the leading pure play online Action Sports retailers globally. It is the only major pure play online Action Sports retailer in Australia and New Zealand, and has developed a growing presence in the European and the USA online Action Sports segments. SurfStitch provides consumers in over 125 countries with access to more than 700 brands and 30,000 products across Action Sports apparel, footwear, accessories and hard goods categories.

SurfStitch has grown rapidly since being founded in 2007, developing a brand identity and an online proposition for consumers. According to Experian Hitwise, SurfStitch.com was the most visited Action Sports retail website in Australia over the three years to August 2014. In addition, SurfStitch.com has consistently ranked in the top 10 most visited apparel and accessories websites in Australia over the same period.

SurfStitch Holdings has entered into binding SPAs with the shareholders of SDUK to acquire 100% of the shares in SDUK. SDUK owns and operates SurfDome, a leading pure play online retailer in the European Action Sports segment based in the UK. Immediately following the SurfDome acquisition, SurfStitch expects to have in excess of 1.6 million Active Customers across its Websites based on figures as at 30 June 2014.

SurfStitch had 271 full-time equivalent employees across its operations in Australia, Europe and the USA as at 30 September 2014. The number of full-time equivalent employees will increase to 389 upon completion of the SurfDome acquisition based on employee numbers as at 30 September 2014.

Exhibit 3.1 provides an overview of SurfStitch's operations after completion of the SurfDome acquisition.

This Section has been drafted on the basis that the SurfDome acquisition has completed.

### 3.2 HISTORY

The SurfStitch business was launched out of a garage on Sydney's Northern Beaches by founders Justin Cameron and Lex Pedersen in 2007. The business initially involved reselling inventory sourced from third party suppliers through the eBay marketplace. In 2008, SurfStitch.com was launched.

In December 2009, the SurfStitch business was transferred to SSA (that had been established to acquire, own and operate the then SurfStitch business) with Billabong holding a 20% economic interest and majority voting rights in SSA. Subsequent transactions entered into during October 2012 resulted in Billabong owning 51% of the ordinary shares of SSA.

**Exhibit 3.1** Group overview

SurfStitch Holdings				
Geographic segment	Australia	Europe		USA
Operating entity	SSA	SSE	SDUK	SSUSA
Business	SurfStitch Australia (SurfStitch.com)	SurfStitch Europe (SurfStitch.com)	SurfDome (Surfdome.com/ Surfdome.fr)	Swell (Swell.com)
Overview	<ul style="list-style-type: none"> <li>Only major pure play Action Sports online retailer in Australia and New Zealand</li> <li>Top-ten online Australian apparel/ accessories retailer in Australia over last three years<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>A fast growing player in the online Action Sports segment in Europe</li> <li>Operates dedicated language sites for France, Germany, Spain and the UK</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition of SurfDome expected to deliver a leading position in the online Action Sports segment in Europe</li> <li>Operates dedicated language sites for France and the UK</li> </ul>	<ul style="list-style-type: none"> <li>USA's first pure play online Action Sports retailer</li> <li>Also operates a catalogue business, with around 2.1 million annual circulation</li> </ul>
Launch date	<ul style="list-style-type: none"> <li>Launched in 2008</li> </ul>	<ul style="list-style-type: none"> <li>Launched in 2012</li> </ul>	<ul style="list-style-type: none"> <li>Launched in 2006</li> </ul>	<ul style="list-style-type: none"> <li>Launched in 2000</li> </ul>
Active Customers	<ul style="list-style-type: none"> <li>Approximately 890,000 Active Customers</li> </ul>	<ul style="list-style-type: none"> <li>Approximately 130,000 Active Customers</li> </ul>	<ul style="list-style-type: none"> <li>Approximately 450,000 Active Customers</li> </ul>	<ul style="list-style-type: none"> <li>Approximately 190,000 Active Customers</li> </ul>

<sup>1</sup> According to Experian Hitwise (based on visits).

In 2010, SurfStitch relocated from Sydney's Northern Beaches to Burleigh Heads on the Gold Coast in Queensland, Australia. This provided the business with an office and warehouse facilities sized appropriately to support its growth ambitions.

Following a review of a range of international markets, SurfStitch determined the European market to be an attractive commercial opportunity. In September 2012, SSE was established as a joint venture between Billabong and OB2 (an entity associated with SurfStitch's founders Justin Cameron and Lex Pedersen). Billabong held a 51% interest in SSE, with the remaining 49% held by OB2.

In August 2014, Justin Cameron and Lex Pedersen incorporated SurfStitch Holdings, which raised \$65 million from a group of Australian and offshore institutional and sophisticated investors. This capital allowed SurfStitch Holdings to acquire all the shares in SSA and SSE including Billabong's 51% shareholding in SSA and SSE and to acquire 100% of the assets of Swell from Billabong.

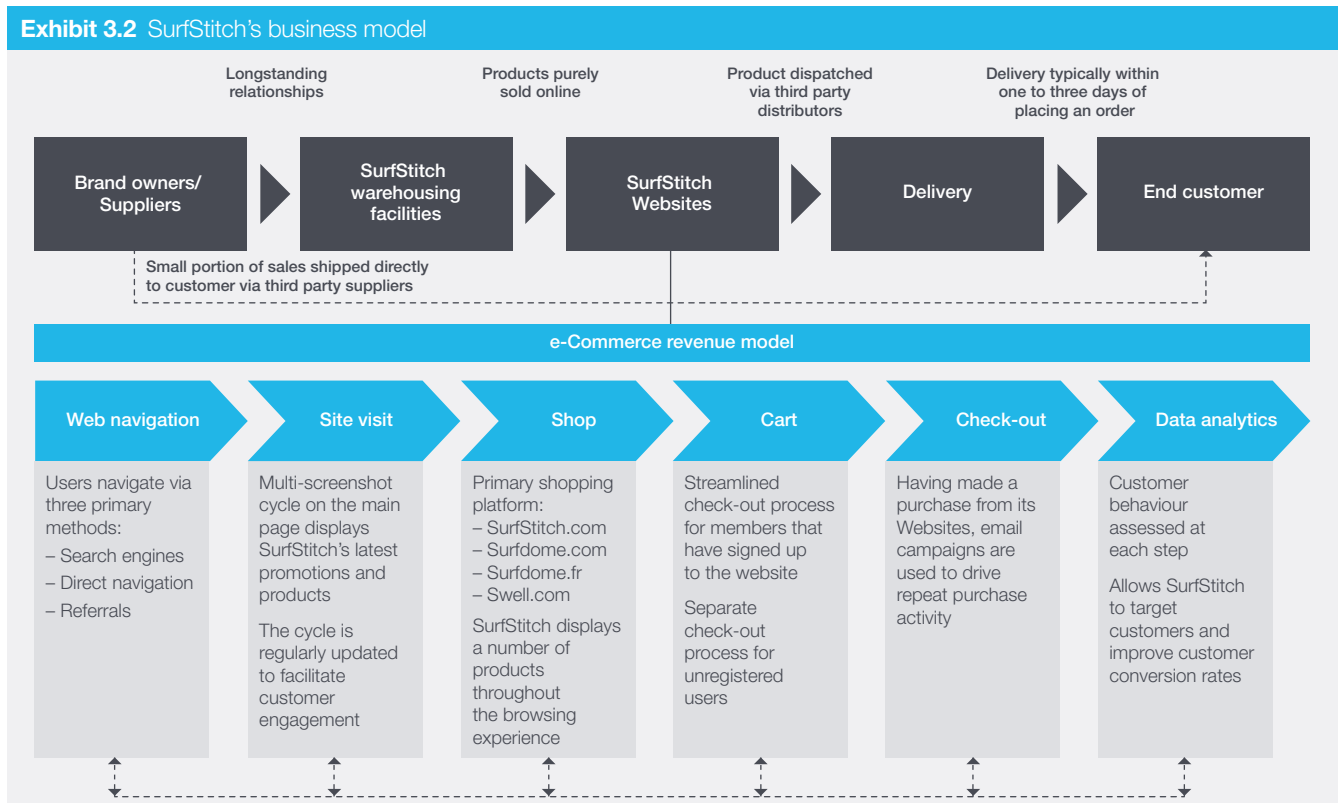
On 7 November 2014, SurfStitch Holdings entered into SPAs to acquire 100% of the shares in SDUK including Quiksilver's 51% interest. The acquisition of SurfDome will complete on the same day as and following Completion of the Offer.

### 3.3 BUSINESS MODEL

SurfStitch's business model centres around the sale of third party produced and branded Action Sports goods via its Websites. SurfStitch operates a hybrid model whereby the business acts as both a third party reseller on behalf of the suppliers and a traditional retailer, which sells stock that it has purchased.

SurfStitch sources products from over 500 suppliers globally, with the majority of inventory sourced directly from brand owners. SurfStitch also has relationships with wholesale distributors and agents/resellers, through which SurfStitch procures inventory. The strength of SurfStitch's supplier relationships enables SurfStitch to negotiate trading arrangements that it considers to be attractive.

While SurfStitch Australia, SurfStitch Europe and Swell are operated separately on a day-to-day basis in order to ensure latitude is afforded to each business to pursue regional strategies, SurfStitch Australia and SurfStitch Europe share certain infrastructure, resources and information. For example, trademarks, subscriber engagement strategies, the core IT infrastructure and platform are shared. SurfStitch Australia's and SurfStitch Europe's distribution centres operate on an integrated basis, enabling them to fulfil orders from either Australia or France, depending on where it is most economic to do so.





# 3. COMPANY OVERVIEW

SurfStitch believes its dual-hemisphere fulfilment capability puts it at a significant advantage relative to its primarily northern hemisphere based competition as SurfStitch can offer consumers the latest ranges of both summer and winter stock. Swell's and SurfDome's distribution centres will be integrated with SurfStitch Australia's and SurfStitch Europe's geographic order fulfilment strategy.

SurfStitch operates a highly flexible supply chain with distribution centres located in Australia, France, the UK and the USA. Sales orders are delivered to end customers via third party delivery agents. Delivery typically takes place within one to two days for Australian orders made to SurfStitch Australia, one to three days for orders made to SurfStitch Europe<sup>1</sup> and SurfDome, and two to three days for orders made to Swell.

A summary of SurfStitch's business model is presented in Exhibit 3.2. Section 3.5 provides further detail on SurfStitch's Websites.

## 3.4 KEY BRANDS AND PRODUCTS

SurfStitch offers over 700 leading Action Sports brands which appeal to teens and young adults that participate in Action Sports and those that identify with the Action Sports lifestyle. Its product range spans skate, surf and snowboard apparel, accessories, footwear and hard goods.

The number of brands and products carried by SurfStitch has grown each year since the business was founded. Its portfolio of established and emerging brands has increased significantly since 2010 and now includes over 30,000 Action Sports products.

Exhibit 3.3 below highlights selected brands that SurfStitch offers its customers on SurfStitch.com.

**Exhibit 3.3** Key brands

FEATURE BRANDS					Billabong	Quiksilver
All Brands	Camilla And Marc	Havalanas	Neuw	Rhythm		
686	Carhartt	HUF	New Balance <small>NEW</small>	Santa Cruz		
adidas	Cheap Monday <small>NEW</small>	Hurley	NLP	Stussy	Hurley	Vans
adidas originals <small>NEW</small>	Crosley <small>NEW</small>	Isla By Talulah	Nixon	The impossible Project		
Afends	Converse	Iriedaily <small>NEW</small>	Oakley	The North Face <small>NEW</small>	Volcom	Stussy
Acacia Swimwear	DC Shoes	Kustom	O'Neill	Tigerlily		
Academy Brand	Dr Denim	Ksubi	Onitsuka Tiger <small>NEW</small>	Thrills		
AM Eyewear	Dr Martens	L'America	Penfield <small>NEW</small>	Trainerspotter <small>NEW</small>	RipCurl	Roxy
ASICS <small>NEW</small>	Element	Lee	Puma <small>NEW</small>	Valley		
Billabong	Finders Keepers	LeSpecs	Quiksilver	Vans		
Birkenstock <small>NEW</small>	FCS	Lightning Bolt <small>NEW</small>	Reebok <small>NEW</small>	Volcom	Tigerlily	Converse
Bless'ed Are The Meek	Fuct <small>NEW</small>	Levi's	Running Bare	Zanerobe		
Boy London <small>NEW</small>	Go Pro	Maurie & Eve	Rip Curl	Vanishing Elephant	Nixon	Lee
Burton	G Shock	Mazine	Roxy	Von Zipper		
Brixton	Globe	MinkPink	Reef	Wesc		
Cameo	G-Star Raw	Nike	Rusty		Zanerobe	Nike
	Herschel					

<sup>1</sup> Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and the UK. Other countries have longer delivery times.

## 3.5 E-COMMERCE PLATFORMS AND WEBSITES

### 3.5.1 Overview

SurfStitch's e-Commerce technology platforms underpin the key functions of the business. These technology platforms are highly scalable, require minimal additional capital expenditure to support higher transaction volumes and provide an efficient means to extend into new geographic markets. SurfStitch's e-Commerce technology platforms are serviced and supported by IT resources including an internal enterprise resource planning team, an e-Commerce team and an IT support team.

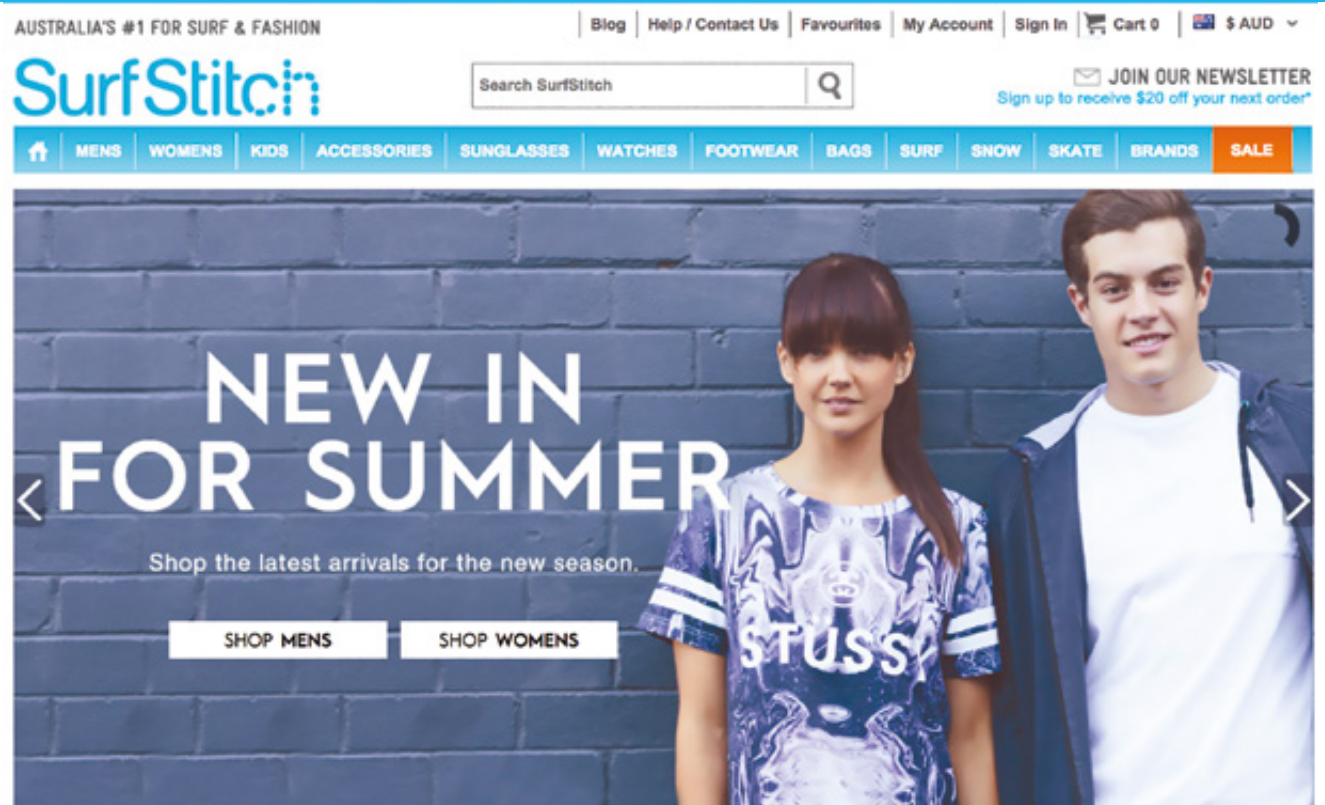
Given that SurfStitch.com, SurfDome.com, SurfDome.fr and Swell.com currently operate on separate technology platforms, SurfStitch will assess the potential to integrate its existing e-Commerce technology platforms onto a single unified technology platform to remove duplicate costs. However, SurfStitch currently intends to continue operating the SurfStitch.com, SurfDome.com, SurfDome.fr and Swell.com domains separately given customers' familiarity with the existing domain names.

### 3.5.2 SurfStitch.com

SurfStitch.com is a singular front-end platform, with consumers being able to choose their preferred store (Australia or Europe), language (English, French, German, Spanish), and currency (various). The website utilises an interactive interface, which continually cycles through display pages to market the arrival of new stock, popular brands, promotions and sales. SurfStitch's inventory holdings in the northern and southern hemispheres allow consumers to select summer and winter catalogues regardless of the season. Exhibit 3.4 provides a snapshot of the digital store front of SurfStitch.com.

According to Experian Hitwise, SurfStitch.com was the most visited Action Sports retail website in Australia over the three years to August 2014. In August 2014, SurfStitch was the sixth most visited Australian apparel and accessories website.

**Exhibit 3.4** SurfStitch's digital store front (SurfStitch.com)



## 3. COMPANY OVERVIEW

**Exhibit 3.5** Australian market position – apparel and accessories websites ranked by total visits (August 2014)

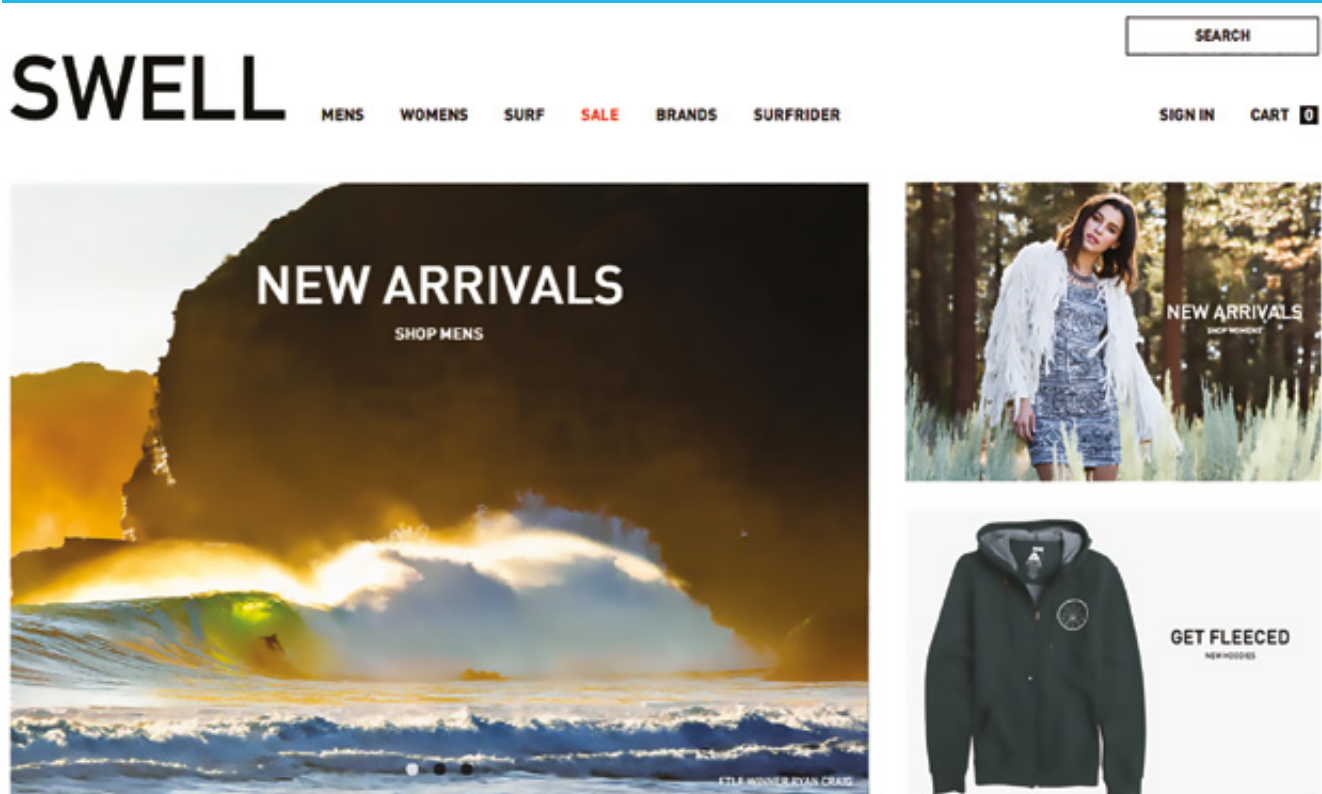
Rank	Websites	Domain
1	ASOS	www.asos.com
2	The Iconic	www.theiconic.com.au
3	OZsale.com.au	www.ozsale.com.au
4	Cotton On	www.cottonon.com
5	boohoo.com	www.boohoo.com
<b>6</b>	<b>SurfStitch</b>	<b>www.SurfStitch.com</b>
7	Popcherry	www.popcherry.com.au
8	Rebel Sport Australia	www.rebelsport.com.au
9	Forever New	www.forevernew.com.au
10	EziBuy Australia	www.ezibuy.com.au

Source: Experian Hitwise (August 2014).

### 3.5.3 Swell.com

Swell's website utilises similar features to SurfStitch.com including an interactive interface, which showcases new product arrivals, promotions and other exclusive offers. Swell also has an exclusive partnership with the Surfrider Foundation, a non-profit environmental organisation. Swell.com also hosts the Surfrider Foundation Store, which sells sustainable surf wear products.

**Exhibit 3.6** Swell's digital store front (Swell.com)



### 3.5.4 Surfdomo.com and Surfdomo.fr

Surfdome's products are sold through Surfdomo.com, as well as through Surfdomo's fully translated French site Surfdomo.fr, which is being used as a template for the roll-out of additional top level domains across Europe and internationally.

#### Exhibit 3.7 Surfdomo's digital store front (Surfdome.com)

## 3.6 AWARDS AND ACHIEVEMENTS

### 3.6.1 ORIA Awards

SurfStitch Australia has been consistently recognised as one of Australia's leading pure play online retailers by the ORIA across a number of categories including:

- Best Pure Play Online Retailer (2011, 2012 and 2014);
- Online Retailer of the Year (2012);
- Best Site Optimisation and Design (2012); and
- Best Use of Technology (2011).

### 3.6.2 Google Trusted Store

SurfStitch.com is one of the Beta partners of the Google Trusted Store Program, which delivers customers a higher level of confidence when shopping with SurfStitch as Google only allows websites that meet certain performance criteria to participate in the program. Google provides customers with free purchase protection for purchases up to \$1,000.

### 3.6.3 Deloitte

SurfStitch Australia has been recognised in the Deloitte Technology Fast 50 program, which ranks the top 50 fastest growing technology companies based on percentage revenue growth over the last three years. SurfStitch was ranked as 4th in 2011, 11th in 2012 and 9th in 2013.

### 3.6.4 BRW

SurfStitch Australia was ranked 13th in the BRW Fast 100, which ranks Australia's fastest growing companies, in 2012.



# 3. COMPANY OVERVIEW

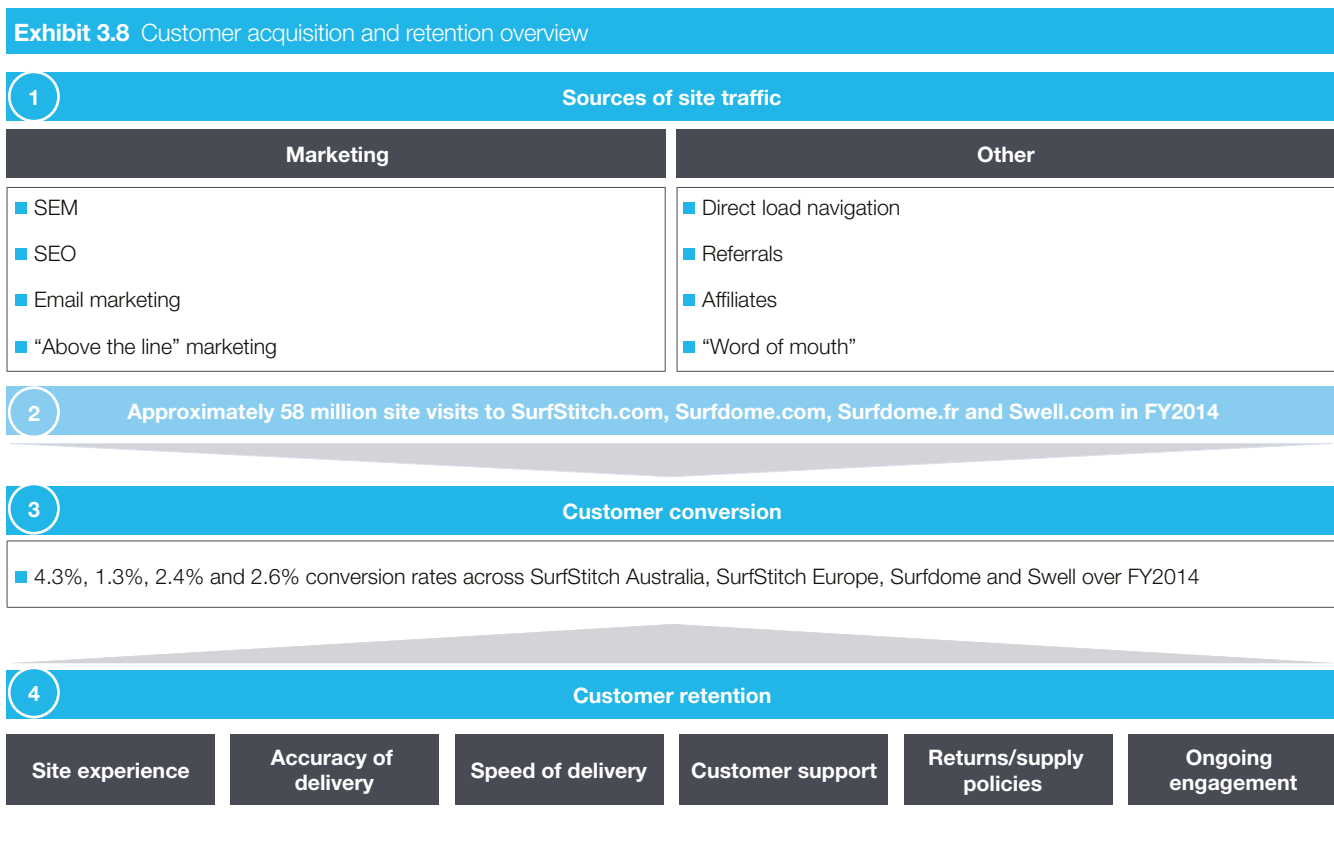
## 3.7 CUSTOMER ACQUISITION AND RETENTION

### 3.7.1 Overview

SurfStitch implements a number of strategies to attract and retain customers. SurfStitch regularly monitors these strategies to maximise customer engagement and satisfaction and thereby drive site traffic, conversion rates and repeat purchase activity.

SurfStitch refers to customers that have made a purchase from a SurfStitch website at any point over the last 12 months as being an Active Customer, while any customers for which SurfStitch has an email address are considered to be a subscriber.

An overview of the customer acquisition and retention process is set out below in Exhibit 3.8.





### 3.7.2 Sources of Site Traffic

#### 3.7.2.1 Marketing

SurfStitch attracts visitors to its Websites through a number of means including SEO, SEM, targeted email marketing to its existing subscriber base and “above the line” marketing using traditional advertising mediums (radio, print and television). Whilst targeted email campaigns and SEM have historically been a core part of this strategy, SurfStitch now focuses predominantly on SEO and wider forms of unpaid traffic including content driven initiatives.

SurfStitch uses SEO to improve its organic search rankings and actively monitors changes in search engine algorithms to ensure that website rankings are not adversely affected by changes. SEO is an important part of SurfStitch’s customer acquisition strategy as there are no direct marketing costs associated with SEO<sup>1</sup>, making it a cost effective marketing strategy.

Ensuring that SurfStitch’s Websites rank highly in search engines is crucial as potential visitors are less likely to view the search results beyond the first page. SEO is important as users typically use targeted search terms to ensure that search engine results are relevant. Potential visitors are more likely to browse websites in the top search results rather than clicking on paid advertisements.

Swell also employs a number of marketing channels that are not typically used by pure play online retailers, including the use of targeted catalogue distribution, the development of a college campus brand ambassador team and sponsorship of a number of events.

#### 3.7.2.2 Other sources of site traffic

The main other sources of site traffic are direct load navigation, whereby visitors type a URL directly into the address bar, as well as referrals from other websites including social media websites and shopping engines. SurfStitch also utilises affiliate marketing, whereby SurfStitch forms partnership relationships with other websites (known as affiliates) which generate traffic to SurfStitch’s Websites in exchange for payment. Costs are only incurred by SurfStitch when an affiliate creates a sale on SurfStitch’s Websites. “Word of mouth” is also a valuable source of site traffic for SurfStitch and helps position SurfStitch’s Websites as the sites of choice amongst Action Sports retail consumers.

### 3.7.3 Site Traffic

In the 12 months to 30 June 2014:

- SurfStitch.com had approximately 14.8 million visitors to the “Australian store” and 6.7 million visitors to the “European store”;
- Swell.com had approximately 11.1 million visitors; and
- Surfdomes.com and Surfdomes.fr had approximately 25.7 million visitors.

### 3.7.4 Conversion rates

SurfStitch actively monitors and implements strategies to increase conversion rates including improving customers’ site experience, ease of navigation, improving product assortment and pricing, offering free shipping and returns policies, and minimising the number of steps required to check out and make a purchase. Conversion rates are defined as the percentage of visitors to SurfStitch’s sites which proceed to make an offer. SurfStitch’s initiatives have been successful in enhancing average conversion rates. SurfStitch Australia’s average conversion rate has increased to 4.3% over the 12 months to June 2014, up from 3.3% over the 12 months to June 2012. Exhibit 3.9 highlights the conversion rates across SurfStitch’s Websites over the FY2012 to FY2014 period.

**Exhibit 3.9** SurfStitch conversion rates

	FY2012	FY2013	FY2014
SurfStitch Australia (SurfStitch.com)	3.3%	3.7%	4.3%
SurfStitch Europe (SurfStitch.com)	N/A <sup>1</sup>	1.2%	1.3%
Surfdome (Surfdome.com/Surfdome.fr)	2.4%	2.1%	2.4%
Swell (Swell.com)	2.4%	2.4%	2.6%

Source: Management data; 1 Not applicable as SurfStitch Europe was launched in September 2012.

### 3.7.5 Cost of customer acquisition

#### 3.7.5.1 SurfStitch.com and Swell.com

SurfStitch adopts a disciplined approach to acquiring new customers on SurfStitch.com and Swell.com and seeks to optimally allocate its marketing budget. For example, whilst SEM has historically been an important customer acquisition tool, SurfStitch has consistently focused on SEO techniques to improve the organic ranking of SurfStitch.com’s search results over time thereby reducing its reliance on SEM. Similar strategies are deployed at Swell.

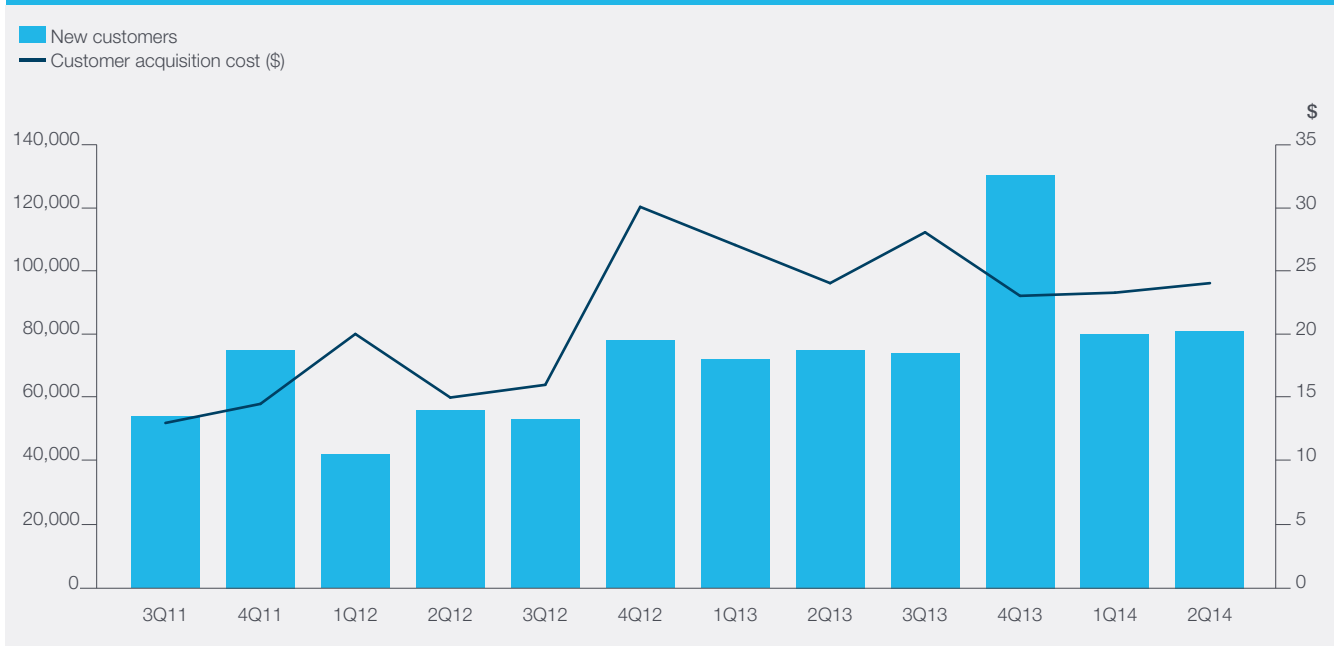
Over the April to June 2014 period, the cost of acquisition for a new customer, defined as the change in Active Customers across SurfStitch Australia, SurfStitch Europe and Swell divided by the total marketing spend, was less than \$25. This compares with an AOV<sup>2</sup> in excess of \$100 over the same period.

<sup>1</sup> There are internal personnel costs associated with SEO.

<sup>2</sup> Represents gross AOV prior to returns.

## 3. COMPANY OVERVIEW

**Exhibit 3.10** SurfStitch.com and Swell.com new customer acquisition cost over time



Source: Management accounts and data.

Note: SurfStitch Europe only commenced standalone operations in September 2012. Calendar year quarters displayed in chart.

### 3.7.5.2 Surfdomo.com and Surfdomo.fr

Surfdomo's cost of acquisition for a new customer, defined as the number of new gross customers acquired divided by total marketing spend, was less than \$20 over the April to June 2014 period. Surfdomo's AOV is approximately \$100 over the same period, which is in line with SurfStitch's existing websites.

### 3.7.6 Customer retention

Once a customer is acquired, SurfStitch actively seeks to encourage repeat purchase activity through ongoing customer engagement and targeted email marketing.

SurfStitch has invested in web analytics and digital marketing systems, which enable SurfStitch to understand the way in which customers interact with the SurfStitch brand and devise strategies which encourage them to continue to do so. Customers are sent targeted emails with content and frequency based on prior purchasing habits and categories of interest as selected by the customer. Customers are also engaged through SurfStitch.com's and Swell.com's customer support, Live Chat. Live Chat allows customer service staff to directly engage with customers for fashion advice and other queries that customers may have.

To assess customer retention, SurfStitch's marketing team assesses key performance indicators such as the frequency of customer website visits per month and customer re-order rates. SurfStitch Australia data indicates that customers are visiting the website more frequently, with 40% of customers visiting the website over 10 times per month in June 2014 compared to 30% of customers visiting the website over 10 times per month in June 2012<sup>3</sup>. In addition, customers are also re-ordering more frequently, with customer re-order rates increasing significantly following a customer's second order<sup>4</sup>.

SurfStitch has a dedicated team of around 59 customer service and marketing professionals across Australia, Europe and the USA. The number of employees in the customer service and marketing teams will increase to 90 full-time equivalents following completion of the Surfdomo acquisition.

<sup>3</sup> Management data.

<sup>4</sup> Based on data through to 30 June 2013.

## 3.8 SUPPLY CHAIN AND DISTRIBUTION

### 3.8.1 Overview

SurfStitch operates a highly flexible supply chain, with product sourcing teams located in Australia, Europe and the USA. Coupled with SurfStitch's dual-hemisphere distribution centres, this provides consumers with access to product regardless of the season in their home territory. SurfStitch believes this capability puts it at a significant advantage relative to its primarily northern hemisphere based competition, as it is able to offer consumers the latest ranges of both summer and winter stock.

A key feature of the inventory management software used by SurfStitch is the ability to manage inventory levels in real time. SurfStitch, therefore, has the ability to sell inventory from the most cost effective distribution centre depending on the location of the end market of sale.

Another benefit of the dual-hemisphere supply chain is the ability to supply customers in new markets and make available unique brands to customers (that would not otherwise be available in their home markets).

### 3.8.2 Buying teams

SurfStitch has dedicated buying teams in Australia, Europe and the USA responsible for sourcing of all branded products, together with a small amount of private label items. Private label items are available for sale, however most of the items are also used as free gifts with selected purchases. The team is segmented according to category. SurfStitch's buying team has developed deep product knowledge over the last seven years of data collection. In the USA, SurfStitch also partners with brand owners for small exclusive runs.

### 3.8.3 Suppliers

SurfStitch sources products from over 500 suppliers globally, with the majority of inventory procured from brand owners (directly) as well as wholesalers. Whilst the majority of SurfStitch's arrangements are terminable at will, SurfStitch has enjoyed strong and long-lasting relationships with its

key suppliers. SurfStitch's supplier relationships have been developed over a long period of time, which has enabled SurfStitch to negotiate trading arrangements that it considers to be attractive. The trading terms SurfStitch enjoys with certain key suppliers provide the business with favourable stock provisions and rebates and returns policies on many brands and styles. SurfStitch has negotiated consignment terms with some suppliers which effectively allow SurfStitch to hold the inventory "off balance" sheet. This significantly reduces inventory risk across the assortment and allows for better working capital management. Furthermore, the nature of the trading terms has facilitated an improvement in gross profit margins over time.

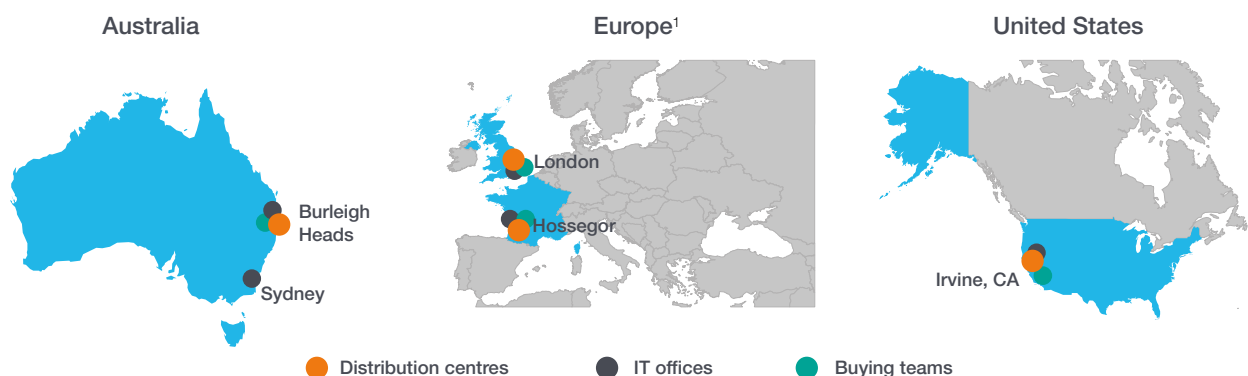
In addition, online retailers are increasingly considered to be an important sales channel by many of the major and boutique brand owners leading to enhanced access to new products and favourable terms. With certain suppliers, SurfStitch has executed partnership agreements, whereby SurfStitch's Websites act as the primary online platform for those suppliers' brands. In addition to entrenching the supplier relationship with SurfStitch, the partnership agreements have resulted in a step up in SurfStitch sales and gross margin. Suppliers are typically supportive of partnering with SurfStitch as it provides them with access to SurfStitch's leading online distribution channel.

SurfStitch believes that under new ownership it has the potential to enhance certain supplier relationships now that the conflict inherent in SurfStitch Australia, SurfStitch Europe and Swell being majority owned by Billabong (a key Action Sports industry brand owner) has been removed.

SurfStitch intends to broaden the assortment in the USA to address a legacy bias towards Billabong branded products. SurfStitch believes this strategy will help to increase consumer engagement, site visitation and conversion rates.

Similarly, upon completion of the SurfDome acquisition, SurfDome is expected to have greater product sourcing flexibility following the exit of its 51% shareholder and major Action Sports brand owner Quiksilver.

**Exhibit 3.11** Overview of SurfStitch's global operations



<sup>1</sup> SurfStitch's presence in the UK will be established through the acquisition of SurfDome.

## 3. COMPANY OVERVIEW

SurfStitch has entered into supply contracts with certain Billabong entities ranging in term from two to three years. As part of the SurfDome acquisition, it is expected that SurfStitch will enter into a two year supply agreement with Quiksilver covering SurfDome and the rest of SurfStitch.

The key terms of these agreements are summarised in Section 9.6.

### 3.8.4 Warehousing and Distribution

#### 3.8.4.1 Warehousing

Currently SurfStitch Australia tends to fulfil Australasian and Asian orders (made through the “Australian store” on SurfStitch.com) from its Gold Coast distribution centre and SurfStitch Europe fulfils European orders (made through the “European store” on SurfStitch.com) out of the Hossegor distribution centre. Swell fulfils its orders (from Swell.com) from its Irvine distribution centre. Over time, Swell and SurfDome will be integrated into SurfStitch Australia's and SurfStitch Europe's operations to enhance the cost effectiveness and efficiency of order processing from a geographic perspective.

Exhibit 3.12 provides a summary of the key information related to SurfStitch's distribution centres. Exhibit 3.13 provides a snapshot of SurfStitch Australia's distribution centre.

#### 3.8.4.2 Distribution

SurfStitch uses a diverse range of high quality delivery agents and regularly assesses which agents are economic to use for orders. SurfStitch has an impressive track record in fulfilment with over 99.9% of orders fulfilled.

SurfStitch typically experiences negligible stock picking error rates through the use of tailored inventory management

systems. SurfStitch Australia's and SurfStitch Europe's system is managed by SurfStitch's suite of iPod applications, which help prevent incorrect picking and provides system alerts and live KPI reporting data. This iPod and KPI functionality is expected to be integrated with Swell and SurfDome over time.

SurfStitch Australia typically offers free standard delivery for orders in Australia over \$25. Free returns are offered on all Australian orders over \$99, whilst international customers must return products at their own expense.

SurfStitch Europe's existing business typically offers free standard delivery for orders over €30 for customers in Austria, Belgium, France<sup>5</sup>, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain<sup>6</sup> and the UK<sup>7</sup>. For other European countries, SurfStitch Europe offers free standard delivery for orders over €150. When shipping to Australia, Canada, New Zealand and the USA standard free delivery is available for orders over €129. SurfStitch Europe does not offer free returns; customers must return products at their own expense.

SurfDome offers free second class delivery on all UK orders, free first class and next day delivery on all UK orders above £75 and free European and international delivery on all orders over £75.

Swell typically offers free standard delivery for orders above US\$18. For international orders, there is a US\$19.99 charge for delivery within one to three business days and a US\$14.99 charge for delivery within three to seven business days. Swell does not offer free returns; customers must return products at their own expense.

**Exhibit 3.12** Distribution centre key statistics

Category	SurfStitch Australia	SurfStitch Europe	SurfDome <sup>1</sup>	Swell
Location	Burleigh Heads, Queensland, Australia	Hossegor, France	Northamptonshire, UK	Irvine, California, USA
Commencement	December 2011	July 2011	February 2013	August 2013
Floor space (m <sup>2</sup> )	7,000	6,000	10,500	5,400 <sup>2</sup>
Expansion capacity	5,000	9,000	2,900	2,000

<sup>1</sup> Upon completion of SurfDome acquisition.

<sup>2</sup> Upon finalisation of Swell's current distribution centre expansion program.

<sup>5</sup> Excludes French Polynesia, Guadeloupe, Guyane Francaise, New Caledonia, Martinique, Mayotte and Reunion.

<sup>6</sup> Excludes Canary Islands, Balearic Islands, Ceuta and Melilla.

<sup>7</sup> Excludes Guernsey, Jersey and Isle of Man.

### 3.9 SURFSTITCH EMPLOYEES

As at 30 September 2014, SurfStitch employed 271 full-time equivalent employees across Australia, France and the USA, although SurfStitch's flexible workforce means this figure can change depending on the business' demands. The number of full-time equivalent employees will increase to 389 upon completion of the SurfDome acquisition based on the number of SurfDome employees as at 30 September 2014.

Staff numbers typically increase and decrease depending on the time of the year, with staff numbers peaking during the Australian and northern hemisphere summer holiday periods.

SurfStitch has eight functional lines of business for its Australian, European and USA operations as listed below:

- Content and Photography
- Buying
- Warehouse and Operations
- Information Technology
- Human Resources
- Finance
- Customer Service
- Marketing

SurfStitch's current facilities in Burleigh Heads (Australia), Hossegor (France) and Irvine (USA) are the hubs for all aspects of SurfStitch's existing daily operations, with representatives of all eight functions located at the facilities. SurfStitch also has an office in North Sydney, Australia where one of SurfStitch's in-house IT teams is located. The only employees not located at these sites are those members of the IT function that undertake ad hoc contractual work from Israel, India and the USA.

SurfStitch currently intends to retain SurfDome staff at their existing locations in Wembley, London (headquarters) and Wellingborough, Northamptonshire (distribution centre).

### 3.10 SURFSTITCH'S GROWTH STRATEGY

#### 3.10.1 Drive operational synergies across SurfStitch's businesses

SurfStitch's primary strategic focus will be on driving operational synergies across SurfStitch Australia, SurfStitch Europe, Swell and SurfDome to create a leader in global online Action Sports retail. SurfStitch's strategy is to:

- share operational best practices across SurfStitch's businesses to enhance customers' site experience, improved inventory management and increased customer targeting/engagement;
- assess the potential to integrate its existing e-Commerce technology platforms onto a single unified technology platform and thereby remove duplicate costs;
- seek out operational efficiencies in areas such as product sourcing, technology development, fulfilment, shipping and warehousing; and
- to the extent possible, obtain more favourable trading terms from its technology service providers such as payment gateways and email service providers through increased bargaining power and scale.

**Exhibit 3.13** SurfStitch Australia's distribution centre





## 3. COMPANY OVERVIEW

### 3.10.2 Grow SurfStitch's share of the online Action Sports segment in key geographies

SurfStitch believes there is an opportunity to increase its share of, and to benefit from further growth in, the online Action Sports segment by building on SurfStitch's customer proposition. SurfStitch intends to do so through a number of initiatives including, but not limited to:

- increased and deeper analysis of SurfStitch's customer database to improve customer targeting, personalisation and relevance;
- increased personalisation of email marketing content and targeted promotions;
- increased SEO to increase brand awareness and lower customer acquisition costs;
- additional "above the line" marketing;
- an expanded brand and product range including international product selections;
- improved site navigation functionality;
- enhanced user experience functionality including improved content and design;
- dynamic delivery options; and
- increased efficiency of customer payment and check-out options.

SurfStitch has a number of near term strategies focused on accelerating the growth of the SurfStitch Europe, SurfStitch USA and Swell businesses, including by:

- increasing investment in customer acquisition in Europe; and
- increasing brand assortment, product range and investment in customer acquisition in the USA.

### 3.10.3 Assess and execute acquisitions

SurfStitch intends to assess and execute acquisitions where SurfStitch sees a strategic opportunity to build scale or enter new geographies. The recent acquisitions of Swell in the USA and SurfStitch USA in the UK are recent examples of this strategy in action. SurfStitch believes that these acquisitions will offer significant strategic benefits including increased scale and will assist in delivering SurfStitch a leading position in the pure play online Action Sports retail segments in the USA and Europe.

### 3.10.4 Organic expansion into new markets

SurfStitch may explore organic expansion opportunities into new markets including Asia. SurfStitch intends to evaluate organic expansion opportunities based on a number of criteria, including, but not limited to, expected market demand and size, reliability and feasibility of supply chain logistics, internet penetration, competitive dynamics, expected growth and margins.

SurfStitch believes that the historical investment that SurfStitch has made in its infrastructure, including its dual-hemisphere fulfilment centres and its scalable e-Commerce technology platforms, will allow SurfStitch to efficiently and cost effectively enter new markets.

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4

FINANCIAL  
INFORMATION



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## 4. FINANCIAL INFORMATION

### 4.1 INTRODUCTION

This Section contains a summary of the following financial information:

- Pro forma historical financial information of SurfStitch Group, being the:
  - pro forma historical consolidated income statements of SurfStitch Group for FY2012, FY2013, and FY2014;
  - pro forma historical consolidated cash flow statements of SurfStitch Group for FY2012, FY2013 and FY2014; and
  - pro forma historical consolidated balance sheet of SurfStitch Group as at 30 June 2014,
 (together the "Pro Forma Historical Financial Information").
- Forecast financial information of SurfStitch Group, being the:
  - pro forma forecast consolidated income statements of SurfStitch Group for FY2015;
  - statutory forecast consolidated income statements of SurfStitch Group for FY2015;
  - pro forma forecast consolidated cash flow statements of SurfStitch Group for FY2015; and
  - statutory forecast consolidated cash flow statements of SurfStitch Group for FY2015,
 (together the "Forecast Financial Information").

The Pro Forma Historical Financial Information and Forecast Financial Information together form the "Financial Information".

Summarised in this Section are:

Section	Heading	Page
4.2	Basis of preparation and presentation of the Financial Information	44
4.3	Pro forma historical and pro forma and statutory forecast consolidated income statements	46
4.4	Pro forma historical consolidated balance sheet, liquidity and capital resources	50
4.5	Pro forma historical and pro forma and statutory forecast consolidated cash flow statements	51
4.6	Management discussion and analysis of Pro Forma Historical Financial Information	53
4.7	Management discussion and analysis of Forecast Financial Information	57
4.8	Sensitivity analysis	60
4.9	Dividend policy	61

All amounts disclosed in this Section are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$100,000.

### 4.2 BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL INFORMATION

#### 4.2.1 Overview

SurfStitch Group was incorporated on 13 October 2014 and as such does not have a financial history that would be relevant to a potential investor's consideration of financial performance. The restructure, which will occur immediately prior to Completion of the Offer, will have the effect of bringing the operations of SurfStitch Holdings and its subsidiaries under the ownership of the Company. This has been accounted for as a capital reorganisation where there has been a new head company inserted on top of SurfStitch Holdings. As such SurfStitch Holdings is treated as the acquirer of SurfStitch Group for accounting purposes, notwithstanding SurfStitch Group is the legal acquirer of SurfStitch Holdings.

SurfStitch Holdings was incorporated on 14 August 2014 to effect the Pre-IPO Transaction. On 5 September 2014, it acquired 100% of the shares in SSA, SSE and the business and assets of Swell via its 100% owned subsidiary SSUSA. On 7 November 2014, SurfStitch Holdings entered into binding SPAs with the SurfDome Shareholders to acquire all of the shares in SDUK. The key terms of the SPAs are summarised in Section 9.5.

These transactions have been accounted for as business combinations in accordance with AASB3 and as such the financial information of SurfStitch Holdings reflected fair value as at the date of acquisition.

The Pro Forma Historical Financial Information included in this Prospectus is intended to present potential investors with information to assist them in understanding what the underlying historical financial performance and cash flows of SurfStitch would have been had SurfStitch Group operated as a consolidated entity on a basis consistent with the Forecast Financial Information.

The Financial Information included in this Section has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act.

The Financial Information is presented in an abbreviated form insofar as it does not include all the disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The significant accounting policies of the Company relevant to the Financial Information are set out in Section 10.

The Financial Information has been reviewed by KPMG Transaction Services, as described in its Investigating Accountant's Report in Section 8. Investors should note the scope and limitations of that report.

#### 4.2.2 Preparation of the Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information has been derived from the FY2012, FY2013 and FY2014 audited special purpose statutory financial statements of SSA and the FY2012, FY2013 and FY2014 audited financial information of SSE, adjusted for certain pro forma transactions and/or other adjustments.

The special purpose statutory financial statements of SSA for FY2012, FY2013 and FY2014 have been audited by PricewaterhouseCoopers, which has issued unqualified audit opinions in respect of these periods. The financial information of SSE for FY2012, FY2013 and FY2014 has been audited by PricewaterhouseCoopers as part of the audit of Billabong, however no statutory consolidated financial statements for these entities have been prepared and audited.

Pro forma adjustments have been made in order to present the financial impact of:

- the acquisition of the business and operations of Swell as if this acquisition had taken place on 1 July 2011. The historical financial information of Swell has been derived from statutory financial information audited by PricewaterhouseCoopers as part of Billabong, however no statutory consolidated financial statements for Swell have been prepared and audited; and
- the acquisition of SDUK as if this acquisition had taken place on 1 July 2011. SDUK previously reported its results for financial years to 31 October 2011 and 31 October 2012 when it then changed to reporting on a 14-month period to 31 December 2013. Statutory financial statements for those periods were audited by Constantin, registered auditors in the United Kingdom, and the audit opinions relating thereto were unqualified. In order to show the historical financial information of SDUK on a basis consistent with the SurfStitch financial information, historical financial information has been derived from the monthly management accounts prepared for the 12 month periods to 30 June 2012, 30 June 2013 and 30 June 2014.

Other pro forma adjustments include:

- the elimination of losses pertaining to discontinued operations associated with the provision of third-party website management activities;
- the historical net interest expense has been removed, on a pro forma basis, to reflect the fact that SurfStitch Group will have no bank debt following Completion of the Offer and completion of the SurfDome acquisition; and
- income tax expense adjustments reflect the impact of the above pro forma adjustments.

The Pro Forma Historical Financial Information has been presented in Australian dollars being the functional currency of the Group. Historical income and cash flow statements have been translated at the following average exchange rates for the years to 30 June 2012, 2013 and 2014 respectively: FY2012 – US\$0.9693, €1.2986, £1.5351; FY2013 – US\$0.9747, €1.2613, £1.5281; FY2014 – US\$1.0900, €1.4789, £1.7719.

The pro forma consolidated balance sheet as at 30 June 2014 is based on the opening balance sheet of SurfStitch Holdings, adjusted to show the impact of the August 2014 capital raising, the acquisitions of SSA, SSE, Swell and SDUK as though those transactions happened as at 30 June 2014, and the impact of the Offer. Balance sheet items have been translated at the following actual exchange rates as at 30 June 2014: US\$1.0617, €1.4488, £1.8040.

Reconciliations between the statutory historical financial information and the Pro Forma Historical Financial Information are provided in Sections 4.3.4, 4.4.1 and 4.5.1.

Investors should note that past results do not guarantee future performance.

#### 4.2.3 Preparation of the Forecast Financial Information

The forecast consolidated income statement has been prepared on a basis consistent with how SurfStitch Group's consolidated financial statements will be prepared in future periods.

The Forecast Financial Information is presented on both a Statutory Forecast and Pro Forma Forecast basis. The pro forma consolidated forecast income statements, which are set out in Section 4.3.2, differ from the statutory consolidated forecast income statements as the pro forma consolidated forecast income statements reflect the full year effect of the operating and capital structure that will be in place upon Completion of the Offer and completion of the SurfDome acquisition, but exclude the costs of the Offer, transitional costs, one-off tax implications arising as a result of the Offer and other non-recurring items which are not expected to occur in the future. See Section 4.3.4 for reconciliations between the Statutory Forecast and Pro Forma Forecast.

The Directors believe that they have prepared the Forecast Financial Information with due care and attention, and having regard to an assessment of present economic and operating conditions and certain general and specific assumptions. The Directors believe the assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus.

The Directors' best estimate assumptions underlying the Forecast Financial Information are set out in Section 4.8. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a materially positive or negative effect on SurfStitch Group's actual financial performance.



## 4. FINANCIAL INFORMATION

Investors are advised to review the Forecast Financial Information in conjunction with the general and specific assumptions set out in Sections 4.7.1 and 4.7.2, the sensitivity analysis set out in Section 4.8, the risk factors set out in Section 5 and other information set out in this Prospectus. The Directors of the Company have no intention to update or revise the Forecast Financial Information or other forward-looking statements following the issue of this Prospectus, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

### 4.2.4 Use of “non-IFRS” financial information

Investors should be aware that certain financial data included in this Section is “non-IFRS financial information” under Regulatory Guide 230 “Disclosing non-IFRS financial information” published by ASIC. The Company believes this non-IFRS financial information provides useful information to users in measuring the financial performance of SurfStitch. Investors are cautioned not to place undue reliance on any non-IFRS financial information and any ratios calculated using that information.

EBIT is earnings before interest and tax.

EBITDA is earnings before interest, tax, depreciation and amortisation. Management uses EBITDA to evaluate the operating performance of the business without the non-cash impact of depreciation and amortisation and before interest and tax charges, which are significantly affected by the capital structure.

Management also uses EBITDA margin, which is EBITDA divided by revenue, expressed as a percentage. EBITDA margin is a key measure that Management uses to evaluate the profitability of the overall business. Because it eliminates the non-cash charges for depreciation and amortisation, EBITDA is useful to help understand the cash generation potential of the business. However, it should not be considered as an alternative to cash flow from operations and investors should not consider EBITDA in isolation from, or as a substitute for, analysis of the Company’s results of operations. Some of the limitations of EBITDA are that it does not reflect:

- the Company’s cash or capital expenditure;
- changes in the Company’s working capital needs;
- that, although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often have to be replaced in the future, and there will likely be cash requirements for such replacements; and
- that other companies in the Company’s industry may calculate these measures differently from how the Company does, limiting their usefulness as a comparative measure.

### 4.3 PRO FORMA HISTORICAL AND PRO FORMA AND STATUTORY FORECAST CONSOLIDATED INCOME STATEMENTS

#### 4.3.1 Description of key income statement items

##### Revenue

Revenue is presented net of sales tax and after returns. Revenue also includes shipping charges to customers.

##### Gross profit

Gross profit represents revenue less cost of sales after adjusting for rebates received. Distribution expenses form part of marketing, selling and administration expenses and are therefore not reflected in the gross profit line.

##### Significant items

In each of the years ended 30 June 2012, 2013 and 2014 SurfStitch incurred certain one-off or unusual expense items relating to the formation of the Group. Similarly in the statutory period ending 30 June 2015 the Directors expect to incur one-off costs associated with the Offer and the acquisition of SDUK. These items have been excluded from EBITDA before significant items on the basis that they are considered non-recurring in nature. Details of these items are provided in Section 4.3.5 below.

#### 4.3.2 Pro forma historical and pro forma and statutory forecast consolidated income statements

Table 1 below provides a summary of SurfStitch’s pro forma historical consolidated income statements for FY2012, FY2013, FY2014 and the pro forma and statutory forecast consolidated income statement for FY2015.



**Table 1:** Historical and forecast consolidated income statements

\$ in millions	Pro forma historical <sup>1</sup>			Pro forma forecast	Statutory forecast <sup>2</sup>
	FY2012	FY2013	FY2014	FY2015	FY2015
<b>Revenue</b>	<b>75.5</b>	<b>109.1</b>	<b>153.7</b>	<b>199.1</b>	<b>95.2</b>
Cost of sales	(40.4)	(60.2)	(86.7)	(109.4)	(53.3)
<b>Gross profit</b>	<b>35.0</b>	<b>48.9</b>	<b>67.0</b>	<b>89.7</b>	<b>41.9</b>
Wages	(12.4)	(19.3)	(24.6)	(28.8)	(15.1)
Marketing, selling and admin expenses	(18.6)	(31.3)	(44.5)	(55.7)	(27.7)
<b>EBITDA before significant items</b>	<b>4.0</b>	<b>(1.7)</b>	<b>(2.1)</b>	<b>5.1</b>	<b>(0.9)</b>
Significant items	(0.2)	(1.9)	(0.9)	–	(12.0)
<b>EBITDA</b>	<b>3.8</b>	<b>(3.6)</b>	<b>(3.0)</b>	<b>5.1</b>	<b>(12.9)</b>
Depreciation and amortisation	(0.7)	(2.5)	(4.6)	(4.9)	(2.6)
<b>EBIT</b>	<b>3.1</b>	<b>(6.1)</b>	<b>(7.6)</b>	<b>0.2</b>	<b>(15.5)</b>
Interest	–	–	–	–	(0.1)
<b>Profit before tax</b>	<b>3.1</b>	<b>(6.1)</b>	<b>(7.6)</b>	<b>0.2</b>	<b>(15.6)</b>
Income tax expense	(0.5)	(0.4)	(0.5)	(0.1)	4.5
<b>NPAT</b>	<b>2.7</b>	<b>(6.5)</b>	<b>(8.1)</b>	<b>0.1</b>	<b>(11.1)</b>

Notes:

1 A reconciliation between pro forma consolidated revenue, EBITDA and NPAT, and the aggregated statutory equivalent information of SSA and SSE is provided in Section 4.3.4.

2 The statutory forecast period reflects the results expected to be reported in the period from incorporation of the Company on 13 October 2014 to 30 June 2015.

### 4.3.3 Key operating and financial metrics

Table 2 below provides a summary of SurfStitch's pro forma historical operating and financial metrics for FY2012, FY2013 and FY2014. Pro forma and statutory forecast operating and financial metrics for FY2015 have also been provided below.

**Table 2:** Historical and forecast key operating metrics<sup>1</sup>

\$ in millions	Pro forma historical			Pro forma forecast
	FY2012	FY2013	FY2014	FY2015
Revenue growth on pcp <sup>2</sup>	n/a	44.6%	40.8%	29.5%
Gross margin	46.4%	44.8%	43.6%	45.0%
EBITDA margin prior to significant items	5.3%	(1.5)%	(1.4)%	2.6%
EBITDA margin	5.1%	(3.3)%	(2.0)%	2.6%
EBIT margin	4.2%	(5.6)%	(5.0)%	0.1%
NPAT margin	3.5%	(6.0)%	(5.3)%	0.1%

Notes:

1 Operating metrics – Revenue growth on pcp, gross margin (%), EBITDA margin (%), EBIT margin (%) and NPAT margin (%) have been calculated with reference to pro forma historical, pro forma forecast and statutory forecast consolidated income statements in each respective period.

2 Prior corresponding period refers to the corresponding reporting half year or year in the previous financial year.

## 4. FINANCIAL INFORMATION

### 4.3.4 Reconciliation of pro forma and statutory consolidated income statements

Set out in Table 3 below is a reconciliation of pro forma revenue, EBITDA and NPAT to statutory revenue, EBITDA and NPAT.

\$ in millions	Note	FY2012			FY2013			FY2014			FY2015		
		Rev	EBITDA	NPAT	Rev	EBITDA	NPAT	Rev	EBITDA	NPAT	Rev	EBITDA	NPAT
<b>Pro forma</b>		<b>75.5</b>	<b>3.8</b>	<b>2.7</b>	<b>109.1</b>	<b>(3.6)</b>	<b>(6.5)</b>	<b>153.7</b>	<b>(3.0)</b>	<b>(8.1)</b>	<b>199.1</b>	<b>5.1</b>	<b>0.1</b>
Acquisition of Swell	1	(19.7)	(1.2)	(1.0)	(21.2)	(0.4)	(0.1)	(24.8)	0.8	1.2	(15.6)	(1.2)	(0.7)
Acquisition of SDUK	2	(25.7)	(1.0)	(0.6)	(39.3)	0.6	1.6	(62.3)	(0.8)	0.9	(40.7)	(2.0)	(0.8)
Adjustments	3	(0.1)	0.1	0.1	(0.0)	0.2	0.2	–	(0.3)	(0.3)	–	(0.4)	(0.4)
Discontinued operations	4	2.2	(2.7)	(3.1)	8.3	(1.9)	(2.2)	6.0	(2.8)	(3.2)	2.5	(1.5)	(2.0)
Impact of pre-IPO trading	5	–	–	–	–	–	–	–	–	–	(50.1)	(0.8)	(0.1)
Integration costs	6	–	–	–	–	–	–	–	–	–	–	(2.0)	(2.0)
Transaction costs	7	–	–	–	–	–	–	–	–	–	–	(10.0)	(10.0)
Financing costs	8	–	–	(0.4)	–	–	(0.4)	–	–	(2.3)	–	–	(0.7)
Tax adjustments	9	–	–	0.0	–	–	0.2	–	–	0.6	–	–	5.6
<b>Statutory</b>		<b>32.1</b>	<b>(0.9)</b>	<b>(2.4)</b>	<b>56.9</b>	<b>(5.0)</b>	<b>(7.3)</b>	<b>72.7</b>	<b>(6.1)</b>	<b>(11.2)</b>	<b>95.2</b>	<b>(12.9)</b>	<b>(11.1)</b>

Notes:

- 1 Acquisition of Swell: The pro forma consolidated income statements include the results of Swell as if the business had been acquired on 1 July 2011, whereas the statutory consolidated income statements include the results of Swell from 15 December 2014, being the date on which SurfStitch Holdings will be acquired by the Company. The adjustment amount is lower in FY2015 as the statutory figures include six months of Swell's forecasts and so the adjustment is only for the period 1 July 2014 to IPO.
- 2 Acquisition of SDUK: The pro forma consolidated income statements include the results of SDUK as if the shares had been acquired on 1 July 2011, whereas the statutory consolidated income statements include the results of SDUK from 15 December 2014, being the expected completion date for the acquisition. The adjustment amount is lower in FY2015 as the statutory figures include six months of SDUK's forecasts and so the adjustment is only for the period 1 July 2014 to IPO.
- 3 Adjustments: A number of minor adjustments have been made to align timing of certain items with the way the business is operated. Key adjustments include moving \$0.3 million of cost of goods sold from FY2014 to FY2013 due to a cut-off error, and reapportioning a FY2013 audit adjustment of \$0.2 million across FY13 and FY12.
- 4 Discontinued operations: Historically SurfStitch managed multiple e-Commerce websites on behalf of Billabong with such operations being loss-making. Following the Pre-IPO Transaction, these websites will no longer be operated by SurfStitch and therefore the pro forma consolidated income statements include an adjustment to remove the revenue and costs associated with these activities.
- 5 Impact of pre-IPO trading: This adjustment removes the forecast results expected prior to Completion of the Offer on the basis that the statutory results for the period to 30 June 2015 will reflect the period from incorporation of SurfStitch Group, and that entity will itself only begin operations on the acquisition of SurfStitch Holdings expected on Completion of the Offer.
- 6 Integration costs: An adjustment has been made to exclude one-off integration costs expected in relation to the acquisition of SDUK. These costs are expected to comprise IT and other infrastructure related expenses associated with merging the Group's e-Commerce and fulfilment platforms and potential costs associated with rationalisation of duplicate support functions.
- 7 Transaction costs: An adjustment has been made to exclude the transaction costs associated with the Offer that have been expensed in the statutory FY2015 forecast on the basis these are non-recurring in nature. This adjustment also includes the one-off grants under the legacy management scheme, listing bonuses and the grant of Restricted Shares to Justin Stone as a sign-on bonus, described in Section 6.3.
- 8 Financing costs: The historical and forecast net interest expense has been removed, on a pro forma basis, to reflect the fact that SurfStitch Group will have no bank debt following Completion of the Offer and completion of the SurfStitch acquisition.
- 9 Tax adjustments: Historical income tax expense has been adjusted to reflect the impact of the above pro forma adjustments. This adjusts the historical pro forma effective tax rate to be 30% for SSA, consistent with the Directors' expected effective tax rate for FY2015.

#### 4.3.5 Significant items

Set out below in Table 4 are the details of the significant items for FY2012, FY2013, FY2014 and FY2015. These items have been excluded from EBITDA before significant items on the basis that they are considered non-recurring in nature.

**Table 4:** Significant items

\$ in millions	Pro forma historical			Pro forma forecast	Statutory forecast
	FY2012	FY2013	FY2014	FY2015	FY2015
Relocation costs	–	1.8	0.7	–	–
Integration costs	–	–	–	–	2.0
Transaction costs	0.2	0.1	0.3	–	10.0
<b>Total significant items</b>	<b>0.2</b>	<b>1.9</b>	<b>0.9</b>	<b>–</b>	<b>12.0</b>

Notes:

- 1 Relocation costs: In FY2013 SDUK relocated its warehouse to position for growth, and in doing so incurred significant relocation costs including a period of incurring double rent and a higher level of support staff. The relocation was completed in April 2013. In FY2014 the Swell business also went through a relocation programme as part of a wider relocation of Billabong's USA operations. Like SDUK, the business incurred a period of double rent and a higher level of support staff. The relocation was completed in August 2014.
- 2 Integration costs: Significant items in the statutory forecasts for FY2015 include one-off integration costs expected in relation to the acquisition of SDUK. These costs are expected to comprise IT and other infrastructure related expenses associated with merging the Group's e-Commerce and fulfilment platforms and potential costs associated with rationalisation of duplicate support functions.
- 3 Transaction costs: Transaction costs in FY2012, FY2013 and FY2014 related to costs incurred in SDUK related to the proposed sale of the business. The transaction costs forecast for FY2015 relate to costs associated with the Offer, one-off grants under the legacy management scheme, listing bonuses and a sign on bonus paid to Directors and Management as described in Section 6.3 and expenses relating to the acquisition of SDUK.

#### 4.3.6 Statutory income statements

Set out below in Table 5 are the statutory historical aggregated income statements of SSA and SSE (being the core operations of the business prior to the acquisitions of Swell and SDUK) for FY2012, FY2013 and FY2014.

**Table 5:** Statutory historical aggregated income statements of SSA and SSE for FY2012, FY2013 and FY2014

\$ in millions	Statutory		
	FY2012	FY2013	FY2014
<b>Revenue</b>	<b>32.1</b>	<b>56.9</b>	<b>72.7</b>
Cost of sales	(17.4)	(32.1)	(41.5)
<b>Gross profit</b>	<b>14.7</b>	<b>24.8</b>	<b>31.2</b>
Wages	(6.7)	(11.0)	(13.3)
Marketing, selling and admin expenses	(8.9)	(18.8)	(24.0)
<b>EBITDA</b>	<b>(0.9)</b>	<b>(5.0)</b>	<b>(6.1)</b>
Depreciation and amortisation	(0.5)	(1.6)	(2.9)
<b>EBIT</b>	<b>(1.4)</b>	<b>(6.6)</b>	<b>(9.1)</b>
Interest	(0.5)	(0.4)	(2.3)
<b>Profit before tax</b>	<b>(1.9)</b>	<b>(7.0)</b>	<b>(11.4)</b>
Income tax expense	(0.5)	(0.3)	0.2
<b>NPAT</b>	<b>(2.4)</b>	<b>(7.3)</b>	<b>(11.2)</b>

Notes:

- 1 The statutory historical aggregated income statements for FY2012, FY2013 and FY2014 are sourced from the statutory accounts of SSA and financial records of SSE.
- 2 Statutory revenue, EBITDA and NPAT is reconciled to pro forma revenue, EBITDA and NPAT in Section 4.3.4 above.

## 4. FINANCIAL INFORMATION

### 4.4 PRO FORMA HISTORICAL CONSOLIDATED BALANCE SHEET, LIQUIDITY AND CAPITAL RESOURCES

#### 4.4.1 Pro forma balance sheet

Set out below is the pro forma consolidated historical balance sheet for SurfStitch Group as at 30 June 2014. As noted in Section 4.2, neither SurfStitch Group nor its predecessor entity SurfStitch Holdings were in existence as at 30 June 2014. As such the pro forma consolidated historical balance sheet reflects the initial balance sheet of SurfStitch Holdings, the Pre-IPO Transaction whereby SurfStitch Holdings acquired 100% of the shares in SSA, SSE and the business and assets of Swell, the acquisition of the shares in SDUK and the impact of the Offer. These adjustments reflect the impact of the operating and capital structure that will be in place following Completion of the Offer and completion of the SurfDome acquisition as if it was in place as at 30 June 2014.

**Table 6:** Pro forma historical consolidated balance sheet

\$ in millions	SurfStitch Holdings <sup>1</sup>	Impact of the Pre-IPO Transaction <sup>2</sup>	Impact of the SDUK acquisition <sup>3</sup>	Impact of the Offer <sup>4</sup>	Pro forma 30 June 2014
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	65.0	(46.1)	(31.4)	43.8	31.3
Trade and other receivables	–	5.2	0.5	–	5.7
Inventories <sup>5</sup>	–	29.3	17.4	–	46.7
<b>Total current assets</b>	<b>65.0</b>	<b>(11.6)</b>	<b>(13.6)</b>	<b>43.8</b>	<b>83.6</b>
<b>Non-current assets</b>					
Property, plant and equipment	–	2.3	3.4	–	5.6
Loans receivable	–	5.6	–	(5.6)	–
Software development	–	6.1	–	–	6.1
Deferred tax assets	–	0.3	–	1.8	2.1
Goodwill	–	45.2	33.7	–	78.9
<b>Total non-current assets</b>	<b>–</b>	<b>59.4</b>	<b>37.1</b>	<b>(3.8)</b>	<b>92.8</b>
<b>Total assets</b>	<b>65.0</b>	<b>47.8</b>	<b>23.5</b>	<b>40.0</b>	<b>176.4</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	–	(20.1)	(12.0)	–	(32.1)
Finance lease <sup>6</sup>	–	(1.2)	–	–	(1.2)
Other liabilities	–	(2.1)	–	–	(2.1)
<b>Total liabilities</b>	<b>–</b>	<b>(23.4)</b>	<b>(12.0)</b>	<b>–</b>	<b>(35.4)</b>
<b>Net assets</b>	<b>65.0</b>	<b>24.4</b>	<b>11.6</b>	<b>40.0</b>	<b>141.0</b>
<b>Equity</b>					
Share capital	65.0	24.4	14.3	46.5	150.2
Retained earnings	–	–	(2.7)	(6.4)	(9.2)
<b>Total equity</b>	<b>65.0</b>	<b>24.4</b>	<b>11.6</b>	<b>40.0</b>	<b>141.0</b>

Notes:

<sup>1</sup> SurfStitch Holdings was incorporated on 14 August 2014 to effect the Pre-IPO Transaction. It raised \$65 million from a group of Australian and offshore institutional and sophisticated investors. This capital allowed SurfStitch Holdings to acquire all the shares in SSA and SSE including Billabong's 51% shareholding in SSA and SSE and to acquire 100% of the assets of Billabong's USA-based e-Commerce Action Sports business, Swell.

- 2 The adjustment to show the effect of the Pre-IPO Transaction has been calculated using the purchase consideration and the fair value of assets and liabilities acquired using the 30 June 2014 balances of SSA, SSE and Swell as a proxy. The consideration comprised of a combination of cash, debt settlement and issue of equity in SurfStitch Holdings. The actual assets and liabilities acquired and the resulting goodwill will be refined in due course once the final completion balance sheet as at 5 September 2014 is available.
- 3 The adjustment to show the effect of the acquisition of SDUK has been calculated using the purchase consideration and the fair value of assets and liabilities acquired using the 30 June 2014 balances of SDUK as a proxy. The consideration comprised of a combination of cash, debt settlement and issue of equity in SurfStitch Holdings. The actual assets and liabilities acquired and the resulting goodwill will be refined in due course once the completion balance sheet is available. The impact of the acquisition of SDUK has been calculated as follows:
- cash consideration of \$31.2 million payable by SurfStitch Holdings to the SurfDome Shareholders under the SPAs;
  - transaction costs of \$2.7 million related to the acquisition of SDUK; and
  - SDUK cash assumed of \$2.5 million as at 30 June 2014.
- 4 The Impact of the Offer has been calculated as follows:
- cash proceeds of \$83.2 million received from the issue of Shares by SurfStitch Group less the payment of \$37.5 million to Existing Shareholders to purchase all of the existing shares in SurfStitch Holdings;
  - offset by \$6.0 million of transaction expenses and the \$1.5 million of the listing bonuses described in Section 6.3 paid in cash. The transaction expenses will be deductible for tax purposes over a period of five years and therefore a deferred tax asset of \$1.8 million has been recognised in relation to these costs. Of the total after tax expenses associated with the Offer, \$2.2 million has been recognised as a debit to share capital and \$2.0 million will be expensed in the Income Statement in the period to 30 June 2015;
  - a shareholder loan to Justin Cameron and Lex Pedersen in the amount of \$5.6 million will be repaid on Completion of the Offer; and
  - \$3.0 million of equity is issued as part of the one-off grants under the legacy management scheme paid to Directors and Management as described in Section 6.3. This amount, plus the \$1.5 million paid in cash (total \$4.4 million) will be expensed to the Income Statement in the period to 30 June 2015 and as such is shown as a charge to retained earnings.
- 5 The inventory balance shown above as a pro forma position as at 30 June 2014 includes an amount of \$10.6 million associated with the step-up from book to fair value on the application of the accounting standard pertaining to Business Combinations and as such is not reflective of the actual balance as at 30 June 2014 on a historical cost basis.
- 6 Finance lease relates to lease financing associated with the Group's IT platform.

#### 4.4.2 Working capital and capital expenditure

Following Completion of the Offer and completion of the SurfDome acquisition, SurfStitch's principal sources of funds will be cash flows from operations. SurfStitch's historical and forecast working capital and capital expenditure trends are set out in the cash flow statements in Section 4.5. SurfStitch expects that it will have sufficient cash flow from operations to fund working capital and capital expenditure requirements to meet its stated objectives during FY2015.

### 4.5 PRO FORMA HISTORICAL AND PRO FORMA AND STATUTORY FORECAST CONSOLIDATED CASH FLOW STATEMENTS

Set out below are the pro forma historical consolidated cash flow statements for FY2012, FY2013 and FY2014, and the pro forma and statutory forecast consolidated cash flow statement for FY2015. The pro forma cash flows have been reconciled to the statutory cash flows in Section 4.5.1. Due to the capital structure going forward differing to that of the historical period, pro forma FY2012 to FY2014 is presented down to cash flow before financing and taxation only.

**Table 7:** Historical and forecast consolidated cash flow

\$ in millions	Note	Pro forma historical			Pro forma forecast	Statutory forecast
		FY2012	FY2013	FY2014	FY2015	FY2015
<b>EBITDA</b>	1	<b>3.8</b>	<b>(3.6)</b>	<b>(3.0)</b>	<b>5.1</b>	<b>(12.9)</b>
Non-cash items in EBITDA	2	–	–	–	0.6	3.6
Net movement in working capital		(0.1)	(2.9)	13.2	8.2	(7.0)
<b>Operating cash flow before capital expenditure</b>		<b>3.8</b>	<b>(6.5)</b>	<b>10.2</b>	<b>13.9</b>	<b>(16.3)</b>
Capital expenditure	3	(3.2)	(5.9)	(4.3)	(7.8)	(4.2)
<b>Cash flow before financing and taxation</b>		<b>0.6</b>	<b>(12.4)</b>	<b>5.9</b>	<b>6.1</b>	<b>(20.5)</b>
Net proceeds from issue of Shares	4				–	45.7
Cash spent on acquisition of SDUK					–	(31.2)
IPO transaction costs capitalised					–	(3.2)
Income tax paid					(2.1)	(0.1)
<b>Net cash flow</b>					<b>4.0</b>	<b>(9.2)</b>

Notes:

- 1 Pro forma adjustments to EBITDA have been reflected in the pro forma consolidated cash flow statement on the same basis as disclosed at Section 4.3.4.
- 2 Non-cash items in EBITDA relate to costs associated with the employee share scheme.
- 3 Capital expenditure largely relates to expenditure on development of the Group's IT infrastructure and is shown net of any lease financing.
- 4 Cash proceeds of \$83.2 million received from the issue of Shares by SurfStitch Group less the payment of \$37.5 million to Existing Shareholders to purchase all of the existing shares in SurfStitch Holdings.



## 4. FINANCIAL INFORMATION

### 4.5.1 Pro forma and statutory cash flows reconciliation

Set out in Table 8 below is a reconciliation between the pro forma historical cash flows and statutory cash flows for the period FY2012, FY2013 and FY2014. A reconciliation between the FY2015 pro forma and statutory forecast cash flows has also been provided below.

<b>Table 8: Reconciliation of pro forma and statutory cash flows</b>					
\$ in millions	Note	Historical			Forecast
		FY2012	FY2013	FY2014	FY2015
<b>Pro forma cash flow</b>		<b>0.6</b>	<b>(12.4)</b>	<b>5.9</b>	<b>4.0</b>
Cash impact of pro forma adjustments	1	(4.8)	(1.4)	(3.1)	(24.6)
Net cash inflow from issue of Shares	2	–	–	–	45.7
Cash outflow on acquisition of SDUK	3	–	–	–	(31.2)
IPO transaction costs capitalised	4	–	–	–	(3.2)
<b>Statutory cash flow</b>		<b>(4.1)</b>	<b>(13.8)</b>	<b>2.8</b>	<b>(9.2)</b>

Notes:

- 1 Pro forma adjustments to EBITDA have been reflected in the pro forma operating cash flow after capital expenditure on the same basis as disclosed at Section 4.3.4. The adjustment also includes the working capital, capital expenditure, interest and tax impact of the difference between the pro forma full year cash flows and the statutory cash flows, which reflect the cash flows from the date of incorporation of SurfStitch Group to 30 June 2015.
- 2 Cash proceeds of \$83.2 million received from the issue of Shares by SurfStitch Group less the payment of \$37.5 million to Existing Shareholders to purchase all of the existing shares in SurfStitch Holdings.
- 3 Cash outlay on acquisition of SDUK. The consideration payable by SurfStitch Holdings under the SPAs is described in Section 9.5.
- 4 IPO transaction costs reflect the portion of transaction costs not expensed directly to the income statement.

## 4.6 MANAGEMENT DISCUSSION AND ANALYSIS OF PRO FORMA HISTORICAL FINANCIAL INFORMATION

### 4.6.1 Overview of Operating Segments

In accordance with AASB 8 Operating Segments, SurfStitch Group has determined that it satisfies the criteria to allow the reporting of three segments being Australia (being SurfStitch Australia), Europe (comprising SurfStitch Europe and SurfDome) and USA (being Swell). While SurfStitch Group manages its gross margin at a segment level, overheads are managed on a group level due to shared IT platform and management structures, the costs of which are not allocated across segments.

**Table 9:** Segmental analysis

\$ in millions	FY 2012				FY 2013				FY 2014				FY 2015
	AU	EU	USA	Group	AU	EU	USA	Group	AUS	EUR	USA	Group	Group
<b>Revenue</b>	30.0	25.7	19.7	75.5	45.7	42.3	21.2	109.1	57.8	71.1	24.8	153.7	199.1
Cost of sales	(16.0)	(14.3)	(10.1)	(40.4)	(25.1)	(23.7)	(11.5)	(60.2)	(32.8)	(39.0)	(14.9)	(86.7)	(109.4)
<b>Gross profit</b>	<b>14.0</b>	<b>11.4</b>	<b>9.6</b>	<b>35.0</b>	<b>20.6</b>	<b>18.7</b>	<b>9.6</b>	<b>48.9</b>	<b>25.0</b>	<b>32.1</b>	<b>9.9</b>	<b>67.0</b>	<b>89.7</b>
Wages				(12.4)				(19.3)				(24.6)	(28.8)
Marketing, selling and admin expenses				(18.6)				(31.3)				(44.5)	(55.7)
<b>EBITDA before significant items</b>				<b>4.0</b>				<b>(1.7)</b>				<b>(2.1)</b>	<b>5.1</b>
Significant items				(0.2)				(1.9)				(0.9)	–
<b>EBITDA</b>				<b>3.8</b>				<b>(3.6)</b>				<b>(3.0)</b>	<b>5.1</b>
Depreciation and amortisation				(0.7)				(2.5)				(4.6)	(4.9)
<b>EBIT</b>				<b>3.1</b>				<b>(6.1)</b>				<b>(7.6)</b>	<b>0.2</b>
Interest				–				–				–	–
<b>Profit before tax</b>				<b>3.1</b>				<b>(6.1)</b>				<b>(7.6)</b>	<b>0.2</b>
Income tax expense				(0.5)				(0.4)				(0.5)	(0.1)
<b>NPAT</b>				<b>2.7</b>				<b>(6.5)</b>				<b>(8.1)</b>	<b>0.1</b>

### 4.6.2 Seasonality

SurfStitch's business has a seasonal weighting towards the first half of the financial year which is driven by higher volumes during the Christmas season.

**Table 10:** Historical and forecast seasonality

\$ in millions	Pro forma historical						Pro forma forecast	
	1H2012/ FY2012	2H2012/ FY2012	1H2013/ FY2013	2H2013/ FY2013	1H2014/ FY2014	2H2014/ FY2014	1H2015/ FY2015	2H2015/ FY2015
Consolidated sales	52.6%	47.4%	51.9%	48.1%	54.9%	45.1%	52.6%	47.4%
AU sales	52.5%	47.5%	54.5%	45.5%	52.1%	47.9%	51.5%	48.5%
EU sales	49.6%	50.4%	48.8%	51.2%	57.1%	42.9%	53.8%	46.2%
USA sales	56.8%	43.2%	52.8%	47.2%	55.1%	44.9%	52.3%	47.7%

## 4. FINANCIAL INFORMATION

### 4.6.3 FY2013 compared to FY2012

**Table 11:** Comparison of FY2013 and FY2012: selected financial information

\$ in millions	Pro forma historical		Change
	FY2012	FY2013	
<b>Revenue</b>	<b>75.5</b>	<b>109.1</b>	<b>33.7</b>
Cost of sales	(40.4)	(60.2)	(19.8)
<b>Gross profit</b>	<b>35.0</b>	<b>48.9</b>	<b>13.9</b>
Wages	(12.4)	(19.3)	(6.9)
Marketing, selling and admin expenses	(18.6)	(31.3)	(12.7)
<b>EBITDA before significant items</b>	<b>4.0</b>	<b>(1.7)</b>	<b>(5.7)</b>
Significant items	(0.2)	(1.9)	(1.8)
<b>EBITDA</b>	<b>3.8</b>	<b>(3.6)</b>	<b>(7.5)</b>
Depreciation and amortisation	(0.7)	(2.5)	(1.8)
<b>EBIT</b>	<b>3.1</b>	<b>(6.1)</b>	<b>(9.2)</b>
Interest	–	–	–
<b>Profit before tax</b>	<b>3.1</b>	<b>(6.1)</b>	<b>(9.2)</b>
Income tax expense	(0.5)	(0.4)	0.0
<b>NPAT</b>	<b>2.7</b>	<b>(6.5)</b>	<b>(9.2)</b>
Revenue growth on pcp	n/a	44.6%	
Gross margin	46.4%	44.8%	(1.6)%
EBITDA margin prior to significant items	5.3%	(1.5)%	(6.8)%
EBITDA margin	5.1%	(3.3)%	(8.4)%
EBIT margin	4.2%	(5.6)%	(9.7)%
NPAT margin	3.5%	(6.0)%	(9.5)%

\$ in millions	Pro forma historical		Change
	FY2012	FY2013	
<b>Pro forma EBITDA</b>	<b>3.8</b>	<b>(3.6)</b>	<b>(7.5)</b>
Net movement in working capital	(0.1)	(2.9)	(2.8)
<b>Operating cash flow before capital expenditure</b>	<b>3.8</b>	<b>(6.5)</b>	<b>(10.3)</b>
Capital expenditure	(3.2)	(5.9)	(2.8)
<b>Cash flow before financing and taxation</b>	<b>0.6</b>	<b>(12.4)</b>	<b>(13.1)</b>

**Revenue**

Total revenue of SurfStitch in FY2013 increased \$33.7 million to \$109.1 million. This was primarily driven by an increase in the number of website visits and improved conversion rates at SurfStitch Australia, SurfDome and Swell, as well as the launch of the SurfStitch Europe website in September 2012. The increase in website visits was driven by increased marketing spend and an expansion in the number of brands represented.

SSA revenues improved year-on-year by 52%, SDUK achieved 53% growth, SSUSA achieved 7% growth and SSE generated revenues of \$3.0 million in its first financial year (an incomplete trading year with the business launching in late September).

**Gross Profit**

Gross profit is mainly driven by the growth of revenue and the terms of individual contracts with suppliers. In FY2013, gross margin decreased by 1.6 percentage points mainly as a result of SSA's and SSE's former majority shareholder selling excess inventory through SurfStitch at discounted prices, the mix of business and the dilutive effect of lower margins achieved during the initial ramp-up phase of SurfStitch Europe.

**EBITDA and EBIT**

The main components driving SurfStitch's cost base are distribution, marketing, transaction, personnel and IT related costs. While distribution, marketing and transaction costs are closely aligned to sales volume, personnel and IT costs are more fixed in nature.

The decrease of EBITDA margin (before significant items) in FY2013 from 5.3% to -1.5% is mainly due to the start-up costs of SurfStitch Europe in FY2013, including a fulfilment system, high levels of marketing expenditure and costs related to the localisation of the European store for SurfStitch.com. EBIT in FY2013 was, in addition, adversely affected as a result of an increase in the depreciation charge following the start of SurfStitch Europe's operations.

**NPAT**

In FY2013, NPAT decreased \$9.2 million due to the \$9.2 million decrease in EBIT, while taxation expenses remained largely on the same level as in FY2012, as a result of not booking a deferred tax asset on the tax losses generated in SSE.

**Net movement in working capital**

The change in the net movement in working capital from -\$0.1 million in FY2012 to -\$2.9 million in FY2013 is the result of an increase in inventory at SurfStitch Australia and Swell, which was only partially compensated by an increase in trade payables, and the initial ramp-up of operations at SurfStitch Europe.

**Capital expenditure**

In FY2013, capital expenditure of SurfStitch increased by \$2.8 million as a result of investment in infrastructure and software licences at SurfStitch Europe to support the launch.

## 4. FINANCIAL INFORMATION

### 4.6.4 FY2014 compared to FY2013

**Table 12:** Comparison of FY2014 and FY2013: selected financial information

\$ in millions	Pro forma historical		Change
	FY2013	FY2014	
<b>Revenue</b>	<b>109.1</b>	<b>153.7</b>	<b>44.6</b>
Cost of sales	(60.2)	(86.7)	(26.5)
<b>Gross profit</b>	<b>48.9</b>	<b>67.0</b>	<b>18.1</b>
Wages	(19.3)	(24.6)	(5.3)
Marketing, selling and admin expenses	(31.3)	(44.5)	(13.2)
<b>EBITDA before significant items</b>	<b>(1.7)</b>	<b>(2.1)</b>	<b>(0.4)</b>
Significant items	(1.9)	(0.9)	1.0
<b>EBITDA</b>	<b>(3.6)</b>	<b>(3.0)</b>	<b>0.6</b>
Depreciation and amortisation	(2.5)	(4.6)	(2.1)
<b>EBIT</b>	<b>(6.1)</b>	<b>(7.6)</b>	<b>(1.5)</b>
Interest	–	–	–
<b>Profit before tax</b>	<b>(6.1)</b>	<b>(7.6)</b>	<b>(1.5)</b>
Income tax expense	(0.4)	(0.5)	(0.0)
<b>NPAT</b>	<b>(6.5)</b>	<b>(8.1)</b>	<b>(1.6)</b>
Revenue growth on pcp	n/a	40.8%	
Gross margin	44.8%	43.6%	(1.2)%
EBITDA margin prior to significant items	(1.5)%	(1.4)%	0.2%
EBITDA margin	(3.3)%	(2.0)%	1.3%
EBIT margin	(5.6)%	(5.0)%	0.6%
NPAT margin	(6.0)%	(5.3)%	0.7%

\$ in millions	Pro forma historical		Change
	FY2013	FY2014	
<b>Pro forma EBITDA</b>	<b>(3.6)</b>	<b>(3.0)</b>	<b>0.6</b>
Net movement in working capital	(2.9)	13.2	16.1
<b>Operating cash flow before capital expenditure</b>	<b>(6.5)</b>	<b>10.2</b>	<b>16.6</b>
Capital expenditure	(5.9)	(4.3)	1.7
<b>Cash flow before financing and taxation</b>	<b>(12.4)</b>	<b>5.9</b>	<b>18.3</b>



### Revenue

In FY2014, total revenue increased \$44.6 million to \$153.7 million. This was mainly driven by an increase in website visits and conversion rates, mainly due to continuous investment in marketing activities and to the introduction of a free return scheme. While SSA grew \$12.1 million, the continued rapid growth of European operations at both SDUK and SSE contributed significantly (\$28.8 million) to the overall increase in FY2014. Capital available to the business was significantly reduced (a strategy initiated by SSA's and SSE's former majority shareholder) which had the effect of restricting growth.

### Gross Profit

In FY2014, SurfStitch's gross margin was 43.6% compared to 44.8% in the prior year. Gross margin in FY2014 was adversely impacted by an inventory clearance sale, initiated by SSA's and SSE's former majority shareholder. Management estimates that this measure impacted SurfStitch's gross margin by approximately two percentage points.

### EBITDA and EBIT

EBITDA margin (before significant items) increased by 0.2 percentage points between FY2013 and FY2014 due to greater volumes over a fixed cost base, offsetting the decrease in gross margin noted above. EBIT in FY2014 was impacted by a higher depreciation charge of \$4.6 million compared to \$2.5 million in FY2014 due to the full year impact of depreciating the SurfStitch Europe platform.

### NPAT

NPAT decreased \$1.6 million between FY2013 and FY2014 due to the \$1.6 million decrease of EBIT as detailed above while the tax charges remained largely flat, due to not booking a deferred tax asset on the tax losses generated at SSE.

### Net movement in working capital

The change in the movement of net working capital by \$16.1 million is mainly the result of a decrease in inventory levels across the entities as well as an increase in payables in SurfStitch Europe, in part driven by extended payment terms for Billabong merchandise.

### Capital expenditure

Following initial investment in the SurfStitch Europe website in FY2013, capital expenditure in FY2014 was reduced \$1.7 million to \$4.3 million, which was more in line with prior periods.

## 4.7 MANAGEMENT DISCUSSION AND ANALYSIS OF FORECAST FINANCIAL INFORMATION

The Forecast Financial Information has been prepared based on the significant accounting policies adopted by SurfStitch Group, which are in accordance with Australian Accounting Standards and are disclosed in Section 10. It is assumed that there will be no changes to Australian Accounting Standards, the Corporations Act or other financial reporting requirements that may have a material effect on SurfStitch's accounting policies during FY2015.

The Forecast Financial Information is based on various best estimate assumptions concerning future events, including those set out below. In preparing the Forecast Financial Information, SurfStitch has undertaken an analysis of historical performance and applied assumptions in order to estimate future performance for FY2015. SurfStitch Group believes that it has prepared the Forecast Financial Information with due care and attention and considers all assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus, including each of the general assumptions set out in Section 4.7.1.

However, the actual results are likely to vary from those forecast and any variation may be materially positive or negative. The assumptions upon which the Forecast Financial Information is based are by their nature subject to significant uncertainties and contingencies, many of which are outside the control of SurfStitch Group, its Directors and Management, and are not reliably predictable.

Accordingly, none of SurfStitch Group, its Directors, Management, or any other person can give you any assurance that the Forecast Financial Information or any prospective statement contained in this Prospectus will be achieved. Events and outcomes may differ in amount and timing from the assumptions, with a material consequential impact on the Forecast Financial Information.

The assumptions set out below should be read in conjunction with the sensitivity analysis set out in Section 4.8, the risk factors set out in Section 5 and the Investigating Accountant's Report set out in Section 8. A reconciliation of the Pro Forma Forecast to the Statutory Forecast is set out in Sections 4.3.4 and 4.5.1.

### 4.7.1 General assumptions

The following general assumptions are relevant to the Forecast Financial Information:

- no material change in the competitive and operating environments in which SurfStitch operates;
- no significant deviation from current market expectations of global economic conditions relevant to the online retail industry, in particular in Australia, Europe and the USA;
- no material event (including war, disease, natural disaster or catastrophe) or circumstance that has a material impact on short-term demand patterns of Australian, European and North American consumers;
- no material changes in national, state or territory government legislation, tax legislation, regulatory legislation, regulatory requirements or government policy for any country in which SurfStitch operates that will have a material impact on the financial performance or cash flows, financial position, accounting policies, financial reporting or disclosure of SurfStitch;

## 4. FINANCIAL INFORMATION

- no material changes in key personnel, including key management personnel. It is also assumed that SurfStitch maintains its ability to recruit and retain the personnel required to support future growth;
  - no material changes in applicable Australian Accounting Standards, other mandatory professional reporting requirements or the Corporations Act which have a material effect on SurfStitch's financial performance, financial position, accounting policies, financial reporting or disclosure;
  - no material industry strikes or other disturbances, environmental costs, contingent liabilities or legal claims arise or are settled to the detriment of SurfStitch;
  - no material cash flow or income statement or balance sheet impact in relation to litigation (existing or otherwise);
  - no material acquisitions, disposals, restructurings or investments;
  - no material changes to SurfStitch's corporate and funding structure other than as set out in, or contemplated by, this Prospectus;
  - no material disruptions to the continuity of operations of SurfStitch or other material changes in its business, including availability of its Websites, access to relevant merchandise and appropriate distribution channels;
  - no material amendment to any material agreement or arrangement relating to SurfStitch's business other than set out in, or contemplated by, this Prospectus;
  - none of the risks listed in Section 5 has a material adverse impact on the operations of SurfStitch; and
  - the Offer proceeds are received in accordance with the timetable set out on page 4 of this Prospectus.
- **Gross profit:** SurfStitch's gross margin is based on the projected revenue volume assumptions noted above and a detailed bottom up build based on supplier terms.
  - **Wages:** SurfStitch forecasts wages based on the anticipated revenue growth and the additional requirements of a public company. Wages are mainly driven by the number of full-time equivalent employees and a general pay rise in line with award rates. Forecast wages also reflects an estimate of the cost associated with the executive remuneration and employee share scheme arrangements described in Section 6.
  - **Distribution:** SurfStitch forecasts distribution expenses as a percentage of revenues and the assumption in FY2015 is that these remain largely in line with prior years.
  - **Marketing:** Marketing expenses are forecast on a bottom up basis taking account of historical experience on return on marketing investment, and certain committed new marketing initiatives aimed at driving volume growth.
  - **Other expenses:** Forecast other operating expenses include transaction processing, IT and other administrative costs. While transaction processing costs are directly related to revenue, IT and other administrative costs are rather fixed in nature and are reflective of additional requirements of a public company. The FY2015 forecast has been based on historical experience and a bottom up build of incremental costs.
  - **Foreign exchange rates:** The FY2015 forecast has been prepared on the assumption of €1:\$1.4329, £1:\$1.8041 and US\$1:\$1.0806.

### 4.7.3 Pro forma consolidated income statements FY2015 compared to FY2014

Table 13 below sets out the summary pro forma consolidated forecast income statement for FY2015 compared to the pro forma consolidated historical income statement for FY2014.

### 4.7.2 Specific assumptions

The Forecast Financial Information for FY2015 includes the results of SurfStitch for the actual results for the three months to 30 September 2014 and the forecast results for the nine months ended 30 June 2015 and also has regard to the current trading performance of SurfStitch up until the date of lodgement of this Prospectus.

The pro forma consolidated forecast income statement for FY2015 has been prepared by management on a "bottom up" build. The key aspects of the basis of preparation are as follows:

- **Revenue:** Revenue is forecast as a function of the number of paid and free website visits, the estimated conversion rate as well as the average order value. Based on historical experience, SurfStitch assumed paid site visits to be linked to the level of marketing spend. A widening of the range of brands represented is expected to increase the number of free visitors, who will be directed to SurfStitch's websites through search results of online search engines. The forecast conversion rate is based on SurfStitch analysis of historical customer and visitor behaviour. Management expects to increase the average order value through an expansion of the product range towards merchandise that has a higher price point.

**Table 13:** Comparison of FY2015 and FY2014: selected financial information

\$ in millions	Pro forma historical	Pro forma forecast	Change
	FY2014	FY2015	
<b>Revenue</b>	<b>153.7</b>	<b>199.1</b>	<b>45.4</b>
Cost of sales	(86.7)	(109.4)	(22.7)
<b>Gross profit</b>	<b>67.0</b>	<b>89.7</b>	<b>22.7</b>
Wages	(24.6)	(28.8)	(4.3)
Marketing, selling and admin expenses	(44.5)	(55.7)	(11.3)
<b>EBITDA before significant items</b>	<b>(2.1)</b>	<b>5.1</b>	<b>7.2</b>
Significant items	(0.9)	(0.0)	0.9
<b>EBITDA</b>	<b>(3.0)</b>	<b>5.1</b>	<b>8.1</b>
Depreciation and amortisation	(4.6)	(4.9)	(0.3)
<b>EBIT</b>	<b>(7.6)</b>	<b>0.2</b>	<b>7.9</b>
Interest	–	–	–
<b>Profit before tax</b>	<b>(7.6)</b>	<b>0.2</b>	<b>7.9</b>
Income tax expense	(0.5)	(0.1)	0.4
<b>NPAT</b>	<b>(8.1)</b>	<b>0.1</b>	<b>8.2</b>
Revenue growth on pcp	n/a	29.5%	
Gross margin	43.6%	45.0%	1.5%
EBITDA margin prior to significant items	(1.4)%	2.6%	3.9%
EBITDA margin	(2.0)%	2.6%	4.5%
EBIT margin	(5.0)%	0.1%	5.1%
NPAT margin	(5.3)%	0.1%	5.3%

\$ in millions	Pro forma historical	Pro forma forecast	Change
	FY2014	FY2015	
<b>Pro forma EBITDA</b>	<b>(3.0)</b>	<b>5.1</b>	<b>8.1</b>
Non-cash movement in EBITDA	–	0.6	0.6
Net movement in working capital	13.2	8.2	(5.0)
<b>Operating cash flow before capital expenditure</b>	<b>10.2</b>	<b>13.9</b>	<b>3.8</b>
Capital expenditure	(4.3)	(7.8)	(3.5)
<b>Cash flow before financing and taxation</b>	<b>5.9</b>	<b>6.1</b>	<b>0.2</b>

## 4. FINANCIAL INFORMATION

The key assumptions underpinning the FY2015 pro forma forecast results are as follows:

### General

SurfStitch's FY2015 projections reflect the ability to deploy management practices across all geographies, previously requiring consent from the former majority shareholder of SSA and SSE.

### Revenue

Revenue is forecast to increase by \$45.4 million (29.5%) in FY2015, from \$153.7 million to \$199.1 million as a result of an acceleration in the growth in website visitors and conversion rates off the back of specific marketing initiatives and an expansion in product range. SurfStitch also anticipates a greater level of international sales as a result of increasing the number of countries with localised websites and adding greater functionality to support multi-currency and language capabilities. In addition, SurfStitch plans to continue to invest in expansion of its range (including greater category diversification, product offerings and new brands) towards higher price point items which is expected to lead to an increase in the average order value. Furthermore, SurfStitch anticipates an increase of cross-regional sales opportunities via its global inventory system and exclusive product offerings across its geographic regions.

### Gross Profit

Gross profit is forecast to increase \$22.7 million to \$89.7 million in FY2015, mainly driven by revenue growth as discussed above and improvements in gross margin from 43.6% in FY2014 to 45.0% in FY2015. SurfStitch expects positive effects on gross margin to materialise in FY2015 mainly as a result of reduced need to discount inventory on behalf of its former majority shareholder and the recently improved supplier terms as well as a change in the mix of business towards higher profit items.

### Wages

Wages are forecast to increase by \$4.3 million from \$24.6 million in FY2014 to \$28.8 million in FY2015. The increase is reflective of forecast volume growth, e.g. additional warehouse staff are assumed to be brought on board in FY2015; and management changes as a result of the Offer.

### Marketing, selling and administration expenses

Marketing, selling and administration expenses are forecast to increase \$11.3 million to \$55.7 million in FY2015, which is reflective of the revenue growth. However, as a percentage of revenue these expenses are expected to be 1.0 percentage point lower in FY2015 compared to FY2014.

SurfStitch forecasts FY2015 distribution expenses as a percentage of revenues to be slightly lower than in FY2014. Improvements from renegotiating distribution agreements in Australia and Europe are partially compensated by an increase in international deliveries.

Marketing and advertising related expenses are forecast to decrease by approximately 0.6 percentage points in relation to revenue. While in Australia these expenses are forecast to remain on the same level in relation to revenue, marketing

expenses in Europe and the USA are forecast to decrease as the Company implements global marketing initiatives, and shared media buying capabilities.

Transaction related expenses are expected to increase in line with forecast revenue growth.

### EBITDA and EBIT

EBITDA before significant items is forecast to increase \$7.2 million from -\$2.1 million in FY2014 to \$5.1 million in FY2015 as a result of the above. The FY2015 depreciation charge is forecast to increase \$0.3 million with the assumed capital investment in the Group's IT platform. As such EBIT is forecast to increase \$7.9 million on FY2014 to \$0.2 million.

### Income tax expense

Income tax expense of \$0.1 million has been forecast for FY2015 based on an effective tax rate of 30%, equal to the Australian corporate tax rates. The income tax charge in the forecast makes the explicit assumption that accumulating tax losses in SSE are booked as a deferred tax asset on the grounds that these will be utilised when SSE becomes profitable.

### NPAT

NPAT is forecast to increase by \$8.2 million due to the items noted above.

### Net movement in working capital

The net increase in working capital is forecast at \$8.2 million in FY2015 primarily as a result of the assumed growth in the business whereby inventory is typically received and sold prior to the associated supplier being paid.

### Capital expenditure

Capital expenditure is forecast to increase by \$3.5 million to \$7.8 million in FY2015 as the Company executes its global growth strategy.

## 4.8 SENSITIVITY ANALYSIS

The Forecast Financial Information is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of SurfStitch Group, its Directors and Management, and depends upon assumptions with respect to future business developments, which are subject to change.

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus are to be expected. To assist investors in assessing the impact of these assumptions on the forecasts, set out below is a summary of the sensitivity of certain Forecast Financial Information to changes in a number of key variables. The changes in the key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced. For the purposes of the analysis below, the effect of the changes in key assumptions on forecast FY2015 EBITDA of \$5.1 million and NPAT of \$0.1 million is presented.

**Table 14:** Sensitivity analysis of pro forma forecast EBITDA and NPAT for FY2015<sup>1</sup>

\$ in millions	Note	Increase/ (decrease)	EBITDA		NPAT	
			+	-	+	-
Number of orders	2	+/- 5%	2.1	(2.1)	1.5	(1.5)
Average order value (gross)	3	+/- 5%	2.7	(2.7)	1.9	(1.9)
Return rate	4	+/- 1 ppt	(0.6)	0.6	(0.5)	0.5
Gross margin		+/- 1 ppt	1.6	(1.6)	1.1	(1.1)
Exchange rate	5		-	-	-	-
USD:\$		+/- 5%	0.1	(0.1)	0.0	(0.0)
GBP:\$		+/- 5%	0.0	(0.0)	(0.1)	0.1
EUR:\$		+/- 5%	(0.2)	0.2	(0.2)	0.2

## Notes:

- The sensitivity analysis takes into account that SurfStitch's results for the first three months of FY2015 are already known.
- The number of orders is the product of total website visits and the conversion rate and directly impacts the volume, hence it affects both cost of goods sold as well as variable items of the cost base.
- The average order value is an indicator for the price point at which SurfStitch operates. It directly impacts SurfStitch's gross profit and to a lesser degree its cost base. The sensitivity assumes no change in the number of website visitors or the conversion rate.
- The return rate indicates the percentage of returns in relation to revenue from shipped orders.
- This sensitivity reflects a change in the exchange rate used to translate SDUK (GBP), SSE (EUR) and Swell (USD) earnings to Australian dollars in FY2015. The sensitivity assumes no changes in any other variable and does not take into account any potential exchange rate effects on the actual development of the business.

The sensitivity analysis is intended as a guide only and variations in actual performance could exceed the ranges shown. Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables, in order to illustrate the likely impact on the forecast. In practice, changes in variables may offset each other or be additive. While it is likely that SurfStitch's Management would respond to any adverse change in one variable by seeking to minimise the net effect on SurfStitch, this may not be possible.

## 4.9 DIVIDEND POLICY

The Directors have no intention to declare and pay a dividend. It is the Directors' current intention to reinvest future available cash flows in the further development of SurfStitch's business.



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RISKS



# 5. RISKS

## 5.1 INTRODUCTION

SurfStitch is subject to risks that are both of a general nature and risks which are specific to its business activities. Any or a combination of these risk factors may have a material adverse effect on SurfStitch's business, financial performance and operations. This Section describes what SurfStitch considers to be some of the potential risks associated with SurfStitch's business, an investment in SurfStitch Group and the general risks associated with an investment in Shares.

The risks listed in this Section should not be considered to be an exhaustive list of every possible risk associated with an investment in SurfStitch Group or the industry in which it operates. The types of risks SurfStitch is exposed to can change over time and vary with changes in economic, technological, environmental and regulatory conditions both generally within the B2C retail e-Commerce market and within the Action Sports segment specifically. The occurrence or consequences of some of these risks are partially or completely outside of the control of SurfStitch Group, the Directors and Management.

Before making any decision to invest in SurfStitch Group, you should read the entire Prospectus and satisfy yourself that you have a sufficient understanding of these potential risks and should consider whether an investment in SurfStitch Group is suitable for you based on your personal circumstances. It is recommended that you seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

In particular, potential investors should be aware that there is no certainty that SurfStitch Group will achieve its stated objectives or that any forward-looking statements will occur. Any investment in SurfStitch Group should only be considered in light of these risks, as the occurrence of any or a combination of the risks set out in this Section could have a material adverse impact on SurfStitch's business, financial performance and operations.

## 5.2 RISKS SPECIFIC TO AN INVESTMENT IN SURFSTITCH

### 5.2.1 Integrity and performance of SurfStitch's Websites, databases and systems

The performance of SurfStitch's Websites is critically important to SurfStitch's ability to attract and retain customers and to make sales to customers. SurfStitch's business relies on telecommunications operators, data centres and third parties for key aspects of maintaining its Websites and selling its products to customers. SurfStitch has limited influence over these third parties. SurfStitch's business, financial performance and operations could be materially adversely affected if there is a system failure that causes an interruption to its Websites. If a prolonged system failure was to occur it could damage SurfStitch's business reputation and brand name thereby reducing the attractiveness of its Websites to visitors and negatively impacting its ability to make sales to customers.

The databases used by SurfStitch are valuable assets. They are subject to risks associated with computer viruses, physical or electronic theft and physical damage causing a loss of data, failures of third party service providers or operating systems and similar disruptions. SurfStitch's databases may also be inadvertently damaged from the unintentional introduction of incorrect programming language onto its systems by its employees. If an irrecoverable loss of any of SurfStitch's databases occurs it would be expensive to remedy and would damage SurfStitch's business reputation and brand name and have a material adverse effect on SurfStitch's business, financial performance and operations.

Despite having been designed around industry standard architectures, SurfStitch's systems are vulnerable to damage from a number of events outside of SurfStitch's control including interruption from earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, computer viruses or similar events. In addition, SurfStitch cannot account for all contingencies through its disaster recovery planning. In the past SurfStitch's Websites have experienced system failures and may experience similar failures in the future. SurfStitch may need to take steps to increase the reliability of its systems and invest in further or improved back-up systems if frequent or persistent significant system failures are experienced on its Websites. Such investment could be expensive, could reduce operating margins and may not be successful in reducing the frequency or duration of unscheduled website outages. These events would likely have a material adverse effect on SurfStitch's business, financial performance and operations.

### 5.2.2 Continued growth of retail e-Commerce in general and growth in demand for Action Sports products may be affected by factors outside of SurfStitch's control

Whilst e-Commerce sales in the categories in which SurfStitch's business operates have been growing, there can be no guarantee that this growth will continue in the future. The B2C retail e-Commerce market and Action Sports segment in which SurfStitch's business operates are subject to factors outside SurfStitch's control. This includes factors such as the market outlook for economic growth, the availability and cost of credit, interest rates, taxation, unemployment levels, and consumer confidence and sentiment. If one or more of these factors leads to growth in these segments slowing or a contraction in these segments, SurfStitch may be unable to meet its business objectives which would have a material adverse effect on SurfStitch's business, financial performance and operations.

### 5.2.3 The growth of internet penetration and rate of migration to online platforms

A number of factors including the migration from more traditional retailing to online retailing platforms have underpinned growth in e-Commerce. There can be no assurance that the rate of penetration and migration will continue to increase in the future despite increased internet penetration and a migration of retail sales to online platforms in many geographies in recent years. If the rate of penetration



## 5. RISKS

and migration does not increase in line with SurfStitch's expectations this may have a material adverse effect on its business, financial performance and operations.

### 5.2.4 Competition could adversely affect prices and demand for Action Sports products and decrease its market share

The Action Sports segment is highly competitive. Competition can arise from a number of sources including traditional retailers, including omni-channel mono and multi-branded retailers, and pure play e-Commerce competitors. SurfStitch's market share in online Action Sports may decline if its competitors increase their focus on growing online sales through increasing investment in their online operations. In addition, competitors may also merge or form strategic partnerships, which could increase competition.

SurfStitch's competitors may have certain advantages, which allow them to compete more aggressively. For example, traditional retail competitors may have greater financial resources and stronger supplier relationships and global e-Commerce competitors may benefit from developed processes, systems, and technology. In addition, suppliers may also choose to establish their own online sales sites rather than utilising SurfStitch's business to sell their merchandise online.

SurfStitch's success is based on a number of competitive factors including the quality and range of products, price, product availability, product information, convenience, delivery options and service. SurfStitch may lose existing customers and fail to attract new customers if it does not compete effectively in any one of these areas.

SurfStitch's current or future competitors may be able to adopt certain features of SurfStitch's business model without significant financial expense given many internet businesses have low barriers to entry, which would reduce SurfStitch's ability to differentiate its businesses from its competitors. In addition, new or existing competitors could increase the level of competition that SurfStitch faces.

Competitive pressures from one or more of its competitors or an inability to adapt effectively and quickly to a changing competitive landscape may impact SurfStitch's pricing, margins and demand for SurfStitch's products, which could have a material adverse effect on SurfStitch's business, financial performance and operations.

### 5.2.5 SurfStitch relies on third party suppliers for its products and IT platform

SurfStitch's ability to offer a wide variety of brands across its online platform is a key contributor to the appeal of the business to customers. The supply agreements between SurfStitch and its suppliers are generally informal and are typically terminable at will. In most cases, the relationship between SurfStitch and a supplier is not set out in a written agreement. In respect of those contractual relationships that are subject to a formal contract, a number of these will shortly expire and there is no guarantee that SurfStitch will be able to renew these arrangements on similar terms. The loss or deterioration of SurfStitch's relationships with key

brand owners or suppliers, or an inability to renew contractual arrangements with such parties or negotiate agreements with new parties on terms which are not materially less favourable than existing arrangements, is likely to have a material adverse effect on SurfStitch's business, financial performance and operations.

SurfStitch's suppliers may also fail to deliver sufficient quantities of products in a timely manner, suspend services, encounter financial difficulties, terminate their relationships, amend the terms upon which they do business (which in some cases can be done unilaterally) with SurfStitch and enter into agreements with SurfStitch's competitors, and/or experience raw material or labour shortages as well as increases in raw material or labour costs. SurfStitch's suppliers may also choose to seek to change their credit terms or refuse to contract with SurfStitch to reduce their credit exposure. These events could materially adversely affect SurfStitch's business, financial performance and operations.

SurfStitch's supply of Action Sports products may also be materially adversely affected by a number of other factors, including but not limited to:

- potential economic and political instability in countries where SurfStitch's suppliers are located;
- increases in shipping or other transportation costs;
- manufacturing and transportation delays and interruptions, whether as a result of natural disasters, industrial action in the supply chain or other factors;
- supplier compliance with applicable laws, including labour and environmental laws;
- adverse fluctuations in currency exchange rates; and
- changes in Australian and foreign laws affecting the importation and taxation of goods, including duties, tariffs and quotas, or changes in the enforcement of those laws.

Any disruption to the availability or supply of products to SurfStitch or any deterioration to the terms on which products are supplied to SurfStitch could have a material adverse effect on SurfStitch's business, financial performance and operations.

### 5.2.6 Changes in technology

SurfStitch's business is influenced by changing technology, evolving industry standards and the emergence of new technologies. SurfStitch's ability to compete effectively in the future may be impacted by its ability to maintain or develop appropriate technology platforms for the efficient delivery of its services. The cost of implementing emerging and future technologies could be significant. No assurance can be given that SurfStitch will have the resources to acquire or the ability to develop new competitive technologies. In addition, maintaining or developing appropriate technologies may require significant capital investment by SurfStitch.

SurfStitch's Websites may experience a reduction in visits if SurfStitch is significantly slower than its competitors to adapt to technological change. This could impact SurfStitch's business' ability to attract new and retain existing customers, which could materially adversely affect SurfStitch's business, financial performance and operations.

#### **5.2.7 SurfStitch's future growth may place significant demands on management and its infrastructure**

In recent periods, SurfStitch has experienced significant revenue growth and SurfStitch intends to continue with the rapid growth of its operations, which may include entering into new markets. SurfStitch expects that this growth will result in an increased level of responsibility for both existing and new management personnel and require the recruitment, training, integration and management of the staff to support this expected growth. If SurfStitch is unable to manage its expected growth successfully, it may not be able to take advantage of market opportunities, satisfy customer requirements, execute its business plan or respond to competitive pressures. If SurfStitch is unable to manage the demands placed onto management, its business, financial performance and operations may be materially adversely impacted.

In addition, as SurfStitch's operations grow further, it will need to continue to improve and upgrade its systems and infrastructure. For example, SurfStitch's business and IT systems may be unable to accommodate a substantial increase in the number of customers or orders once distribution centres begin to operate at or near capacity. If SurfStitch is unable to accommodate a substantial increase in customer orders, or to maintain customer service levels while accommodating such an increase, there may be a material adverse effect on SurfStitch's business, financial performance and operations.

#### **5.2.8 SurfStitch's expansion into new markets may not be successful**

SurfStitch may explore expansion opportunities in new markets. Any expansion into markets outside SurfStitch's key markets would expose SurfStitch to a number of risks including different regulatory requirements, difficulties managing staffing and foreign operations, differences in consumer behaviour, exchange rates fluctuations, potential political and economic instability, potential difficulties in enforcing contracts and intellectual property rights, the potential for higher rates of fraud and adverse tax consequences.

SurfStitch has limited experience with the legal and regulatory regimes of jurisdictions other than Australia, Europe, USA and New Zealand, and their consequences for SurfStitch's business. Furthermore, there is also a risk outside these key geographies that the online Action Sports segment may not develop as quickly as anticipated, or at all. The development of such markets is subject to political, social, regulatory and economic forces beyond SurfStitch's control. SurfStitch will estimate the attractiveness of these markets based on a variety of assumptions which may prove to be inaccurate. SurfStitch's attempts to expand into new geographic markets

may be unsuccessful if it overestimates the potential of a new geographic market, incorrectly judges the timing of the development of a new geographic market or fails to anticipate the differences between a new geographic market and its key markets.

If SurfStitch's expansion into new markets is not successful, it could have a material adverse effect on SurfStitch's business, financial performance and operations.

#### **5.2.9 SurfStitch's Websites may be excluded from or ranked lower in organic search results due to changes to search engines' algorithms or terms of services**

A significant proportion of SurfStitch's customers access SurfStitch's Websites by clicking on a link in search engines' "organic" listings, which are listings not dependent on advertising or other payments. Transactions effected by these customers generally generate higher gross margins for SurfStitch as there are minimal associated direct marketing costs, although SurfStitch does incur indirect costs in the form of staff costs related to SEO.

Search engines typically do not accept payments to rank websites in their organic listings and instead rely on algorithms to determine which websites are included in the search results. SurfStitch endeavours to enhance the relevancy of SurfStitch's Websites to common consumer search queries and thereby improve the rankings of SurfStitch's Websites in organic listings, a process known as SEO. Search engines often modify their algorithms and ranking criteria to prevent their organic listings from being manipulated, which could hinder SurfStitch's SEO activities. These algorithms and ranking criteria may be confidential or proprietary information, and SurfStitch may not understand or have access to complete information on the methods used to rank its Websites. If SurfStitch is unable to recognise and adapt quickly to such changes in search engine algorithms, or if the effectiveness of SurfStitch's SEO activities is affected for any other reason, SurfStitch could suffer a significant decrease in traffic to its Websites and conversion rates.

Search engines may also prohibit the use of any software, process or service which sends automated queries to determine the ranking of a website or webpage, which is an important tool in developing successful SEO techniques. In addition, the use of particular methods deemed by the search engine to be manipulative or deceptive as part of their terms of service may also be prohibited. A website can be excluded from a search engine's organic listing if it is found to violate the search engine's terms of services. SurfStitch's Websites could be excluded from the search engine's organic listings if a search engine were to modify its terms of service or interpret existing or modified terms of service in a manner such that SurfStitch's SEO practices were deemed to violate these terms. Such exclusion could significantly affect SurfStitch's ability to direct higher margin customer traffic to SurfStitch's Websites, which could materially adversely affect SurfStitch's business, financial performance and operations.

## 5. RISKS

### 5.2.10 SurfStitch may experience a significant increase in the cost of, or become more reliant on, SEM

A significant proportion of SurfStitch's revenues were attributable to customers who accessed SurfStitch's Websites by clicking on links that SurfStitch paid to list on search engines' results pages. SurfStitch frequently places a very large number of bids on key words at a certain cost per click, which is paid to the search engine, in order to place these listings with a search engine. Under the bidding system, the order in which websites appear in a search engine's paid search results is determined by a combination of the price bid by the website and the historical and expected rate at which consumers click through to the website. Bids on generic search terms (such as "board shorts") are typically higher cost, whereas bids on branded search terms (such as "SurfStitch.com") are typically lower cost. The click-through rate is, in turn, influenced by the strength of the website's brand and the popularity of the website.

The cost of search engine marketing generally increases as the importance of online advertising increases and competition to be ranked higher in paid listings increases. Furthermore, SurfStitch might have to submit higher bids in order to purchase certain key words to offset a reduction in its click-through rate. This may occur if SurfStitch were to suffer negative publicity or if its market share were to decline, or if any other factor impacted its brand or reputation. In addition, if SurfStitch's Websites were to experience a reduction in natural search visibility in search engines (i.e. a fall in its websites' organic search ranking), it may increase SurfStitch's reliance on SEM. If this was to occur there is no guarantee that SurfStitch's Websites' natural search visibility will improve in a timely manner or at all.

SurfStitch's business, financial performance and operations may be materially adversely affected by any increase in the cost of, or in its reliance on, SEM, or any decrease in the effectiveness of its SEM.

### 5.2.11 SurfStitch's acquisition strategy may be unsuccessful

SurfStitch may make acquisitions in circumstances where the Directors believe that those acquisitions are complementary to SurfStitch's strategy and enhance its growth prospects. SurfStitch may encounter a number of issues associated with making acquisitions including the difficulties involved in integrating companies, businesses or assets, as well as the diversion of financial and management resources from SurfStitch's core business. Furthermore, there can be no assurances that SurfStitch's future acquisitions will successfully achieve their objectives. In addition, the acquired businesses may not perform in line with expectations and it may not be possible to achieve the desired synergies on the integration of new businesses. A range of factors including financing arrangements, cultural fit and operational integration will affect the successful implementation of acquisitions.

SurfStitch is currently integrating the systems and personnel of Swell, which may influence the success of the acquisition of Swell and the benefits flowing from the purchase of the business. To the extent that the Swell acquisition and future

acquisitions are not successfully integrated with SurfStitch's existing business, SurfStitch's business, financial performance and operations could be materially adversely affected.

Whilst SurfStitch has executed definitive transaction documentation in respect of the acquisition of SurfDome, the agreements are subject to conditions precedent which may not be satisfied and may result in the transaction not proceeding. If the SurfDome acquisition does not complete, SurfStitch will not derive the benefits expected to arise from that acquisition. Even if the acquisition does complete, the SurfDome business may not perform in the manner expected and it may not prove possible to achieve the desired synergies on the integration of the SurfDome business with SurfStitch Europe.

### 5.2.12 Changes in customer preferences

SurfStitch's revenues are almost entirely generated from Action Sports products which are subject to sometimes unpredictable changes in customer preferences. In addition, consumer spending on Action Sports products is discretionary in nature and consumers may choose to allocate their discretionary spending to other product categories or services. As a consequence, failure by SurfStitch to predict or respond to any such changes could have a material adverse impact on SurfStitch's business, financial performance and operations.

SurfStitch is further exposed to the risk that customer preferences may change between the time products are ordered from suppliers and the time they are available for purchase. As a large number of products sold by SurfStitch are manufactured internationally it means that any significant delay between ordering and delivery could expose SurfStitch to the risk that customer preferences change whilst products are delivered to SurfStitch.

If SurfStitch misjudges customer preferences or fails to convert trends into appealing product offerings on a timely basis this may result in lower revenue and margins. In addition, changes in customer preferences may increase the risk of inventory obsolescence. If customer preferences change there could be a material adverse effect on SurfStitch's business, financial performance and operations.

### 5.2.13 Seasonal trading patterns may change

SurfStitch's revenue has historically been subject to seasonal patterns, with a disproportionate amount of annual revenue being generated over the Christmas trading period. SurfStitch's working capital and inventory planning strategies reflect these seasonal patterns.

Any significant decrease in customer demand during peak seasons, particularly during the Christmas period, could result in SurfStitch being left with a significant amount of unsold inventory, which can only be sold at a significant discount. This would have a material adverse effect on SurfStitch's business, financial performance and operations.

SurfStitch's operations may also be affected by prolonged periods of abnormal, severe or unseasonal weather conditions which could result in SurfStitch's product range



being unattractive to customers and adverse changes in customer traffic expectations. This would result in a reduction in revenue which could have a material adverse effect on SurfStitch's business, financial performance and operations.

#### **5.2.14 SurfStitch's business relies on the efficient operation of its distribution centres**

SurfStitch operates from regional distribution centres located in Australia, France and the USA, which hold almost all of SurfStitch's inventory. SurfStitch is therefore dependent on the continued efficient operation of its distribution centres and the ability of these distribution centres to continue to satisfy customer orders, including any increase in the number of customer orders. Disruptions to the distribution centres' efficient operation may have a material adverse effect on SurfStitch's business, financial performance and operations.

SurfStitch's distribution centres may be affected by a prolonged power or equipment failure, failure in its IT systems or networks or damage from fires, floods, other disasters or other unforeseen events, which may not be covered by or may exceed SurfStitch's insurance coverage. Damage resulting from any of these events may cause significant disruption to SurfStitch's operations and take considerable time and expense to repair. The direct effect of any such event and a prolonged period before rectification could have a material adverse effect on SurfStitch's business, financial performance and operations. Furthermore, the complete destruction of one of its distribution centres through a single catastrophic event, such as a fire, would have a material adverse impact on SurfStitch's business, financial performance and operations for a significant period of time.

In addition, SurfStitch leases its distribution centres and could inadvertently breach the terms of the leases through the day-to-day operation of its business. Any breach of the terms of the leases on which the distribution centres are held could result, if not waived or deemed waived by the landlord, in the early termination of the lease.

#### **5.2.15 Employee recruitment and retention**

SurfStitch's success will be dependent on its ability to attract and retain experienced and high-performing executives and other employees. Competition for qualified employees in the industry could increase and the loss of a substantial number of qualified employees, or an inability to attract, retain and motivate additional highly-skilled employees required to implement its business strategies including the anticipated expansion of SurfStitch's activities, could materially adversely affect its business, financial performance and operations.

#### **5.2.16 SurfStitch is dependent on its Executive Directors**

SurfStitch is dependent on the continued service and performance of its Executive Directors. SurfStitch's Executive Directors play a key role in setting the strategic direction of SurfStitch. SurfStitch may be unable to attract or retain suitable replacements if an unexpected departure or loss of either of its Executive Directors occurred. To recruit and retain suitable replacements, SurfStitch may also incur significant additional costs. This could have a material adverse effect on the business, its financial performance and its operations.

#### **5.2.17 SurfStitch's brands and its product offerings may not receive positive recognition and acceptance in the market**

The success of SurfStitch's business depends on developing and maintaining the reputation of the value associated with its brands (in particular SurfStitch.com, Swell.com and following completion of the SurfDome acquisition, SurfDome.com and SurfDome.fr). SurfStitch's brand identity is a critical factor in retaining existing, and attracting new, customers. SurfStitch has invested and will continue to invest a significant amount of time and resources on marketing and customer relations. However, its marketing efforts and other promotional activities may not achieve the desired results.

SurfStitch's success is expected to depend on the promotion and enhancement of its brands through providing a positive customer experience for purchasing Action Sports products online. A number of factors could damage its brands including failure to provide customers with a variety of high quality products across a range of suppliers and price points, failure to provide excellent customer service, disputes or litigation with third parties such as employees, suppliers and customers, the inadvertent sale of counterfeit goods, failure to adequately protect SurfStitch's intellectual property, improper conduct and efficient and reliable delivery.

In addition, unfavourable publicity regarding SurfStitch or the Action Sports industry could also damage SurfStitch's brands.

The success of SurfStitch's business depends on maintaining and increasing the number of customer visits and orders made on SurfStitch's Websites. A number of factors are important in maintaining and increasing the number of orders made on SurfStitch's Websites, including SurfStitch's ability to:

- maintain a convenient and reliable user experience as consumer preferences change;
- provide excellent customer service;
- offer a broad assortment of products at competitive prices;
- develop and manage new and existing technologies and sales channels, including smartphones and tablets;
- increase awareness of its brands and Websites through marketing and promotional activities;
- increase repeat purchase activity;
- assure its customers of the security of its Websites for online purchases; and
- assure the efficiency, reliability and service quality of its delivery and logistics operations.

If SurfStitch is unable to adequately manage these factors it could negatively affect its brands and reputation, its ability to attract and retain customers and the level of its sales. This in turn could materially adversely affect SurfStitch's business, financial performance and operations.

## 5. RISKS

### 5.2.18 SurfStitch may face unexpected increases in operating and other expenses that may reduce its profitability

SurfStitch's operating and other expenses could increase without a corresponding increase in revenue. A number of factors which could increase operating and other expenses include unforeseen increases in:

- distribution expenses (i.e. the cost of third party delivery services);
- advertising and promotion costs;
- costs associated with SurfStitch being listed;
- distribution centre lease costs;
- costs of products from SurfStitch's suppliers due to input cost inflation and exchange rate pressures translating through to higher manufacturer prices which cannot be fully passed through to customers or a deterioration in SurfStitch's relationships with its suppliers or credit limit reductions with suppliers;
- property taxes and other statutory charges;
- insurance premiums;
- tax charges; and
- the rate of general inflation.

SurfStitch's profitability will be reduced if there are increases in operating and other expenses that exceed or are not in line with increases in SurfStitch's revenue. This would have a material adverse effect on SurfStitch's business, financial performance and operations.

### 5.2.19 Internet security

SurfStitch's business may be materially adversely affected by malicious third party applications that interfere with, or exploit, security flaws in websites. The security of information stored in a user's computer or in SurfStitch's computer systems could be put at risk by viruses, worms and other malicious software programs, among other things. In addition, malicious third parties may interfere with SurfStitch's ability to connect with its users through attempting to change the internet experience of users.

SurfStitch's reputation and brand name may be harmed and user traffic could decline on its Websites if its efforts to combat these malicious applications are unsuccessful (including firewalls, encryption of client data, a privacy policy, and policies to restrict access to data to authorised employees), or if websites have actual or perceived vulnerabilities, which may result in a material adverse effect on SurfStitch's business, financial performance and operations.

There is a risk that, if a cyber-attack is successful, any data security breaches or SurfStitch's failure to protect confidential information of its own or of its customers could result in a loss of information integrity, breaches of SurfStitch's obligations under applicable laws or client agreements and website and system outages, each of which could damage its business' reputation and brand names, and may potentially have a material adverse impact on SurfStitch's business, financial performance and operations.

### 5.2.20 SurfStitch's business is dependent on the maintenance and performance of internet infrastructure

SurfStitch's business is dependent on the ongoing maintenance of the global, regional and local internet infrastructure to provide the necessary data speed, capacity and security to allow it to offer viable services. The internet has experienced significant growth in the number of users and amount of traffic. There can be no assurance that the internet infrastructure will continue to be able to support the demands placed on it if the internet continues to experience growth in the number of users. The performance of the internet may be harmed by viruses, worms and similar programs, as well as problems with providers of telecommunications infrastructure supporting the network and power cuts. Any ongoing or serious disruptions to the performance of the internet in the markets in which SurfStitch operates could damage its reputation and brand name and materially adversely affect its business, financial performance and operations.

### 5.2.21 Reliance on third party payment and logistics providers

SurfStitch relies on third party banking, payment and logistics providers. SurfStitch has limited influence over these third parties. Any system or service failure that causes an interruption to SurfStitch's ability to effect payment transactions, receive payments or deliver purchased goods to its customers, could materially adversely affect its business, financial performance and operations. Prolonged system or service failures could reduce the attractiveness of SurfStitch's Websites to visitors and limit its ability to make sales. This would damage its reputation and brand name and would materially adversely affect SurfStitch's business, financial performance and operations.

### 5.2.22 Inventory management

In order to operate its business successfully, SurfStitch must maintain sufficient inventory and also avoid the accumulation of excess inventory. SurfStitch relies on its inventory management systems to manage stock levels and to assist with forecasting stock purchases. If SurfStitch's inventory management system fails and/or provides inaccurate information, there is a risk that SurfStitch may experience "stock-outs", which involves the sale of products without having sufficient inventory to fulfil the order. "Stock-outs" may also occur if SurfStitch does not accurately anticipate the future demand for a product or the time that it will take to obtain a new product. This may result in lost sales, damage SurfStitch's reputation and brand name, and may have a material adverse effect on SurfStitch's business, financial performance and operations.

### 5.2.23 Relocation or consolidation of distribution centres

SurfStitch currently operates distribution centres in Australia, France and the United States. SurfStitch may from time to time decide to relocate or consolidate its distribution centres. The relocation or consolidation of its distribution centres could cause disruption to SurfStitch's supply chain, and could lead to "stock-outs", delivery delays and/or cancellation of customer orders. This would damage SurfStitch's

business reputation and brand name and would materially adversely affect SurfStitch's business, financial performance and operations.

#### **5.2.24 Domain name**

SurfStitch is currently the registrant of the "SurfStitch" name and the "Swell" name in numerous jurisdictions and is the registrant of the internet domain name for the websites, SurfStitch.com and Swell.com, as well as various related domain names. Domain names generally are regulated by internet regulatory bodies and are also controlled by trademark and other related laws of each country. If SurfStitch does not have or cannot obtain on reasonable terms the ability to use the "SurfStitch" name or the "Swell" name in a particular country, or to use or register its domain name, SurfStitch could be forced either to incur significant additional expenses to market its products within that country, including the development of a new brand and the creation of new promotional materials and packaging, or to elect not to sell products in that country. This would have a material adverse effect on SurfStitch's business, financial performance and operations.

#### **5.2.25 Unauthorised use of intellectual property or independent development of technology**

SurfStitch regards substantial elements of its Websites, software tools, applications, customer databases and underlying technology as proprietary. Third parties may copy or otherwise obtain and use SurfStitch's proprietary information without authorisation or may develop similar technology independently despite precautionary measures that SurfStitch takes. Furthermore, competitors may be able to design around SurfStitch's technology or develop competing technologies substantially similar to those of SurfStitch without any infringement of its proprietary rights. SurfStitch may seek to protect its proprietary information through legal action which could be unsuccessful and expensive and would divert management's attention from its business operations. This could have a material adverse effect on SurfStitch's business, financial performance and operations.

#### **5.2.26 Risk of litigation, claims, disputes and regulatory investigations**

SurfStitch may be subject to litigation and other claims and disputes in the course of its business, including employment disputes, contractual disputes, intellectual property disputes (including in relation to the sale of misbranded products and possible patent infringements), indemnity claims and occupational and personal claims. SurfStitch may also be subject to regulatory investigations by governmental agencies in the jurisdictions in which it operates and may be subject to fines or sanctions by those governmental agencies in the event of non-compliance with relevant statutory or regulatory requirements. Such litigation, claims and disputes, including the costs of settling claims and operational impacts, could materially adversely affect SurfStitch's business, financial performance and operations.

#### **5.2.27 Inadvertent sale of counterfeit or misbranded goods**

There can be no guarantee that suppliers will not attempt to pass off counterfeit goods as genuine or legitimate. There is a risk that products supplied to SurfStitch for sale through its Websites infringe the intellectual property rights of third parties. The inadvertent sale of counterfeit or misbranded goods through its Websites may have a material adverse effect on SurfStitch's business, financial performance and operations, and could damage its business reputation and brand name.

#### **5.2.28 Changes to taxation regime applying to SurfStitch's products**

The products sold by SurfStitch are subject to goods and services taxes (or value added taxes) in Australia, Europe and the USA. Changes to goods and services taxes or other value added taxes may influence discretionary retail spending and lead to a change in SurfStitch's product sales as the relative price of goods in SurfStitch's key markets change relative to online retailers based in other geographies. An increase in Australian goods and services tax will, all else equal, increase the cost of purchasing products from Australian retailers from within Australia. This will increase the attractiveness of offshore alternatives, which could result in a reduction in revenue and may have a material adverse effect on SurfStitch's business, financial performance and operations.

#### **5.2.29 Foreign currency risk**

SurfStitch Group has revenues, costs, expenses and investments denominated in multiple currencies. SurfStitch reports its financial results in Australian dollars. Accordingly, SurfStitch's reported financial performance will be influenced by fluctuations in exchange rates between the Australian dollar and other currencies in which it may earn income or accrue expenses. In addition, fluctuations in exchange rates may also make purchasing products from competitors in markets in which SurfStitch does not operate relatively more attractive.

#### **5.2.30 Reliance on Billabong corporate functions**

SurfStitch Australia, SurfStitch Europe and Swell continue to rely on Billabong to provide certain IT related services as part of the transitional services agreement between SurfStitch and Billabong. SurfStitch Australia, SurfStitch Europe and Swell will require these services going forward, which are still to be established by SurfStitch.

## 5. RISKS

### 5.3 GENERAL RISKS

#### 5.3.1 Share price

Once listed on ASX, Shares in SurfStitch Group will be subject to general market risk that is inherent in all securities listed on a stock exchange, and may trade at a price higher or lower than the Offer Price. This may result in fluctuations in its Share price that are not explained by the fundamental operations and activities of SurfStitch.

The price at which the Shares trade following the listing will be affected by the financial performance of SurfStitch and by external factors unrelated to the operating performance of SurfStitch, including movements on international share markets, the level of interest rates and exchange rates, general domestic and international economic conditions, inflation rates, consumer sentiment, commodity prices, changes to government fiscal, monetary taxation or regulatory policies, changes in legislation, inclusion in or removal from market indices, and other matters. There is no assurance that the price of the Shares will increase following the commencement of quotation on ASX, even if SurfStitch's earnings increase.

#### 5.3.2 SurfStitch's performance will be influenced by general economic conditions and the economic outlook

The general economic conditions and outlook of the economies in the markets in which SurfStitch operates will affect the performance of SurfStitch. These economies may be influenced by changes in the levels of business spending, inflation, interest rates, exchange rates, access to debt and capital markets, and government fiscal, monetary and regulatory policies. SurfStitch's business, financial performance and operations could be materially adversely affected if a prolonged and significant downturn in these economies was to occur.

#### 5.3.3 Government regulations

SurfStitch is subject to local laws and regulations in each of the jurisdictions in which it operates. SurfStitch's business, financial performance and operations may be materially adversely affected by changes in laws or regulations that may be introduced concerning various aspects of the internet, including online content, e-Commerce, foreign ownership of internet, media or retail companies, liability for third party activities and user privacy.

In addition, SurfStitch is subject to the changes in or extensions of laws and regulations affecting either the retail industry or internet business operations in the countries in which SurfStitch operates. In addition, the rules of industry organisations could restrict or complicate SurfStitch's activities and significantly increase its compliance costs.

SurfStitch's business, financial performance and operations may be materially adversely affected by any change in the laws or government regulations described above.

#### 5.3.4 Shareholder dilution

In the future, SurfStitch Group may elect to issue Shares or other securities in connection with fundraisings or acquisitions. While SurfStitch Group will be subject to the constraints of the ASX Listing Rules regarding the issue of Shares or other securities, Shareholdings may be diluted as a result of such issues of Shares or other securities.

#### 5.3.5 Accounting standards

Australian Accounting Standards are issued by the Australian Accounting Standards Board and are not within the control of SurfStitch or its Directors. Any changes to the accounting standards or to the interpretation of those standards may have a material adverse effect on the reported financial performance or financial position of SurfStitch.

#### 5.3.6 Trading in Shares may not be liquid

There is currently no public market through which Shares may be sold. On Completion of the Offer, there can be no guarantee that an active market in the Shares will develop. There may be relatively few potential buyers or sellers of the Shares on ASX at any given time. This may increase the volatility of the market price of the Shares and may prevent investors from acquiring more Shares or disposing of Shares they acquire under the Offer. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is more or less than the price that Shareholders paid for their Shares under the Offer.

It is expected that Escrowed Shareholders will hold 60.1% of the Shares following listing, which will also impact on liquidity. All of the Shares held at Completion of the Offer and completion of the SurfDome acquisition by the Escrowed Shareholders, excluding any Shares acquired by them under the Offer, will be subject to voluntary escrow arrangements which prevent them from disposing of their Escrowed Shares for the following periods:

- In relation to the Management Shareholders and the SurfDome Shareholders, 50% of the Escrowed Shares will be released on the date on which the audited financial accounts for SurfStitch Group for the financial year ending 30 June 2015 have been released to ASX and the remaining 50% of the Escrowed Shares will be released on the date that is six months after the date on which SurfStitch Group's audited financial accounts for the financial year ending 30 June 2015 have been released to ASX; and
- In relation to the Pre-IPO Investors and Stephen Goddard, 50% of the Escrowed Shares will be released on the date on which the reviewed financial accounts of SurfStitch Group for the half-year ending on 31 December 2014 have been released to ASX and the remaining 50% of the Escrowed Shares will be released on the date on which the audited financial accounts of SurfStitch Group for the financial year ending on 30 June 2015 have been released to ASX.



The escrow arrangements are subject to certain exceptions set out in more detail in Section 7.10. The absence of any sale of Shares by Escrowed Shareholders during this period may cause, or at least contribute to, limited liquidity in the market for the Shares. This could affect the prevailing market price at which Shareholders are able to sell their Shares. It is important to recognise that Shareholders may receive a market price for their Shares that is less than the price that they paid.

Following release from escrow, Shares held by Escrowed Shareholders will then be able to be freely traded on ASX. The price of Shares could be adversely affected if a significant sale of Shares by Escrowed Shareholders occurs, or the perception that such sales have occurred or might occur.

#### **5.3.7 Force majeure risk**

Events may occur within or outside the markets in which SurfStitch operates that could impact upon the global and Australian economies, the operations of SurfStitch and the price of the Shares. These events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, pandemics, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease, and other man-made or natural events or occurrences that can have an adverse effect on the demand for SurfStitch's goods and its ability to conduct business. Given SurfStitch has only a limited ability to insure against some of these risks, its business, financial performance and operations may be materially adversely affected if any or a combination of the events described above occurs.

#### **5.3.8 Ability to refinance debt or access debt and equity markets on attractive terms**

In the future, SurfStitch could be required to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and a failure to raise capital when needed could harm SurfStitch's business. If SurfStitch cannot raise funds on acceptable terms, it may not be able to grow its business or respond to competitive pressures.

SurfStitch may rely on debt funding to help fund its business operations in the future. If debt financing is used in the future, SurfStitch will face refinancing risk if it is unable to refinance its debt when it falls due. If this occurs, the terms available to SurfStitch (including in relation to pricing) on refinancing with a new debt facility may not be on as favourable terms as those under its existing debt facilities and, if there is a deterioration in the level of debt market liquidity, this may prevent SurfStitch from being able to refinance some or all of its debt.

#### **5.3.9 Exposure to changes in tax rules or their interpretation or to other tax liabilities**

Changes in tax law (including goods and services taxes and stamp duties), or changes in the way taxation laws are interpreted may impact the tax liabilities of SurfStitch Group or the tax treatment of a Shareholder's investment. In particular, both the level and basis of taxation may change. In addition, an investment in the Shares involves tax considerations which may differ for each Shareholder. Each prospective Shareholder is encouraged to seek professional tax advice in connection with any investment in SurfStitch Group.

#### **5.3.10 Interest rate fluctuations**

Changes in interest rates will affect borrowings which bear interest at floating rates. Any increase in interest rates will affect SurfStitch's costs of servicing these borrowings which may materially adversely affect its financial position.

#### **5.3.11 Non-payment of dividends in the future**

There is no guarantee that SurfStitch Group will generate sufficient cash flow from its operations in the future to pay dividends. SurfStitch's dividend policy is described in Section 4.9.



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# 6

KEY PEOPLE,  
INTERESTS AND  
BENEFITS



## 6. KEY PEOPLE, INTERESTS AND BENEFITS


### 6.1 SURFSTITCH BOARD OF DIRECTORS

Name	Experience and background
	<p><b>HOWARD MCDONALD</b> <i>Independent non-executive Chairman</i></p> <ul style="list-style-type: none"> <li>Howard was appointed to the Board in October 2014 as non-executive Chairman.</li> <li>Howard has significant retail and fashion experience with over 35 years in consumer goods industries.</li> <li>Prior to joining SurfStitch, Howard was the Chairman of Myer from August 2009 to October 2012 and a Director of Myer from November 2006. Prior to this, Howard was the Managing Director of Just Group for nine years.</li> <li>Howard is currently the Chairman of Rodd &amp; Gunn Australia and Rodd &amp; Gunn New Zealand.</li> <li>Howard is a fellow of the Australian Institute of Company Directors.</li> <li>Howard holds a Bachelor of Economics from Monash University.</li> </ul>
	<p><b>JUSTIN CAMERON</b> <i>Chief Executive Officer and Managing Director</i></p> <ul style="list-style-type: none"> <li>Justin was appointed CEO and Managing Director of SurfStitch on its formation and held senior management roles in the SurfStitch business since co-founding the business in 2007.</li> <li>Justin was appointed to the Board in October 2014.</li> <li>Justin is responsible for SurfStitch's strategic development and financial initiatives.</li> <li>Justin has over 15 years of experience in the finance industry having worked previously as Head of Equities Research at Commonwealth Bank, and previous positions as Director of Telecommunications Research at Credit Suisse, ABN Amro and Merrill Lynch.</li> <li>Justin holds a Bachelor of Commerce from the University of Sydney.</li> </ul>
	<p><b>LEX PEDERSEN</b> <i>Managing Director and President of Swell</i></p> <ul style="list-style-type: none"> <li>Lex was appointed Managing Director and President of Swell upon its acquisition in September 2014 and held senior management roles in the SurfStitch business since co-founding the business in 2007.</li> <li>Lex was appointed to the Board in October 2014.</li> <li>Lex has executive responsibility for the management of Swell.</li> <li>Lex has over 15 years of experience in surfwear retailing, having previously worked as the operations manager for Surffection, a surf retail chain in New South Wales.</li> <li>Lex holds a Bachelor of Arts from Macquarie University.</li> </ul>
	<p><b>STEPHEN GODDARD</b> <i>Independent non-executive Director</i></p> <ul style="list-style-type: none"> <li>Stephen was appointed to the Board in November 2014 as a non-executive Director.</li> <li>Stephen has more than 25 years of retail experience, having previously worked for David Jones, Myer and Officeworks across a broad range of areas including finance, strategic planning, merchandise, stores, logistics, supply chain and property.</li> <li>Stephen was appointed Operations Director at David Jones in 1997, Chief Financial Officer in July 2001 and Finance Director in February 2003.</li> <li>Stephen is currently a non-executive director at Pacific Brands Ltd.</li> <li>Stephen holds a Master of Science from the University of Melbourne.</li> </ul>





## 6. KEY PEOPLE, INTERESTS AND BENEFITS

### 6.1.1 Proposed Director appointment

Name	Background
	<p><b>JUSTIN STONE</b> <i>Managing Director, Europe</i></p> <ul style="list-style-type: none"> <li>Justin is expected to be appointed to the Board as soon as practicable following completion of the SurfDome acquisition.</li> <li>Justin will also join SurfStitch's management team as the Managing Director, Europe, with executive responsibility for the management of SurfStitch's European businesses.</li> <li>Justin is currently the Managing Director and Chief Executive Officer of SurfDome.</li> <li>Justin has over eight years of experience in online Action Sports retailing having founded SurfDome in 2006.</li> <li>Justin holds a Bachelor of Science in Economics from University College London.</li> </ul>

### 6.2 KEY MANAGEMENT

Name	Background
	<p><b>JUSTIN CAMERON</b> <i>Chief Executive Officer and Managing Director</i> See 6.1 for details.</p>
	<p><b>LEX PEDERSEN</b> <i>Managing Director and President of Swell</i> See 6.1 for details.</p>
	<p><b>JUSTIN STONE</b> <i>Managing Director, Europe</i> See 6.1.1 for details.</p>
	<p><b>KAREN BIRNER</b> <i>Chief Financial Officer and Company Secretary</i></p> <ul style="list-style-type: none"> <li>Karen has been the Chief Financial Officer and Company Secretary of SurfStitch since October 2014.</li> <li>Karen has over 17 years of experience in financial accounting having previously worked as the CFO of BYOJet.com, Director of Finance and various other financial accounting roles at Wyndham Hotel Group.</li> <li>Karen is responsible for the management of the finance and corporate governance functions across SurfStitch.</li> <li>Karen holds a Bachelor of Commerce from Bond University and is a Chartered Accountant.</li> </ul>
	<p><b>MARK STOREY</b> <i>Chief Operations Officer</i></p> <ul style="list-style-type: none"> <li>Mark is the Chief Operations Officer at SurfStitch and has been in this role since January 2012.</li> <li>Mark is responsible for the global operations of SurfStitch and was instrumental in the establishment and operation of SurfStitch Europe. Mark has been seconded to SurfStitch Europe since the business' launch.</li> <li>Mark has over 18 years of experience in the finance and management consulting industries having previously worked as Head of Equities Research at the Commonwealth Bank of Australia and in equity research at ABN AMRO and Credit Suisse.</li> <li>Mark holds a Master of Business Administration from the Melbourne Business School and a Bachelor of Economics (Hons.) from Monash University.</li> </ul>

## 6.3 INTERESTS AND BENEFITS

This Section sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Directors of SurfStitch Group and proposed director of SurfStitch Group;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of SurfStitch Group; or
- Underwriter to the Offer,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of SurfStitch Group;
- property acquired or proposed to be acquired by SurfStitch Group in connection with its formation or promotion, or in connection with the Offer; or
- the Offer, and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such persons for services in connection with the formation or promotion of SurfStitch Group or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director of SurfStitch Group.

### 6.3.1 Interests of advisers

SurfStitch has engaged the following professional advisers.

- J.P. Morgan has acted as Lead Manager and Underwriter to the Offer. SurfStitch Group has paid, or agreed to pay, J.P. Morgan the fees described in Section 9.4 for these services.
- Bell Potter has acted as Co-Lead Manager to the Offer. SurfStitch Group has paid, or agreed to pay, Bell Potter the fees described in Section 9.4 for these services.
- Herbert Smith Freehills has acted as Australian legal adviser (other than in respect of taxation and financing matters) to SurfStitch Group in connection with the Offer. SurfStitch Group has paid, or agreed to pay, approximately \$1,100,000 (plus disbursements and GST) for these services to the date of this Prospectus. Further amounts may be paid to Herbert Smith Freehills in accordance with its normal time-based charges.
- KPMG Transaction Services has prepared the Investigating Accountant's Report on the Pro Forma Historical Financial Information and Forecast Financial Information. KPMG Transaction Services has also performed due diligence enquiries in relation to the Pro Forma Historical Financial Information and the Forecast Financial Information. SurfStitch Group has paid, or agreed to pay, approximately \$500,000 (plus GST) for these services to the date of this Prospectus. Further amounts may be paid to KPMG Transaction Services in accordance with its normal time-based charge-out rates.

- KPMG has also acted as Australian tax adviser to SurfStitch Group in connection with the Offer. SurfStitch Group has paid, or agreed to pay, approximately \$100,000 (plus GST) for these services to the date of this Prospectus. Further amounts may be paid to KPMG in accordance with its normal time-based charges.
- Pitcher Partners has acted as Australian tax adviser to SurfStitch Group in connection with the operation of the Group's employee incentive arrangements and has also provided support in relation to administrative matters to SurfStitch Group. SurfStitch Group has paid, or agreed to pay, approximately \$45,000 (plus GST) for these services to the date of this Prospectus. Further amounts may be paid to Pitcher Partners in accordance with its normal time-based charges.

### 6.3.2 Directors' interests and remuneration

Justin Cameron is employed by the Group in the position of Chief Executive Officer and Managing Director. Refer to Section 6.3.4 for further details.

Lex Pedersen is employed by the Group in the position of Managing Director and President of Swell. Refer to Section 6.3.4 for further details.

Justin Stone will be employed by the Group in the position of Managing Director, Europe. Refer to Section 6.3.4 for further details.

#### 6.3.2.1 Non-executive Director remuneration

Under the Constitution, the Board may decide the remuneration from SurfStitch Group to which each Director is entitled for his or her services as a Director. However the total amount provided to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by SurfStitch Group in general meeting. This amount has been fixed at \$500,000. The annual Directors' fees currently agreed to be paid by SurfStitch Group are \$100,000 to the Chairman and \$75,000 to Stephen Goddard. The remuneration of a Director (who is not a Managing Director or an Executive Director) must not include a commission on, or a percentage of, profits or operating revenue.

#### 6.3.2.2 Deeds of indemnity, insurance and access for Directors

SurfStitch Group has entered into a deed of indemnity, insurance and access with each Director which confirms the Director's right of access to certain books and records of SurfStitch Group and its related bodies corporate while they are a Director and for a period of seven years after the Director ceases to hold office. The deeds of indemnity, insurance and access also require SurfStitch Group to indemnify Directors to the full extent permitted by law against all losses or liabilities (including all reasonable legal costs) incurred by the Director as an officer of SurfStitch Group or of a related body corporate.

## 6. KEY PEOPLE, INTERESTS AND BENEFITS

Pursuant to the Constitution, SurfStitch Group may, to the extent permitted by law, purchase and maintain insurance or pay or agree to pay a premium for insurance, for each Director against any liability incurred by the Director as an officer of SurfStitch Group or of a related body corporate. Under the deeds of indemnity, insurance and access, SurfStitch Group must obtain such insurance until seven years after a Director ceases to hold office as a Director of SurfStitch Group or a related body corporate (or the date any relevant proceedings commenced during the seven year period have been finally resolved).

### 6.3.2.3 Other information about Directors' remuneration

Directors may be paid for travel and other expenses incurred in attending to SurfStitch Group's affairs, including attending and returning from meetings of Directors or committees or general meetings. Any Director who devotes special attention to the business of SurfStitch Group or who performs services which, in the opinion of the Board, are outside the scope of ordinary duties of a Director, may be remunerated for the services (as determined by the Board) out of the funds of SurfStitch Group. There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

### 6.3.3 Directors' shareholdings

Directors are not required under the Constitution to hold any Shares. Shareholdings of all Directors after Completion of the Offer and completion of the SurfDome acquisition are set out in the table on this page.

	Howard McDonald	Justin Cameron	Lex Pedersen	Stephen Goddard	Justin Stone
Shareholding on listing	1,500,000	12,931,089	10,666,134	200,000	11,425,983
Percentage holding on listing	0.7%	6.0%	5.0%	0.1%	5.3%

### 6.3.4 Executive remuneration

#### 6.3.4.1 Chief Executive Officer and Managing Director and Managing Director and President of Swell

Details regarding the terms of employment of the Chief Executive Officer and Managing Director (Justin Cameron) and the Managing Director and President of Swell (Lex Pedersen) are set out below.

Term	Description
Employer	Justin Cameron is employed by SurfStitch Holdings and Lex Pedersen is employed by SSUSA.
Total fixed remuneration ("TFR")	<p>Under the terms of their employment agreements, Justin Cameron and Lex Pedersen are each entitled to receive annual TFR comprised of:</p> <ul style="list-style-type: none"> <li>base salary of \$400,000 (AUD for Justin Cameron and USD for Lex Pedersen); and</li> <li>in relation to Justin Cameron only, superannuation equal to the minimum amount required to be paid to comply with the Superannuation Guarantee legislation.</li> </ul> <p>Their TFR is subject to annual review.</p>
Short-term incentive ("STI")	<p>In addition to their annual TFR, Justin Cameron and Lex Pedersen are each eligible to receive an annual STI, subject to satisfaction of performance conditions set by the Board.</p> <p>For the year ending 30 June 2015, Justin Cameron and Lex Pedersen are each entitled to a target STI opportunity of up to 25% of their base salary (i.e. \$100,000), subject to meeting financial and non-financial performance targets relating to SurfStitch, SurfStitch Group and/or individual performance measures.</p>
Long-term incentive ("LTI")	<p>Justin Cameron and Lex Pedersen are eligible to participate in the Loan Plans.</p> <p>Justin Cameron and Lex Pedersen were each granted a loan of \$380,000 under the SurfStitch Holdings Loan Plan prior to the date of this Prospectus. Each loan was used to acquire 400,000 Loan Shares in SurfStitch Holdings, which are subject to performance conditions. Immediately prior to Completion of the Offer, the Loan Shares in SurfStitch Holdings will be transferred to SurfStitch Group and Justin Cameron and Lex Pedersen will receive Loan Shares in SurfStitch Group as consideration. See Section 7.1.4 for further details. The terms on which the Loan Shares are held will otherwise remain unchanged (refer to Section 6.3.4.3 for further details).</p>



Term	Description
Legacy management share scheme	Prior to the date of this Prospectus, Justin Cameron and Lex Pedersen participated in a management incentive scheme under which they each received a one-off grant of 800,000 Restricted Shares in SurfStitch Holdings. These Restricted Shares are subject to forfeiture conditions (including if the executive ceases employment) and will vest on SurfStitch Group achieving listing. Immediately prior to Completion of the Offer, the Restricted Shares in SurfStitch Holdings will be transferred to SurfStitch Group and Justin Cameron and Lex Pedersen will receive Restricted Shares in SurfStitch Group as consideration. See Section 7.1.4 for further details. The terms on which the Restricted Shares are held will otherwise remain unchanged.
Listing bonus	Justin Cameron and Lex Pedersen are each entitled to a one-off cash bonus of \$730,195.50 on SurfStitch Group achieving listing.
Other benefits	Each of Justin Cameron and Lex Pedersen is also entitled to other incidental benefits under their employment agreements, including a company mobile telephone and laptop.
Termination	<p>Each of Justin Cameron and Lex Pedersen will be employed for an initial period of two years from the Listing Date, subject to:</p> <ul style="list-style-type: none"> <li>▪ any rights of the employing entity or the executive to terminate immediately and without notice; and</li> <li>▪ the relevant employing entity may terminate Justin Cameron's or Lex Pedersen's employment (as relevant) during the initial period by giving three months' written notice where the relevant executive does not satisfactorily address performance concerns raised by the Board within 3 months (or longer period specified by the Board) of being given notice of such concerns.</li> </ul> <p>After the end of the initial two year period, Justin Cameron's employment may be terminated by either party upon giving three months' written notice. In Lex Pedersen's case, if the employment is terminated within the initial two year period, he is entitled to recover the base salary he would have earned if he remained employed for the initial period.</p> <p>The employing entity may terminate their employment immediately and without notice in certain circumstances, including where the executive has committed a serious or persistent breach of his employment agreement and fails to remedy the breach within 14 days of receiving notice from the employing entity or where the executive has been dishonest or fraudulent in the course of performing his duties.</p> <p>Each of Justin Cameron and Lex Pedersen also has a right to terminate their employment immediately or by giving such notice as they determine in certain circumstances. These circumstances include where their duties are materially or adversely altered or varied substantially without their consent and this results in their status or responsibilities being materially diminished or their no longer fulfilling the duties that would be expected of someone employed in their positions and the employing entity fails to remedy the alteration or variation within 14 days of receiving notice.</p> <p>All payments on termination will be subject to the termination benefits cap under the Corporations Act.</p>
Restraint	<p>Justin Cameron's and Lex Pedersen's employment agreements also include:</p> <ul style="list-style-type: none"> <li>▪ a post-employment non-competition restraint of trade, which operates in a maximum area covering Australia, New Zealand, Japan, the United States of America (except for California, in Lex Pedersen's case), Canada, Europe and the United Kingdom for a maximum period of 12 months from the date on which the executive's employment ceases; and</li> <li>▪ a post-employment non-solicitation restraint of trade, which operates in a maximum area covering Australia, New Zealand, Japan, the United States of America (except for California, in Lex Pedersen's case), Canada, Europe and the United Kingdom for a maximum period of 12 months from the date on which the executive's employment ceases.</li> </ul> <p>The enforceability of the restraint of trade clauses is subject to all usual legal requirements.</p>

Justin Cameron and Lex Pedersen will continue to be substantial Shareholders in SurfStitch Group following listing. They have accepted an escrow being placed on their Shares (including those acquired under the legacy management share scheme and the Loan Plan, which are subject to performance conditions). Refer to Section 7.10 for further details.

## 6. KEY PEOPLE, INTERESTS AND BENEFITS

Details regarding the terms of employment of the Managing Director, Europe (Justin Stone) that will apply from completion of the SurfDome acquisition are set out below.

Term	Description
Employer	Justin Stone is employed by SDUK.
Total fixed remuneration ("TFR")	<p>Under the terms of his employment agreement, Justin Stone is entitled receive annual TFR of a base salary of £175,000.</p> <p>His TFR is subject to annual review.</p>
Short-term incentive ("STI")	<p>In addition to his annual TFR, Justin Stone is eligible to receive an annual STI, subject to satisfaction of performance conditions set by the Board.</p> <p>For the year ending 30 June 2015, he is entitled to a target STI opportunity of up to 25% of his base salary (i.e. £43,750), subject to meeting financial and non-financial performance targets and/or individual performance measures.</p>
Long-term incentive ("LTI")	Justin Stone is eligible to participate in the SurfStitch Group Plan. On completion of the SurfDome acquisition, Justin Stone will be granted 400,000 Performance Rights to acquire Shares, which will vest subject to the satisfaction of performance conditions. The Performance Rights granted will have a total face value of \$400,000 (at the time the offers were made to senior managers under the SurfStitch Holdings Plan prior to listing) (refer to Section 6.3.4.4).
Other benefits	Justin Stone is also entitled to other incidental benefits under his employment agreement, including a company mobile telephone and laptop.
Termination	<p>Justin Stone will be employed for an initial period of two years from the Listing Date subject to:</p> <ul style="list-style-type: none"> <li>▪ any rights of his employing entity to terminate immediately and without notice; and</li> <li>▪ the ability of the Board to terminate Justin Stone's employment upon giving three months' written notice where Justin Stone does not satisfactorily address performance concerns raised by the Board within three months (or longer period specified by the Board) of being given notice of such concerns.</li> </ul> <p>After the end of the initial two year period, Justin Stone's employment may be terminated by either party upon giving three months' written notice or by his employing entity making payment in lieu of notice.</p> <p>The employing entity may terminate Justin Stone's employment immediately and without notice in certain circumstances, including where he has committed a serious or persistent breach of his employment agreement and fails to remedy the breach within 14 days of receiving notice from his employing entity or where he has been dishonest or fraudulent in the course of performing his duties.</p> <p>All payments on termination will be subject to the termination benefits cap under the Corporations Act.</p>

Term	Description
Restraint	<p>Justin Stone's employment agreement also includes:</p> <ul style="list-style-type: none"> <li>▪ a post-employment non-competition restraint of trade, which operates in a maximum area covering England, Wales, Scotland, the Republic of Ireland, Northern Ireland, New South Wales, Queensland, Victoria and/or any other country and/or any other state in the Commonwealth of Australia in which any Group entity as at the date on which his employment ceases carries on or proposes to carry on (in the immediate or foreseeable future) any business, for up to 12 months from the date on which his employment ceases;</li> <li>▪ post-employment non-solicitation restraints of trade which operate in a maximum area covering England, Wales, Scotland, the Republic of Ireland, Northern Ireland, New South Wales, Queensland, Victoria and/or any other country and/or any other state in the Commonwealth of Australia in which any Group entity as at the date on which his employment ceases carries on or proposes to carry on (in the immediate or foreseeable future) any business, for up to 12 months from the date on which his employment ceases;</li> <li>▪ a post-employment restraint against inducing or attempting to induce certain directors, managers or employees of any Group entity to terminate their employment with the relevant Group entity for up to 12 months from the date on which his employment ceases; and</li> <li>▪ a post-employment restraint against employing certain directors, managers or employees of any Group entity for up to 12 months from the date on which his employment ceases.</li> </ul> <p>Justin Stone's employment agreement contains a clause pursuant to which any period of garden leave which he serves will be deducted from certain (but not all) post-employment restraint provisions.</p> <p>The enforceability of the restraint of trade clauses is subject to all usual legal requirements.</p>

Justin Stone was granted a one-off grant of 200,000 Restricted Shares in SurfStitch Holdings with a face value of \$200,000 as a sign-on bonus prior to the date of this Prospectus. This grant of Restricted Shares will only vest upon SurfStitch Group achieving listing and completion of the SurfStitch acquisition. Immediately prior to Completion of the Offer, the Restricted Shares in SurfStitch Holdings will be transferred to SurfStitch Group and Justin Stone will receive Restricted Shares in SurfStitch Group as consideration. See Section 7.1.4 for further details. The terms on which the Restricted Shares are held will otherwise remain unchanged.

Justin Stone will be a substantial Shareholder in SurfStitch Group following listing. He has accepted an escrow being placed on his Shares (including those granted as the sign-on bonus). Refer to Section 7.10 for further details.

## 6. KEY PEOPLE, INTERESTS AND BENEFITS

### 6.3.4.2 Other members of senior management

Term	Description
Remuneration and termination	Other members of SurfStitch Group's senior management are employed under individual employment agreements. These agreements provide for a total compensation including a base salary, superannuation contribution (if applicable), variable notice and termination provisions, but provide that either the employing entity or relevant employee can terminate on providing three months' notice (or in the case of termination by the employing entity, by making payment in lieu of notice). Some of these management employment agreements contain restraint provisions and/or redundancy provisions.
LTI	<p>Certain members of senior management are entitled to participate in the Plans described in Section 6.3.4.4. Prior to the date of this Prospectus, Performance Rights to acquire SurfStitch Holdings shares were granted to members of senior management under the SurfStitch Holdings Plan. These Performance Rights will vest if certain conditions and other terms set out in Section 6.3.4.4 below are met.</p> <p>The Performance Rights granted by SurfStitch Holdings to one senior manager are subject to conditions similar to those that apply to Justin Cameron and Lex Pederson's Loan Shares (see Section 6.3.4.3 for full details). Immediately prior to Completion of the Offer, these Performance Rights will be exchanged for Performance Rights to acquire SurfStitch Group Shares. The terms on which the new Performance Rights are issued will otherwise remain unchanged.</p> <p>Immediately prior to Completion of the Offer, two-thirds of the Performance Rights to acquire SurfStitch Holdings shares that were granted to other members of senior management will be exchanged for Performance Rights to acquire Shares in SurfStitch Group granted under the SurfStitch Group Plan. The terms on which the new Performance Rights are issued will otherwise remain unchanged.</p> <p>The remaining one-third of the Performance Rights granted to the other members of senior management will vest immediately on Settlement of the Offer, SurfStitch Holdings shares will be allocated on vesting and transferred to SurfStitch Group. The senior managers will receive Shares in SurfStitch Group or cash as consideration for their SurfStitch Holdings shares (depending on their elections). See Section 7.1.4 for further details.</p>

### 6.3.4.3 Loan Plans and initial grants

The Loan Plans are long-term incentive plans of SurfStitch Holdings and SurfStitch Group under which Justin Cameron, Lex Pedersen, and any other employee determined by the relevant board, may be granted a loan of SurfStitch Holdings and SurfStitch Group, which must be used to fund the acquisition of Loan Shares. Eligibility to participate in a Loan Plan and the number of Loan Shares (and the associated loan amount) to be acquired by each participant will be determined by the relevant board.

Prior to the date of this Prospectus, Justin Cameron and Lex Pedersen were each granted a loan under the SurfStitch Holdings Loan Plan, which was used to acquire Loan Shares in SurfStitch Holdings. Immediately prior to Completion of the Offer, the Loan Shares in SurfStitch Holdings will be transferred to SurfStitch Group and Justin Cameron and Lex Pedersen will each receive Loan Shares in SurfStitch Group under the SurfStitch Group Loan Plan as consideration. See Section 7.1.4 for further details. The terms on which the Loan Shares are issued will otherwise remain unchanged.

At this stage, it is not intended that any further loans will be granted to Justin Cameron or Lex Pedersen under either Loan Plan. Justin Cameron and Lex Pedersen's equity incentive arrangements differ to the other executives as they are substantial Shareholders of SurfStitch Group and as a result, unlike other executives, would not be able to participate in the Plan in a financially effective way. Details regarding the LTI arrangements of other executives are set out in Section 6.3.4.4 below.

The key terms of the Loan Plans and the grants that were made to Justin Cameron and Lex Pedersen prior to the date of this Prospectus under the SurfStitch Holdings Loan Plan are set out in the table below.

Term	Description
Eligibility	<p>Initial grants under the SurfStitch Holdings Loan Plan were only made to Justin Cameron and Lex Pedersen. At this stage, it is not intended that further grants be made under the SurfStitch Holdings Loan Plan.</p> <p>Offers may be made at the Board's discretion to employees of SurfStitch or any other person that the Board determines to be eligible to receive a grant under the SurfStitch Group Loan Plan.</p>
Offers under a Loan Plan	<p>The Board may make offers at its discretion. The Board has the discretion to set the terms and conditions on which it will offer the loan and the terms applying to the SurfStitch Group Loan Shares acquired using the proceeds of the loan in individual offer documents.</p> <p>Offers must be accepted by the participant and can be made on an opt-in or opt-out basis. The offers made by SurfStitch Holdings to Justin Cameron and Lex Pedersen prior to the date of this Prospectus were made on an opt-in basis.</p>
Nature of the loan	<p>Justin Cameron and Lex Pedersen were provided with a limited recourse loan under the SurfStitch Holdings Loan Plan for the sole purpose of subscribing for Loan Shares in SurfStitch Holdings or a related body corporate.</p>
Loan amount and number of Loan Shares	<p>Each set of Loan Plan Rules and the terms of the loan allow the relevant board to determine the amount of a loan, the acquisition price for each Loan Share and accordingly, the number of Loan Shares that each participant will acquire.</p> <p>The total number of the Loan Shares will be determined by dividing the total loan by the acquisition price.</p> <p>Justin Cameron and Lex Pedersen were each granted a loan of \$380,000 prior to the date of this Prospectus, which was used to acquire 400,000 Loan Shares each in SurfStitch Holdings, at an acquisition price equal to \$0.95 per Loan Share.</p>
Interest	<p>Under the Loan Plan Rules, interest may be charged from time to time at the relevant board's discretion.</p> <p>Interest is not payable in respect of the loans made to Justin Cameron and Lex Pedersen prior to the date of this Prospectus.</p>
Treatment of Loan Shares on Completion of the Offer	<p>Immediately prior to Completion of the Offer, any Loan Shares in SurfStitch Holdings granted to Justin Cameron and Lex Pedersen prior to the date of this Prospectus will be transferred to SurfStitch Group and Justin Cameron and Lex Pedersen will receive Loan Shares in SurfStitch Group as consideration (see Section 7.1.4 for further details). The terms on which the SurfStitch Group Loan Shares are held will otherwise remain unchanged.</p> <p>The SurfStitch Holdings loan may continue to be used for the purposes of Justin Cameron and Lex Pedersen acquiring SurfStitch Group Loan Shares (once SurfStitch Group and SurfStitch Holdings become related bodies corporate) or, alternatively, the parties may agree that the SurfStitch Holdings loan be replaced by an equivalent SurfStitch Group loan.</p>



## 6. KEY PEOPLE, INTERESTS AND BENEFITS

Term	Description										
<p><b>Performance conditions, performance period and vesting</b></p>	<p>Loan Shares will vest subject to the satisfaction of performance conditions set by the relevant board. Unvested Loan Shares are subject to dealing restrictions (as outlined below). The performance conditions must be satisfied in order for some or all of the Loan Shares to vest.</p> <p>All of the Loan Shares granted to Justin Cameron and Lex Pedersen are subject to a “gateway” condition that requires SurfStitch Group to be admitted to the Official List of the ASX within two years from the date of grant. If this condition is not met, all of the Loan Shares will be forfeited automatically in full satisfaction of the loan, even if the other applicable conditions are satisfied.</p> <p>In addition, their Loan Shares are subject to a performance condition based on SurfStitch Group’s relative total shareholder return (“TSR”), which will be measured over a performance period commencing on the Listing Date and ending on 30 June 2017 (“TSR Condition”). SurfStitch Group’s TSR will be compared to a comparator group of companies within the S&amp;P/ASX Small Ordinaries Index 300 with regard to industry, sector and such other factors determined appropriate by the Board.</p> <p>The percentage of Loan Shares that vest, and the portion of the outstanding loan that will be forgiven, if any, will be determined by reference to the following vesting schedule:</p> <table border="1" data-bbox="408 1043 1390 1317"> <thead> <tr> <th data-bbox="408 1043 890 1106">SurfStitch Group’s TSR performance</th> <th data-bbox="896 1043 1390 1106">% of Loan Shares that vest/% of the outstanding loan that will be forgiven</th> </tr> </thead> <tbody> <tr> <td data-bbox="408 1115 890 1151">TSR below 50th percentile</td> <td data-bbox="896 1115 1390 1151">Nil</td> </tr> <tr> <td data-bbox="408 1160 890 1196">TSR at 50th percentile</td> <td data-bbox="896 1160 1390 1196">50%</td> </tr> <tr> <td data-bbox="408 1205 890 1267">TSR between 50th and 75th percentile</td> <td data-bbox="896 1205 1390 1267">50% – 100%, on a straight line sliding scale</td> </tr> <tr> <td data-bbox="408 1276 890 1312">TSR at 75th percentile and above</td> <td data-bbox="896 1276 1390 1312">100%</td> </tr> </tbody> </table> <p>Where the gateway condition and TSR Condition have been met, vesting will occur as follows:</p> <ul style="list-style-type: none"> <li>▪ 31 December 2017 – up to 60% of the Loan Shares vest/outstanding loan forgiven;</li> <li>▪ 31 December 2018 – a further 20% of the Loan Shares vest/outstanding loan forgiven; and</li> <li>▪ 31 December 2019 – the final 20% of the Loan Shares vest/outstanding loan forgiven.</li> </ul> <p>The participant must remain an employee of SurfStitch at the relevant vesting date (subject to the applicable Loan Plan Rules) in order for vesting to occur.</p> <p>Any Loan Shares that do not vest will be forfeited in full satisfaction of the associated portion of the outstanding loan.</p>	SurfStitch Group’s TSR performance	% of Loan Shares that vest/% of the outstanding loan that will be forgiven	TSR below 50th percentile	Nil	TSR at 50th percentile	50%	TSR between 50th and 75th percentile	50% – 100%, on a straight line sliding scale	TSR at 75th percentile and above	100%
SurfStitch Group’s TSR performance	% of Loan Shares that vest/% of the outstanding loan that will be forgiven										
TSR below 50th percentile	Nil										
TSR at 50th percentile	50%										
TSR between 50th and 75th percentile	50% – 100%, on a straight line sliding scale										
TSR at 75th percentile and above	100%										
<p><b>Repayment of the loan</b></p>	<p>The loan term for the initial loans made to Justin Cameron and Lex Pedersen is seven years from the date they acquired the SurfStitch Holdings Loan Shares. However, to the extent that the gateway hurdle and vesting conditions are met, the associated portion of the loan will be forgiven at each relevant vesting date.</p>										
<p><b>Rights associated with Loan Shares</b></p>	<p>Loan Shares have the same rights as ordinary shares in SurfStitch Holdings or Shares in SurfStitch Group (as applicable), including the right to receive dividends and capital distributions, participate in future capital raisings and exercise voting rights.</p> <p>Any dividends or distributions paid on the Loan Shares while the loan remains outstanding will be applied (on an after tax basis) towards repayment of the loan.</p> <p>The relevant board may determine that the Loan Shares will be held in the name of the participant or held in an employee share plan trust. The Loan Shares acquired by Justin Cameron and Lex Pedersen prior to the date of this Prospectus are held on trust.</p>										

Term	Description
Restrictions on dealing	<p>Loan Shares must not be sold, transferred, encumbered, hedged or otherwise dealt with until they vest and the loan is forgiven. However, for the purposes of Completion of the Offer, Loan Shares in SurfStitch Holdings granted to Justin Cameron and Lex Pedersen prior to the date of this Prospectus may be transferred to SurfStitch Group and replaced with Loan Shares in SurfStitch Group (see Section 7.1.4 for further details).</p> <p>Justin Cameron and Lex Pedersen will be free to deal with the Loan Shares after they vest, subject to the requirements of SurfStitch Group's policy for dealing in securities.</p>
Cessation of employment	<p>The relevant board has the flexibility to specify the treatment on cessation of employment for the Loan Shares and the associated loan in the offer document for a particular grant.</p> <p>If Justin Cameron or Lex Pedersen ceases employment prior to the Listing Date, all of their Loan Shares will be forfeited in full satisfaction of the outstanding loan.</p> <p>If Justin Cameron or Lex Pedersen resigns or ceases employment for cause after the Listing Date, all of their unvested Loan Shares will be forfeited in satisfaction of the outstanding loan balance, unless the Board determines otherwise.</p> <p>If Justin Cameron or Lex Pedersen ceases employment in other circumstances after the Listing Date, unless the Board determines otherwise, their unvested Loan Shares will remain on foot subject to the original terms. The performance conditions will be tested in the ordinary course.</p>
Change of control	<p>In a situation where there is, or there is likely to be, a change of control (other than on Completion of the Offer), all of Justin Cameron and Lex Pedersen's unvested Loan Shares will vest and the outstanding loan balance will be forgiven, unless the Board determines otherwise.</p>
Clawback and preventing inappropriate benefits	<p>The Loan Plan Rules provide the relevant boards with broad "clawback" powers if, amongst other things, the participant has acted fraudulently or dishonestly, engaged in gross misconduct or has acted in a manner that has brought SurfStitch Group, its related bodies corporate or SurfStitch into disrepute, or there is a material financial misstatement, or SurfStitch Group is required or entitled under law or Company policy to reclaim remuneration from the participant, or the participant's entitlements vest as a result of the fraud, dishonesty or breach of obligations of any other person and the relevant board is of the opinion that the incentives would not have otherwise vested.</p>
Reconstructions, corporate actions, rights issues, bonus issues, etc	<p>The Loan Plan Rules include specific provisions dealing with rights issues, bonus issues, corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their Loan Shares as a result of such corporate actions.</p>
Other terms	<p>The Loan Plans contain customary and usual terms for dealing with administration, variation, suspension and termination of the Loan Plan.</p>

#### 6.3.4.4 Employee equity incentive plans ("the Plans")

Each of SurfStitch Group and SurfStitch Holdings have established an equity incentive plan prior to the date of this Prospectus to assist in the motivation, retention and reward of senior management and other employees. The Plans are designed to align the interests of executives and senior management with the interests of shareholders by providing an opportunity for the participants to receive an equity interest in SurfStitch Group and SurfStitch Holdings (respectively).

## 6. KEY PEOPLE, INTERESTS AND BENEFITS

### The Plan

The rules of each Plan ("Plan Rules") provide the framework under which the Plan and individual grants will operate.

The key features of the SurfStitch Group Plan are outlined in the table below. The terms of the SurfStitch Holdings Plan are the same in all material respects.

Term	Description
Eligibility	Offers may be made at the Board's discretion to employees of SurfStitch or any other person that the Board determines to be eligible to receive a grant under the Plan.
Types of securities	<p>The Plan Rules provide flexibility for SurfStitch Group to grant one or more of the following securities as incentives, subject to the terms of individual offers:</p> <ul style="list-style-type: none"> <li>▪ Performance Rights;</li> <li>▪ options; and</li> <li>▪ Restricted Shares.</li> </ul> <p>Options are an entitlement to receive a Share upon satisfaction of applicable conditions and payment of an applicable exercise price. Performance Rights and Restricted Shares are an entitlement to receive a Share for no consideration upon satisfaction of applicable conditions.</p> <p>Unless otherwise specified in an offer document, the Board has the discretion to settle Performance Rights or options with a cash equivalent payment.</p>
Offers under the Plan	<p>The Board may make offers at its discretion and any offer documents must contain the information required by the Plan Rules. The Board has the discretion to set the terms and conditions on which it will offer Performance Rights, options and Restricted Shares in individual offer documents.</p> <p>Offers must be accepted by the employee and can be made on an opt-in or opt-out basis. SurfStitch Group intends to make opt-out offers.</p>
Issue price	Unless the Board determines otherwise, no payment is required for a grant of a Performance Right, option or Restricted Share under the Plan.
Vesting	<p>Vesting of Performance Rights, options and Restricted Shares under the Plan is subject to any vesting or performance conditions determined by the Board and specified in the offer document.</p> <p>Options must be exercised by the employee and the employee is required to pay the exercise price to be allocated Shares.</p> <p>Subject to the Plan Rules and the terms of the specific offer document, any Performance Rights, options or Restricted Shares will either lapse or be forfeited if the relevant vesting and performance conditions are not satisfied.</p>
Cessation of employment	Under the Plan Rules, the Board has a broad discretion in relation to the treatment of entitlements on cessation of employment. It is intended that individual offer documents will provide more specific information on how the entitlements will be treated if the participating employee ceases employment.
Clawback and preventing inappropriate benefits	The Plan Rules provide the Board with broad "clawback" powers if, amongst other things, the participant has acted fraudulently or dishonestly, engaged in gross misconduct or has acted in a manner that has brought SurfStitch Group, its related bodies corporate or SurfStitch into disrepute, or there is a material financial misstatement, or SurfStitch Group is required or entitled under law or Company policy to reclaim remuneration from the participant, or the participant's entitlements vest as a result of the fraud, dishonesty or breach of obligations of any other person and the Board is of the opinion that the incentives would not have otherwise vested.
Change of control	The Board may determine that all or a specified number of a participant's Performance Rights, options or Restricted Shares will vest or cease to be subject to restrictions where there is a change of control event in accordance with the Plan Rules. It is intended that individual offer documents will provide more specific information on how the entitlements will be treated on a change of control.

Term	Description
Other terms	The Plan contains customary and usual terms for dealing with administration, variation, suspension and termination of the Plan.

#### Legacy management share scheme

Prior to the date of this Prospectus, Justin Cameron, Lex Pedersen and one other senior manager each participated in a management share scheme under the SurfStitch Holdings Plan. They were each granted 800,000 Restricted Shares in SurfStitch Holdings subject to vesting conditions including SurfStitch Group achieving listing. Immediately prior to Completion of the Offer, the Restricted Shares in SurfStitch Holdings will be transferred to SurfStitch Group and each participant will receive Restricted Shares in SurfStitch Group (under the SurfStitch Group Plan) as consideration. See Section 7.1.4 for further details. The terms on which the Restricted Shares are issued will otherwise remain unchanged.

#### The FY2015 awards of Performance Rights under the Plans

Prior to the date of this Prospectus, a number of senior managers and other employees of SurfStitch (other than Justin Cameron and Lex Pedersen) were granted a total of 1,592,142 Performance Rights under the SurfStitch Holdings Plan with a face value of \$1,592,142.

One senior manager has been granted 400,000 Performance Rights to acquire SurfStitch Holdings shares with a face value of \$400,000 (included in the total set out above) subject to conditions similar to those that apply to Justin Cameron and Lex Pedersen's Loan Shares, including the same vesting conditions (see Section 6.3.4.3 for full details). The Shares allocated on vesting of the Performance Rights will be subject to a 12 month holding lock. Immediately prior to Completion of the Offer, these Performance Rights will be exchanged for Performance Rights to acquire Shares in SurfStitch Group. The terms of the grant will otherwise remain unchanged.

The initial grants to other senior managers and other employees of 1,192,142 Performance Rights with a face value of \$1,192,142 were made by SurfStitch Holdings, however immediately prior to Completion of the Offer, two-thirds of the Performance Rights to acquire shares in SurfStitch Holdings will be exchanged for Performance Rights to acquire Shares in SurfStitch Group. The terms of the grants will otherwise remain unchanged. The remaining one-third of the Performance Rights granted to these participants will vest immediately on Settlement of the Offer, SurfStitch Holdings shares will be allocated on vesting and transferred to SurfStitch Group. The participants will receive Shares in SurfStitch Group or cash as consideration for their SurfStitch Holdings shares (depending on their elections). See Section 7.1.4 for further details.

The key terms of the FY2015 awards of Performance Rights under the SurfStitch Holdings Plan are summarised in the table below:

Term	Description
Participants	Awards were made to a number of members of senior management and other employees of SurfStitch, who were invited by the board of SurfStitch Holdings to participate.
Grant date and timing of future offers	The awards were made prior to the date of this Prospectus. Any future grants will be under the SurfStitch Group Plan and at the discretion of the Board and subject to any requirements for shareholder approval.
Grant of Performance Rights	The existing awards comprise Performance Rights, which were issued to the participants for nil consideration.
Treatment of Performance Rights on Completion of the Offer	Immediately prior to Completion of the Offer, two-thirds of the Performance Rights to acquire SurfStitch Holdings shares to acquire SurfStitch Holdings shares will be exchanged for Performance Rights to acquire Shares in SurfStitch Group under the SurfStitch Group Plan. The terms on which the SurfStitch Group Performance Rights are issued will otherwise remain unchanged. The remaining one-third of the Performance Rights granted to the members of senior management will vest immediately on Settlement of the Offer, SurfStitch Holdings shares will be allocated on vesting and transferred to SurfStitch Group. The senior managers will receive Shares in SurfStitch Group or cash as consideration for their SurfStitch Holdings shares (depending on their elections). See Section 7.1.4 for further details.

## 6. KEY PEOPLE, INTERESTS AND BENEFITS

Term	Description
Performance conditions, performance period and vesting	<p>Performance Rights will vest subject to the satisfaction of performance conditions. The performance conditions must be satisfied in order for the Performance Rights to vest.</p> <p><b>Grants to other senior managers and employees</b></p> <p>The Performance Rights granted to senior managers and other employees prior to the date of this Prospectus have been divided into two tranches – Tranche 1 comprises one-third of the Performance Rights and Tranche two comprises two-thirds of the Performance Rights.</p> <p>Tranche 1 is subject to a condition that Settlement occurs under the Offer. If this condition is met, Tranche 1 will vest and shares in SurfStitch Holdings will be issued immediately to the participant. Immediately prior to Completion of the Offer, the shares in SurfStitch Holdings will be transferred to SurfStitch Group and participants will receive Shares in SurfStitch Group as consideration.</p> <p>Tranche 2 is also subject to a service condition, which requires the participant to remain continuously employed by SurfStitch until the third anniversary of the Listing Date. The Board will assess whether this service condition is met shortly after that time. If the Tranche 1 condition and the service condition are met, Tranche 2 will vest and Shares will be allocated to the participant. Any Performance Rights that remain unvested will lapse immediately.</p>
Rights associated with Performance Rights	The Performance Rights do not carry dividends or voting rights prior to vesting.
Restrictions on dealing	<p>The participant must not sell, transfer, encumber, hedge or otherwise deal with unvested Performance Rights. However, for the purpose of Completion of the Offer, Tranche 2 of the Performance Rights granted to participants prior to the date of this Prospectus may be exchanged for Performance Rights to acquire Shares in SurfStitch Group.</p> <p>All Shares allocated on vesting of Tranche 2 of the Performance Rights will be subject to a 12 month holding lock.</p> <p>The participant will be free to deal with the Shares allocated on vesting of Tranche 2 of the Performance Rights after the holding lock is lifted. All dealings are subject to the requirements of the SurfStitch Group's policy for dealing in securities.</p>
Cessation of employment	<p>If the participant's employment ceases for any reason prior to the vesting date (for Tranche 1 Performance Rights) or the Listing Date (for Tranche 2 Performance Rights), all of the participant's Performance Rights will lapse immediately.</p> <p>If the participant's employment is terminated for cause, redundancy, or the participant resigns, after the Listing Date, unless the Board determines otherwise, any unvested Performance Rights will immediately lapse.</p> <p>Generally, if the participant ceases employment for any other reason after the Listing Date, a pro-rata portion of their unvested Performance Rights (by reference to the portion of the vesting period that has elapsed up to the date of cessation) will remain on foot and subject to the original performance conditions, except that the service condition will be deemed to be waived. However, the Board retains discretion to determine that some or all of their Performance Rights will lapse.</p>
Change of control	<p>In a situation (other than Completion of the Offer) where there is likely to be a change of control, the relevant board has the discretion to accelerate vesting of some or all of the Performance Rights. Where only some of the Performance Rights vest on a change of control, the remainder of the Performance Rights will immediately lapse unless the Board determines otherwise. If the change of control occurs before the Board exercises its discretion:</p> <ul style="list-style-type: none"> <li>▪ a pro-rata portion of the Performance Rights equal to the portion of the relevant vesting period that has elapsed up to actual date of the change of control will immediately vest; and</li> <li>▪ the Board may, in its absolute discretion, decide whether the balance should vest or lapse.</li> </ul>
Reconstructions, corporate action, rights issues, bonus issues, etc	<p>A participant cannot participate in new issues of securities by SurfStitch Holdings or SurfStitch Group (as applicable) in relation to their unvested Performance Rights.</p> <p>However, the Plan Rules include specific provisions dealing with rights issues, bonus issues, and corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their Performance Rights as a result of such corporate actions.</p>



On completion of the SurfDome acquisition, Justin Stone and three other existing SurfDome executives will be invited to receive a grant of Performance Rights under the SurfStitch Group Plan after listing, subject to conditions similar to those that apply to Justin Cameron and Lex Pedersen's Loan Shares, except that the gateway hurdle will not be applicable and the Shares allocated will be subject to a 12 month holding lock. Justin Stone will be granted 400,000 Performance Rights with a face value of \$400,000 (at the time the offers were made to senior managers under the SurfStitch Holdings Plan prior to listing). The three SurfDome executives will be granted Performance Rights with a total face value of \$270,000 (at the time the offers were made to senior managers under the SurfStitch Holdings Plan prior to listing), which is equivalent to 270,000 Performance Rights. Please see Section 9.5 for further details about the proposed acquisition.

## 6.4 CORPORATE GOVERNANCE

This Section 6.4 summarises the key corporate governance policies and practices adopted by SurfStitch Group, and outlines how the Board will oversee the management of SurfStitch Group's business. Details of SurfStitch Group's key policies and practices and the charters for the Board and each of its committees are available at <http://www.SurfStitch.com>. The Board monitors the operational and financial position and performance of SurfStitch Group and oversees its business strategy, including approving the strategic goals of SurfStitch Group. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of SurfStitch Group.

In conducting business with these objectives, the Board is committed to ensuring that SurfStitch Group is properly managed to protect and enhance Shareholder interests, and that SurfStitch Group, its Directors, officers and employees operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing SurfStitch Group, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for SurfStitch's business and which are designed to promote the responsible management and conduct of SurfStitch Group. Details of SurfStitch Group's corporate governance policies, which will take effect from the time of its listing, are set out below.

### 6.4.1 ASX Corporate Governance Principles

SurfStitch Group is seeking a listing on ASX. The ASX Corporate Governance Council has developed and released its ASX Corporate Governance Principles and Recommendations ("ASX Recommendations") for ASX listed entities in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, SurfStitch Group will be required to provide a statement in its annual report disclosing the extent to which it has followed the ASX Recommendations in the reporting period. Where SurfStitch

Group does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it.

Except as set out in Section 6.4.2.1 regarding Board composition and 6.4.4.1 and 6.4.4.2 regarding Board Committee composition below, SurfStitch Group intends to comply with all of the ASX Recommendations from the time of its listing.

## 6.4.2 Board composition

### 6.4.2.1 Background

The Board of Directors comprises two non-executive Directors, including the Chairman, and two executive Directors. Detailed biographies of the Directors are provided in Section 6.1.

The Board of SurfStitch Group (the "Board") considers an independent Director to be a non-executive Director who is independent of Management and free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the exercise of their independent and unfettered judgement. The Board will consider the materiality of any given relationship on a case-by-case basis. The Board regularly reviews the independence of each Director in light of information disclosed by each Director to the Board.

The Board considers that both of Howard McDonald and Stephen Goddard are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of their judgement and are both able to fulfil the role of an independent Director for the purposes of the ASX Recommendations.

Justin Cameron and Lex Pedersen are considered by the Board not to be independent for the purposes of the ASX Recommendations. Justin Cameron and Lex Pedersen are not considered to be independent on the basis of their Management roles in the Company.

Given the Board is currently comprised of two executive Directors (who are not independent) and two independent non-executive Directors, SurfStitch Group does not currently comply with Recommendation 2.4 of the ASX Recommendations, which provides that a majority of the Board of a listed entity should be independent Directors.

SurfStitch Group intends to appoint a third non-executive Director in the short term, once a suitable candidate has been identified. In addition, as set out in Section 6.1.1, it is proposed that Justin Stone will also join the SurfStitch Group Board upon completion of the SurfDome acquisition. If both Justin Stone and a third non-executive Director are appointed, this will result in a six person Board, comprising three independent non-executive Directors and three executive Directors. While this will mean that SurfStitch Group will continue to not comply with Recommendation 2.4, the Board believes that this composition will be appropriate, given the value of the skills and considerable experience of the current executive Directors, and Justin Stone, to the Board.

## 6. KEY PEOPLE, INTERESTS AND BENEFITS

If Justin Stone is appointed to the Board prior to a third non-executive Director, in order to address the fact that the Board will comprise a majority of executive Directors, the Chairman will have two deliberative votes (in addition to a casting vote when the votes on a resolution at a Board meeting are equal).

### 6.4.3 Board charter

The Board has adopted a charter to provide a framework for the effective operation of the Board. The Board charter sets out:

- the Board's composition and process;
- the Board's roles and responsibilities;
- the relationship and interaction between the Board and Management; and
- the authority delegated by the Board to Management and Board Committees.

The Board's role is to:

- represent and serve the interests of Shareholders by overseeing and appraising SurfStitch Group's strategies, policies and performance. This includes overseeing the financial and human resources SurfStitch Group has in place to meet its objectives and reviewing management performance;
- protect and optimise SurfStitch Group performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and SurfStitch Group's Constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- set, review and ensure compliance with SurfStitch Group's values and governance framework (including establishing and observing high ethical standards); and
- ensure Shareholders are kept informed of SurfStitch Group's performance and major developments affecting its state of affairs.

The management function is conducted by, or under the supervision of, the CEO as directed by the Board (and by other officers to whom the management function is properly delegated by the CEO). Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively.

SurfStitch Group has adopted a performance evaluation process in relation to the Board and its committees, which involves seeking feedback from individual Directors, the CEO and senior Management and may involve a third party adviser to facilitate the review process.

### 6.4.4 Board Committees

The Board may from time to time establish committees to assist in the discharge of its responsibilities. Membership of Board Committees will be based on the needs of SurfStitch Group, relevant legislative and other requirements and the skills and experience of individual Directors. The Board has established two standing committees – the Audit, Risk and Compliance Committee and a Remuneration and Nomination Committee. Other committees may be established by the Board as and when required.

#### 6.4.4.1 Audit, Risk and Compliance Committee

Under its charter, it is contemplated that the Audit, Risk and Compliance Committee must have at least three members, a majority of whom must be independent Directors and all of whom must be non-executive Directors. The Committee must also have an independent Chairman who is not the Chairman of the Board.

The Audit, Risk and Compliance Committee comprises Howard McDonald and Stephen Goddard. When a third non-executive Director is appointed, it is intended that he or she will be appointed to the Audit, Risk and Compliance Committee. Until this time, SurfStitch Group will not be able to comply with Recommendation 4.1 of the ASX Recommendations, which provides that the Board of a listed entity should have an audit committee which has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors.

The Audit, Risk and Compliance Committee's primary role is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities, including:

- overseeing SurfStitch Group's relationship with the external auditor and the external audit function generally;
- overseeing the preparation of the financial statements and reports;
- overseeing SurfStitch Group's financial controls and systems; and
- managing the process of identification and management of financial risk.

#### 6.4.4.2 Remuneration and Nomination Committee

Under its charter, it is contemplated the Remuneration and Nomination Committee must have at least three members, a majority of whom (including the Chairman) must be independent Directors and all of whom must be non-executive Directors.

The Remuneration and Nomination Committee comprises Howard McDonald and Stephen Goddard.

When a third non-executive Director is appointed, it is intended that he or she will be appointed to the Remuneration and Nomination Committee. Until this time, SurfStitch Group will not comply with Recommendations 2.1 and 8.1 of the ASX Recommendations, which respectively provide that the Board of a listed entity should have a nomination and a remuneration committee with at least three members.

The responsibilities of the Remuneration and Nomination Committee include:

- assisting the Board to develop a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership;
- reviewing and recommending to the Board the size and composition of the Board, including reviewing Board succession plans and the succession of the Chairman and the CEO, having regard to the objective that the Board comprise Directors with a broad range of skills, expertise and experience from a broad range of backgrounds, including gender;
- reviewing and recommending to the Board the criteria for Board membership;
- reviewing and recommending to the Board the composition and membership of the Board;
- assisting the Board as required in relation to the performance evaluation of the Board, its committees and individual Directors, and in developing and implementing plans for identifying, assessing and enhancing Director competencies;
- reviewing and making recommendations in relation to any corporate governance issues as requested by the Board from time to time;
- reviewing the Board Charter on a periodic basis, and recommending any amendments for Board consideration;
- ensuring that an effective induction process is in place and regularly reviewing its effectiveness;
- on an annual basis, reviewing the effectiveness of the Board Diversity Policy by assessing SurfStitch Group's progress towards the achievement of the measurable objectives and any strategies aimed at achieving the objectives; and reporting to the Board recommending any changes to the measurable objectives, strategies or the way in which they are implemented;
- in accordance with the Board Diversity Policy, on an annual basis, reviewing the relative proportion of women and men in the workforce at all levels of SurfStitch, and submitting a report to the Board, which outlines the Committee's findings or, if applicable, providing the Board with SurfStitch Group's most recent indicators as required by the Workplace Gender Equality Act 2012;
- reviewing and recommending arrangements for the executive Directors (including the CEO) and the executives reporting to the CEO, including contract terms, annual remuneration and participation in short- and long-term incentive plans;
- reviewing and recommending to the Board major changes and developments to SurfStitch Group's employee equity incentive plans; and
- reviewing and recommending to the Board the remuneration arrangements for the Chair and the non-executive Directors of the Board, including fees, travel and other benefits.

#### 6.4.5 Corporate governance policies

The Board has adopted the following corporate governance policies, each having been prepared having regard to the ASX Recommendations and which are available on SurfStitch Group's website: [www.SurfStitch.com](http://www.SurfStitch.com).

##### 6.4.5.1 Policy on non-audit services provided by the independent external auditors

The Audit, Risk and Compliance Committee is responsible for the development and oversight of SurfStitch Group's policy on the engagement of the external auditor to supply non-audit services and ensure compliance with the policy on non-audit services provided by the independent external auditors. As a general rule, the external auditor may not provide any prohibited non-audit services to SurfStitch Group. To ensure auditor independence is maintained, SurfStitch Group requires all engagements of the external auditor to provide non-audit services to be approved in writing by the Chief Financial Officer and, in some circumstances, by the Audit, Risk and Compliance Committee.

##### 6.4.5.2 Diversity policy

The Board has adopted a Diversity Policy to address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative management and leadership structure. The Board will include in the Annual Report each year a summary of SurfStitch Group's progress towards achieving the measurable objectives set under the Diversity Policy for the year to which the Annual Report relates and details of the measurable objectives set under the Diversity Policy for the subsequent financial year.

##### 6.4.5.3 Continuous disclosure policy

Once listed, SurfStitch Group will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Subject to the exceptions contained in the ASX Listing Rules, SurfStitch Group will be required to disclose to ASX any information concerning it which is generally not available and which a reasonable person would expect to have a material effect on the price or value of Shares. SurfStitch Group is committed to observing its disclosure obligations under the ASX Listing Rules and the Corporations Act.

SurfStitch Group has adopted a policy to take effect from listing on ASX which establishes procedures which 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.

## 6. KEY PEOPLE, INTERESTS AND BENEFITS

### 6.4.5.4 Policy for dealing in securities

SurfStitch Group has adopted a policy for dealing in securities which is intended to explain the types of conduct in dealing in securities that are prohibited under the Corporations Act and to establish a best practice procedure in dealing in securities by Directors, officers, senior executives, employees, and their connected persons. The policy sets out restrictions that apply to, and processes for, dealing with securities. The policy establishes “blackout periods”, during which relevant persons are not permitted to deal in securities (except in exceptional circumstances) and “trading windows”, during which trading is permitted subject to notification requirements, and requires relevant persons to seek approval to trade at any other time.

### 6.4.5.5 Code of conduct

The Board is committed to a high level of integrity and ethical standards in all business practices. Accordingly, the Board has adopted a formal code of conduct which outlines how SurfStitch Group expects its representatives to behave and conduct business in the workplace and includes legal compliance and guidelines on appropriate ethical standards. All employees (including temporary employees, contractors and Directors) must comply with the code.

### 6.4.5.6 Communications with Shareholders

The Board’s aim is to ensure that Shareholders are kept informed of all major developments affecting the state of affairs of SurfStitch Group. In addition to SurfStitch Group’s continuous disclosure obligations, SurfStitch Group has a policy of seeking to keep Shareholders informed. All ASX announcements made to the market, including annual and half-year financial results, are posted on SurfStitch’s website as soon as they have been released by the ASX. Copies of all investor presentations made to analysts and media briefings are also posted on SurfStitch’s website. The website also contains a facility for the shareholders to direct queries to SurfStitch and to elect to receive communications from SurfStitch via email.

## 6.5 RELATED PARTY INTERESTS

### 6.5.1 Online Brands share sale agreement

On 21 August 2014 SurfStitch Holdings entered into a share sale agreement with OBPL and OB2. As consideration for the shares held by OBPL and OB2 in SSA and SSE, the entities were issued a combined 27% of SurfStitch Holdings. Justin Cameron and Lex Pedersen each hold an interest in OBPL and OB2, and Mark Storey holds an interest in OB2.

OBPL and OB2 gave customary warranties under the share sale agreement in relation to incorporation and existence, title to the sale shares and power to sell the sale shares. OBPL and OB2 did not provide representations and warranties to SurfStitch Holdings specifically relating to SSA and SSE. SurfStitch Holdings’ ability to claim against these warranties is subject to customary caps and collars.

### 6.5.2 Streamline IT agreement

On 1 May 2014 SSA entered into an agreement with Streamline Retail Pty Limited in relation to the provision of information technology services. Justin Cameron and Lex Pedersen each hold an interest in Streamline Retail Pty Limited.

The services under the agreement are provided on a month-to-month rolling basis for a minimum of six months. Streamline Retail Pty Limited can require SSA to enter into a contract for a term of at least 12 months.

### 6.5.3 Management loans

On 5 September 2014 SurfStitch Holdings entered into loan agreements with Justin Cameron and Lex Pedersen. Each of the management loans is secured against the units in the Dotcomsurfwear Unit Trust held by the trustee of the Monawatu Family Trust in respect of the management loan to Justin Cameron and the trustee of the Stitch Family Trust in respect of the management loan to Lex Pedersen.

Repayment of each of the management loans is due on the earlier of 12 months from 5 September 2014, if SurfStitch Holdings demands repayment of the loan amounts due to the occurrence of an event of default or on the date on which SurfStitch Group is first publicly listed on a stock exchange. Justin Cameron and Lex Pedersen may prepay any part of the loan amount without penalty. There is no interest on the management loans.

### 6.5.4 Specific security agreements

On 5 September 2014 and 16 September 2014 a number of specific security agreements were entered into to secure the repayment of the management loans described in Section 6.5.4. The repayment of the management loans is secured against units held in the Dotcomsurfwear Unit Trust.

If an event of default occurs (as specified in the management loans) the security is immediately enforceable and the management loans become immediately due and payable.



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7

DETAILS  
OF THE  
OFFER





## 7. DETAILS OF THE OFFER

### 7.1 OFFER

This Prospectus relates to an initial public offering of 83.2 million new Shares in SurfStitch Group at an offer price of \$1.00 per Share ("Offer Price"). On Completion of the Offer, 116.3 million Shares will be held by the Existing Shareholders.

The total number of Shares on issue at Completion of the Offer and after the issue of Shares to the SurfDome Shareholders at completion of the SurfDome acquisition will be 214.0 million. All Shares will, once issued, rank equally with each other.

The Shares held by the Management Shareholders, the Pre-IPO Investors, Stephen Goddard and the SurfDome Shareholders will be subject to voluntary escrow arrangements described in Section 7.10.

The Offer has been fully underwritten by the Underwriter to the Offer. A summary of the Underwriting Agreement including the events which would entitle the Underwriter to the Offer to terminate the Underwriting Agreement is set out in Section 9.4.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

#### 7.1.1 Structure of the Offer

The Offer comprises:

- The Retail Offer, which consists of the:
  - Broker Firm Offer, which is open to Australian resident retail clients of Brokers who have received a firm allocation from their Broker; and
  - Chairman's List Offer, which is open to selected investors who have received a Chairman's List invitation; and
- The Institutional Offer, being an invitation to bid for Shares under the Bookbuild made to Institutional Investors in Australia and a number of other eligible jurisdictions.

No general public offer of Shares will be made under the Offer.

The offer of Shares to Eligible Employees under the Employee Gift Offer is also made under this Prospectus. The Employee Gift Offer is open to Eligible Employees who have received an offer from SurfStitch Group to acquire, at no cost, the nearest number of whole Shares (rounded down based on the Offer Price) up to the value of \$1,000 each.

Details of the Broker Firm Offer and the allocation policy under it are described in Section 7.3. Details of the Employee Gift Offer and the allocation policy under it are described in Section 7.4. Details of the Chairman's List Offer and the allocation policy under it are described in Section 7.5. Details of the Institutional Offer and the allocation policy under it are described in Section 7.8. The allocation of Shares between the Retail Offer and the Institutional Offer was determined by the Lead Manager in consultation with SurfStitch Group, having regard to the allocation policies outlined in Sections 7.3, 7.4, 7.5 and 7.8

#### 7.1.2 Purpose of the Offer

The purpose of the Offer is to:

- provide Existing Shareholders an opportunity to realise part of their investment in SurfStitch;
- attract and retain high quality management by building SurfStitch's profile and reputation via listing;
- provide SurfStitch with access to the capital markets to improve financial flexibility for both organic and acquisitive growth;
- partially fund the acquisition of the shares in SDUK;
- align the interests of Management with those of Shareholders through providing remuneration under broader equity-based incentive schemes, as well as through substantial and measurable Share ownership; and
- provide a liquid market for the Shares.

### 7.1.3 Proceeds of the Offer

The Offer is expected to raise \$83.2 million, which is equal to the number of Shares issued under the Offer multiplied by the Offer Price. Table 7.1 and Table 7.2 below set out the sources and uses of funds following Completion of the Offer and completion of the SurfDome acquisition.

**Table 7.1:** Sources of funds

Sources	\$ million	%
Cash proceeds received from the issue of Shares by SurfStitch Group	83.2	93.7%
Cash received from the repayment of management loans by Justin Cameron and Lex Pedersen <sup>1</sup>	5.6	6.3%
<b>Total sources</b>	<b>88.8</b>	<b>100.0%</b>

**Table 7.2:** Uses of funds

Uses	\$ million	%
Payment to Existing Shareholders to purchase all of the existing shares in SurfStitch Holdings	37.5	42.2%
Payment of the costs of the Offer	6.0	6.8%
Payment of cash consideration for the SurfDome acquisition	31.2	35.1%
Payment of the transaction costs related to the SurfDome acquisition	2.7	3.1%
Payment of one-off bonuses to Justin Cameron and Lex Pedersen	1.5	1.6%
Increase in cash and cash equivalents of SurfStitch Group	9.8	11.1%
<b>Total uses</b>	<b>88.8</b>	<b>100.0%</b>

Notes:

<sup>1</sup> See Section 6.5.3.

### 7.1.4 Formation of SurfStitch Group and Completion of the Offer

SurfStitch Group was incorporated in Victoria, Australia on 13 October 2014 and will become the new holding company of SurfStitch as part of Completion of the Offer. At the date of this Prospectus, SurfStitch Group has not traded and has two Shares on issue (fully paid at \$1.00) currently held by Justin Cameron and Lex Pedersen.

Immediately prior to Completion, the Existing Shareholders will transfer the existing shares in SurfStitch Holdings held by them (including 397,381 shares in SurfStitch Holdings issued on vesting of Performance Rights granted under the SurfStitch Holdings Plan) to SurfStitch Group. The Existing Shareholders will receive either Shares issued by SurfStitch Group or cash as consideration in accordance with the elections made by them (in the case of Loan Shares and Restricted Shares, the Existing Shareholders will receive Shares, not cash). On Completion of the Offer, SurfStitch Group will issue Shares to investors under the Offer.

### 7.1.5 Pro forma balance sheet

SurfStitch Group's pro forma balance sheet following Completion of the Offer and completion of the SurfDome acquisition, including details of the pro forma adjustments, is set out in Section 4.4.1.

## 7. DETAILS OF THE OFFER

### 7.1.6 Shareholders

Details of the ownership of Shares after Completion of the Offer and completion of the SurfDome acquisition are set out below:

Shareholder	Existing shares in SurfStitch Holdings after Settlement and the vesting of Performance Rights	% holding	Shares in SurfStitch Group after Completion of the Offer and completion of the SurfDome acquisition <sup>2</sup>	% holding
Management Shareholders	33.7 million	21.9%	23.6 million	11.0%
Pre-IPO Investors	97.5 million	63.3%	90.3 million	42.2%
Other Existing Shareholders	22.6 million <sup>1</sup>	14.7%	2.4 million	1.1%
Justin Stone	0.2 million	0.1%	11.4 million	5.3%
Rolling SurfDome Shareholders	–	–	3.1 million	1.4%
New Shareholders	–	–	83.2 million	38.9%
<b>Total</b>	<b>154.0 million</b>	<b>100.0%</b>	<b>214.0 million</b>	<b>100.0%</b>

<sup>1</sup> Includes 397,381 shares in SurfStitch Holdings that will be issued to SurfStitch employees following vesting of Performance Rights granted under the SurfStitch Holdings Plan on Settlement.

<sup>2</sup> Excludes any shares in which Management Shareholders or other shareholders in SurfStitch Holdings may acquire an interest as part of the Offer at the Offer Price.

Details of the Shares that will be subject to escrow arrangements are set out in Section 7.10.

### 7.1.7 Control implications of the Offer and the SurfDome acquisition

The Directors do not expect that any single Shareholder will control the Company after Completion of the Offer and completion of the SurfDome acquisition (as defined in section 50AA of the Corporations Act).

### 7.1.8 Potential effect of the fundraising on the future of SurfStitch Group

The Directors believe that, after Completion of the Offer and completion of the SurfDome acquisition, SurfStitch Group will have sufficient funds available to meet its stated business objectives.

## 7.2 TERMS AND CONDITIONS OF THE OFFER

Topic	Summary
What is the type of security being offered?	Shares (being fully paid ordinary shares in the capital of SurfStitch Group).
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 7.13 below.
What is the consideration payable for each security being offered?	Successful Applicants under the Offer will pay the Offer Price, being \$1.00 per Share.
What is the Offer period?	<p>The key dates, including details of the Offer period, are set out in Key Dates on page 4. The timetable is indicative only. Unless otherwise indicated, all times are Sydney time. SurfStitch Group, in consultation with the Lead Manager, reserves the right to amend any or all of these dates and times subject to the Corporations Act, the ASX Listing Rules and other applicable laws, including closing the Offer early, extending the Offer, deferring the Completion Date or accepting late Applications either generally or in particular cases, allotting Shares at different times to investors, or to withdraw the Offer, without prior notice. The quotation and commencement of trading of the Securities is subject to confirmation from ASX.</p> <p>No Shares will be issued on the basis of this Prospectus later than the Expiry Date.</p>
What are the cash proceeds to be raised?	Approximately \$83.2 million will be raised if the Offer proceeds.
What is the minimum and maximum Application size under the Retail Offer and the Employee Gift Offer?	<p>The minimum Application under the Broker Firm Offer is \$2,000, and in multiples of \$500 thereafter, as directed by the Applicant's Broker. There is no maximum value of Shares that may be applied for under the Broker Firm Offer.</p> <p>Under the Employee Gift Offer, Eligible Employees will be offered the opportunity to apply for up to \$1,000 worth of Shares at no cost.</p> <p>The minimum application size under the Chairman's List Offer is \$2,000. There is no maximum value of Shares that may be applied for under the Chairman's List Offer.</p>
What is the allocation policy?	<p>The allocation of Shares between the Retail Offer and the Institutional Offer was determined by the Lead Manager in consultation with the Company, having regard to the allocation policy outlined in Sections 7.3, 7.4, 7.5 and 7.8.</p> <p>For Broker Firm Offer participants, the relevant Broker will decide as to how they allocate Shares among their retail clients.</p> <p>The Lead Manager and SurfStitch Group have absolute discretion regarding the allocation of Shares to Applicants under the Offer and may reject an Application, or allocate a lesser number of Shares than applied for. The Lead Manager and SurfStitch Group also reserve the right to aggregate any Applications that they believe may be multiple Applications from the same person.</p>
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be dispatched by standard post on Wednesday, 17 December 2014.

## 7. DETAILS OF THE OFFER

Topic	Summary
Will the securities be listed?	<p>SurfStitch Group will apply to ASX for admission to the Official List and quotation of Shares on the ASX (which is expected to be under the code SRF). Completion of the Offer is conditional on ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.</p> <p>SurfStitch Group will be required to comply with the ASX Listing Rules, subject to any waivers obtained by SurfStitch Group from time to time.</p> <p>ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit SurfStitch Group to the Official List is not to be taken as an indication of the merits of SurfStitch Group or the Shares offered for subscription.</p>
When are the securities expected to commence trading?	<p>It is expected that trading of the Shares on the ASX will commence on or around Tuesday, 16 December 2014 on a deferred settlement basis.</p> <p>Shares will commence trading on the ASX on a normal settlement basis on or around Thursday, 18 December 2014.</p> <p>It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial holdings statement do so at their own risk. The Company and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial holding statement, whether on the basis of a confirmation of allocation provided by any of them, by the SurfStitch Offer Information Line, by a Broker or otherwise.</p>
Is the Offer underwritten?	The Offer is underwritten by the Lead Manager and Underwriter, pursuant to the Underwriting Agreement. Refer to Section 9.4 for further details.
Are there any escrow arrangements?	Yes. Details are provided in Section 7.10.
Has any ASIC relief or ASX waiver been obtained or applied for?	Yes. Details are provided in Section 9.11.
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.
What should I do with any enquiries?	<p>All enquiries in relation to this Prospectus should be directed to the SurfStitch Offer Information Line on 1300 553 490 (within Australia) or +61 1300 553 490 (outside Australia) from 8.30am to 5.00pm Sydney time, Monday to Friday (Business Days only) during the Offer period.</p> <p>All enquiries in relation to the Broker Firm Offer should be directed to your Broker.</p> <p>If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.</p>



## 7.3 BROKER FIRM OFFER

### 7.3.1 Who can apply?

The Broker Firm Offer is open to retail investors who have received a firm allocation of Shares from their Broker and who have a registered address in Australia. If you have received a firm allocation of Shares from your Broker, you will be treated as a Broker Firm Offer Applicant in respect of that allocation. You should contact your Broker to determine whether you can receive an allocation of Shares from them under the Broker Firm Offer. The Broker Firm Offer is not open to persons in the United States.

### 7.3.2 How to apply for Shares under the Broker Firm Offer

If you have received an allocation of Shares from your Broker and wish to apply for those Shares under the Broker Firm Offer, you should contact your Broker for information about how to submit your Broker Firm Offer Application Form and for payment instructions.

Applicants under the Broker Firm Offer must lodge their Application Form and Applications Monies with the relevant Broker in accordance with the relevant Broker's directions in order to receive their firm allocation.

If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Broker Firm Offer Application Form with the Broker from whom you received your firm allocation. Broker Firm Offer Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Application Form.

Applicants under the Broker Firm Offer must not send their Application Forms or payment to the Share Registry.

By making an Application, you declare that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

The minimum Application under the Broker Firm Offer is \$2,000, and in multiples of \$500 thereafter, as directed by the Applicant's Broker. There is no maximum value of Shares that may be applied for under the Broker Firm Offer.

SurfStitch Group, the Lead Manager and the Share Registry take no responsibility for any acts or omissions committed by your Broker in connection with your Application.

The Broker Firm Offer opens at 9.00am (Sydney time) on 8 December 2014 and is expected to close at 5.00pm (Sydney time) on 12 December 2014. SurfStitch Group in consultation with the Lead Manager may elect to close the Offer or any part of it early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer or any part of it may be closed at any earlier time and date, without further notice. Your Broker may also impose an earlier

closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Contact your Broker for instructions.

The Lead Manager and SurfStitch Group, reserve the right to reject any Application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Broker Firm Offer, or to waive or correct any errors made by an Applicant in completing their Application.

### 7.3.3 Payment methods

Applicants under the Broker Firm Offer must pay their Application Monies to their Broker in accordance with instructions provided by that Broker.

### 7.3.4 Allocation policy under the Broker Firm Offer

Shares that have been allocated to Brokers for allocation to their Australian resident retail clients will be issued to the Applicants nominated by those Brokers. It will be a matter for each Broker as to how they allocate firm Shares among their retail clients, and they (and not SurfStitch Group or the Lead Manager) will be responsible for ensuring that retail clients who have received a firm allocation from them receive the relevant Shares.

## 7.4 EMPLOYEE GIFT OFFER

### 7.4.1 Who can apply?

All Eligible Employees are entitled to participate in the Employee Gift Offer. Eligible Employees are all permanent full-time employees of SurfStitch in Australia who have been employed by SurfStitch for at least six months as at 5.00pm on 26 November 2014.

A separate offer letter, together with access to this Prospectus, will be provided to Eligible Employees, detailing the terms of the Employee Gift Offer. Eligible Employees should read the separate offer letter and this Prospectus carefully and in their entirety before deciding to apply under the Employee Gift Offer, including Section 9.10.6 on Australian tax issues for Australian tax resident Shareholders who acquire shares under the Employee Gift Offer. If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, tax adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

### 7.4.2 How to apply

A separate offer letter, together with this Prospectus, will be provided to Eligible Employees, detailing the terms of the Employee Gift Offer.

### 7.4.3 Payment methods

No payment is required for the Employee Gift Offer.

### 7.4.4 Allocation policy under the Employee Gift Offer

Employee Gift Offer Applicants will receive a guaranteed allocation of \$1,000 worth of Shares (rounded down to the nearest whole Share based on the Offer Price).

## 7. DETAILS OF THE OFFER

### 7.5 CHAIRMAN'S LIST OFFER

#### 7.5.1 Who can apply?

The Chairman's List Offer is open to selected investors who have received a Chairman's List Invitation.

#### 7.5.2 How to apply for Shares under the Chairman's List Offer

If you have received a Chairman's List Invitation and you wish to apply for Shares under the Chairman's List Offer, you should follow the instructions on your personalised invitation to apply.

The minimum application size under the Chairman's List Offer is \$2,000. There is no maximum value of Shares that may be applied for under the Chairman's List Offer.

By making an application, you declare that you were given access to this Prospectus (or any supplementary or replacement Prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applicants under the Chairman's List Offer must pay their Application Monies in accordance with instructions on their personalised invitation. For more details, prospective Applicants should refer to [www.SurfStitch.com](http://www.SurfStitch.com) or contact the SurfStitch Offer Information Line on 1300 553 490 (within Australia) or +61 1300 553 490 (outside Australia).

Application Monies must be received by the Share Registry by no later than 5.00pm Sydney time on Friday, 12 December 2014 and it is your responsibility to ensure that this occurs. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should therefore take this into consideration when making payment. Neither the Company nor the Lead Manager take any responsibility for any failure to receive Application Monies before the Chairman's List Offer closes arising as a result of, among other things, delays in processing of payments by financial institutions.

#### 7.5.3 Allocation policy under the Chairman's List Offer

Chairman's List Offer Applicants will receive a guaranteed allocation of Shares in the amount notified on their Chairman's List Invitation or such lesser amount validly applied for. Beyond this, the allocation of stock to Applicants under the Chairman's List Offer will be determined by SurfStitch Group, in consultation with the Lead Manager.

### 7.6 APPLICATION MONIES

The Lead Manager and SurfStitch Group reserve the right to decline any Application in whole or in part, without giving any reason. Applicants under the Broker Firm Offer or Chairman's List Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded. Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing their Application Monies by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be rounded down and any excess refunded (without interest). If the amount of your Application Monies is less than the amount specified on your Application Form, you may be taken to have applied for such lower Australian dollar amount of Shares as for which your cleared Application Monies will pay (and to have specified that amount on your Application Form) or your Application may be rejected.

### 7.7 ACCEPTANCE OF APPLICATIONS

An Application in the Broker Firm Offer or Chairman's List Offer is an offer by an Applicant to SurfStitch Group to subscribe for Shares in the amount specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement Prospectus) and the Application Form (including the conditions regarding quotation on ASX in Section 7.12.1). To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An Application may be accepted by SurfStitch Group in respect of the full number of Shares specified in the Application Form or any of them, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

### 7.8 INSTITUTIONAL OFFER

#### 7.8.1 Invitations to bid

The Institutional Offer consisted of an invitation to certain Institutional Investors in Australia and in a number of other eligible jurisdictions outside the United States to bid for an allocation of Shares under this Prospectus at the Offer Price per Share. The Lead Manager has separately advised Institutional Investors of the application procedures for the Institutional Offer.

#### 7.8.2 Allocation policy under the Institutional Offer

The allocation of Shares among Applicants between the Institutional Offer and the Retail Offer was determined by the Lead Manager in consultation with SurfStitch Group. The Lead Manager and SurfStitch Group have absolute discretion regarding the basis of allocation of Shares between the Institutional Offer and Retail Offer and among Institutional Investors.

Participants in the Institutional Offer have been advised of their allocation of Shares, if any, by the Lead Manager. The allocation policy was influenced, but not constrained, by the following factors:

- number of Shares bid for by particular Applicants;
- the timeliness of the bid by particular Applicants;
- SurfStitch Group's desire for an informed and active trading market following Listing;
- SurfStitch Group's desire to establish a wide spread of institutional Shareholders;
- overall level of demand under the Broker Firm Offer, Employee Gift Offer, Chairman's List Offer and Institutional Offer;
- the size and type of funds under management of particular Applicants;
- the likelihood that particular Applicants will be long-term Shareholders; and
- any other factors that SurfStitch Group and the Lead Manager considered appropriate.

## 7.9 UNDERWRITING ARRANGEMENTS

Please refer to Section 9.4 for information on the underwriting arrangements.

## 7.10 ESCROW ARRANGEMENTS

On Completion of the Offer and completion of the SurfDome acquisition, the Management Shareholders will hold 11.0% of the Shares, the Pre-IPO Investors will hold 42.2% of the Shares and the SurfDome Shareholders will hold 6.8% of the Shares.

All of the Shares held at Completion of the Offer and completion of the SurfDome acquisition by the Escrowed Shareholders, excluding any Shares acquired by them under the Offer (if any), will be subject to voluntary escrow arrangements which prevent them from disposing of their Escrowed Shares for the following periods:

- in relation to the Management Shareholders and the SurfDome Shareholders, 50% of the Escrowed Shares will be released on the date on which the audited financial accounts for SurfStitch Group for the financial year ending 30 June 2015 have been released to ASX and the remaining 50% of the Escrowed Shares will be released on the date that is six months after the date on which SurfStitch Group's audited financial accounts for the financial year ending 30 June 2015 have been released to ASX; and
- in relation to the Pre-IPO Investors and Stephen Goddard, 50% of the Escrowed Shares will be released on the date on which the reviewed financial accounts of SurfStitch Group for the half-year ending on 31 December 2014 have been released to ASX and the remaining 50% of the Escrowed Shares will be released on the date on which the audited financial accounts of SurfStitch Group for the financial year ending on 30 June 2015 have been released to ASX.

Each of these Escrowed Shareholders has entered into an escrow deed in respect of their escrowed shareholding retained following the Offer, which prevent them from disposing of their respective Escrowed Shares for the applicable escrow period. The restriction on "disposing" is broadly defined and includes, among other things, selling, assigning, transferring or otherwise disposing of any interest in the Shares, encumbering or granting a security interest over the Shares, doing, or omitting to do, any act if the act or omission would have the effect of transferring effective ownership or control (including economic ownership or control) of any of the Shares or agreeing to do any of those things.

All of the Escrowed Shareholders may be released early from these escrow obligations to enable:

- the Escrowed Shareholder to accept an offer under a takeover bid in relation to its Shares if at least half of the holders of the Shares which are the subject of the bid that are not held by the Escrowed Shareholders have accepted the takeover bid; or
- the Shares held by the Escrowed Shareholder to be transferred or cancelled as part of a scheme of arrangement under Part 5.1 of the Corporations Act; or
- upon the death or incapacity of the Escrowed Shareholder.

During the escrow period, the Escrowed Shareholders whose Shares are subject to escrow may deal in any of their Shares to the extent the dealing is required by applicable law (including an order of a court of competent jurisdiction).

## 7.11 DISCRETION REGARDING THE OFFER

SurfStitch Group may withdraw the Offer or the Employee Gift Offer at any time before issue of Shares to successful Applicants in the Broker Firm Offer, Employee Gift Offer, Chairman's List Offer and Institutional Offer. If the Offer or the Employee Gift Offer, or any part of them, does not proceed, all relevant Application Monies will be refunded without interest. SurfStitch Group, in consultation with the Lead Manager, reserves the right to close the Offer or the Employee Gift Offer or any part of them early, extend the Offer or the Employee Gift Offer or any part of them, accept late Applications either generally or in particular cases, allot Shares at different times to investors, reject any Application or allocate to any Applicant fewer new Shares than applied for.

## 7. DETAILS OF THE OFFER

### 7.12 ASX LISTING, REGISTERS AND HOLDING STATEMENTS

#### 7.12.1 Application to ASX for listing of SurfStitch Group and quotation of Shares

SurfStitch Group will apply within seven days after the date on this Prospectus to ASX for listing of SurfStitch Group and quotation of its Shares on ASX. SurfStitch Group's expected ASX code is SRF. ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit SurfStitch Group to the Official List is not to be taken as an indication of the merits of SurfStitch Group or the Shares offered for subscription under the Offer. If permission is not granted for the official quotation of the Shares on ASX within three months after the date of this Prospectus (or any later date permitted by law), all Application Monies received by SurfStitch Group will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act. Subject to certain conditions (including any waivers obtained by SurfStitch Group from time to time), SurfStitch Group will be required to comply with the ASX Listing Rules.

#### 7.12.2 CHESS and issuer sponsored holdings

SurfStitch Group will apply to participate in ASX's Clearing House Electronic Subregister System ("CHESS") and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are affected in an electronic form. When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub-registers, an electronic CHESS sub-register or an issuer sponsored sub-register.

For all successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS sub-register. All other Shares will be registered on the issuer sponsored sub-register. Following Completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number ("HIN") for CHESS holders or, where applicable, the Securityholder Reference Number ("SRN") of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their shareholding. Certificates will not be issued. Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS sub-register or through the Share Registry in the case of a holding on the issuer sponsored sub-register. SurfStitch and the Share Registry may charge a fee for these additional issuer sponsored statements.

### 7.13 DESCRIPTION OF SHARES

#### 7.13.1 Introduction

The rights and liabilities attaching to the ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law. All Shares being offered under this Prospectus will rank equally with each other and with those held by Existing Shareholders at Completion. A summary of the significant rights and liabilities attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. This summary assumes that SurfStitch Group is admitted to the Official List of ASX.

#### 7.13.2 Voting at a general meeting

At a general meeting of SurfStitch Group, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and one vote on a poll for each Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote, in addition to any deliberative vote.

#### 7.13.3 Meetings of members

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of SurfStitch Group and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and ASX Listing Rules. SurfStitch Group must give at least 28 days' written notice of a general meeting.

#### 7.13.4 Dividends

The Board may pay any interim and final dividends that, in its judgement, the financial position of SurfStitch Group justifies. The Board may also pay any dividend required to be paid under the terms of issue of a share, and fix a record date for a dividend (subject to the ASX Settlement Operating Rules) and the timing and method of payment. For further information about SurfStitch Group's proposed dividend policy, see Section 4.9.

#### 7.13.5 Transfer of Shares

Subject to the Constitution and to any restrictions attached to a Shareholder's Shares, Shares may be transferred via a proper transfer (effected in accordance with the Corporations Regulations, ASX Listing Rules and the ASX Settlement Operating Rules) or via a written transfer in any usual form or in any other form approved by the Board and permitted by the relevant laws and ASX requirements. The Directors may refuse to register a transfer of Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

#### 7.13.6 Issue of further shares and other securities

Subject to the Corporations Act, ASX Listing Rules and the Constitution, the Board may issue, allot or grant options for, or otherwise dispose of, Shares and other securities in SurfStitch Group on such terms as the Board decides.



### 7.13.7 Winding up

If SurfStitch Group is wound up, the liquidator may with the sanction of a special resolution, divide the whole or part of SurfStitch Group's property among Shareholders and decide how the division is to be carried out as between Shareholders or different classes of Shareholders.

### 7.13.8 Unmarketable parcels

Subject to the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules, SurfStitch Group may sell Shares of a Shareholder who holds less than a marketable parcel of Shares by following the procedures set out in the Constitution.

### 7.13.9 Share buy-backs

Subject to the Corporations Act and the ASX Listing Rules, SurfStitch Group may buy back Shares on terms and at times determined by the Directors.

### 7.13.10 Proportional takeover provisions

The Constitution requires Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless they are renewed by Shareholders passing a special resolution by the third anniversary of either the date that those provisions were adopted or the date those rules were last renewed.

### 7.13.11 Variation of class rights

At present, SurfStitch Group's only class of shares on issue is ordinary Shares. The rights attaching to any class of shares may be varied or cancelled in accordance with the Constitution and the Corporations Act.

### 7.13.12 Directors – appointment and removal

Under the Constitution, the Board is comprised of a minimum of three Directors and a maximum of eight Directors unless the Shareholders pass a resolution varying that number at a general meeting. Directors are elected or re-elected at general meetings of SurfStitch Group. No Director (excluding any Managing Director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The Board may also appoint a Director in addition to the existing Directors or to fill a casual vacancy on the Board, and that Director (apart from the Managing Director) will then hold office until the conclusion of the next annual general meeting of SurfStitch Group.

### 7.13.13 Directors – voting

Questions arising at a meeting of the Board must be decided by a majority of votes cast by the Directors present and entitled to vote on the matter. If the votes are equal on a proposed resolution at a Board meeting, the chairperson of the meeting has a casting vote. In addition, when the number of executive Directors on the Board is greater than the number of non-executive Directors, the chairperson of the meeting has two deliberative votes (in addition to a casting vote).

### 7.13.14 Directors – remuneration

See Section 6.3.2 for a description of the remuneration arrangements for Directors.

### 7.13.15 Indemnities and access to records

SurfStitch Group indemnifies each Director, alternate Director and executive officer of SurfStitch Group on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by that person as an officer of SurfStitch Group or its related bodies corporate. SurfStitch Group, to the extent permitted by law, may purchase and maintain insurance, or pay or agree to pay, a premium for insurance for each Director, alternate Director and executive officer of SurfStitch Group against any liability incurred by that person as an officer of SurfStitch Group or its related bodies corporate, including a liability for negligence or for reasonable costs and expenses incurred in defending or responding to proceedings (whether civil or criminal and whatever their outcome). SurfStitch Group may enter into contracts with a Director or former Directors agreeing to provide continuing access to Board papers, books, records and documents of SurfStitch Group which relate to the period during which the Director or former Director was a Director. SurfStitch Group may procure that its subsidiaries provide similar access to Board papers, books, records or documents.

### 7.13.16 Amendment

The Constitution can only be amended by special resolution passed by Shareholders.

## 7.14 RESTRICTIONS ON DISTRIBUTION

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia. This Prospectus does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released or distributed in the United States or elsewhere outside Australia. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The Shares have not been, and will not be, registered under the US Securities Act or the securities law of any state of the United States and may not be offered, sold, re-sold, pledged or transferred in the United States except in accordance with US Securities Act registration requirements or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and any other applicable state securities law.



## 7. DETAILS OF THE OFFER

Each Applicant under the Offer will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities law of any state of the United States and may not be offered, sold, re-sold, pledged or transferred in the United States except in accordance with US Securities Act registration requirements or in a transaction not subject to the registration requirements of the US Securities Act and any other applicable state securities law;
- it is not in the United States;
- it is purchasing the Shares in an offshore transaction meeting the requirements of Regulation S;
- it has not and will not send this Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in any other jurisdiction outside Australia except in compliance with all applicable laws in the jurisdiction in which the Shares are offered and sold.

Each Applicant under the Institutional Offer is required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

This Prospectus does not constitute an offer of new Shares in SurfStitch Group in any jurisdiction in which it would be unlawful. In particular, this Prospectus may not be distributed to any person, and the new Shares may not be offered or sold, in any country outside Australia except to the extent permitted below.

### European Economic Area – Belgium, Denmark, Germany, Luxembourg and Netherlands

The information in this Prospectus has been prepared on the basis that all offers of new Shares will be made pursuant to an exemption under the Directive 2003/71/EC (“Prospectus Directive”), as amended and implemented in Member States of the European Economic Area (each, a “Relevant Member State”), from the requirement to produce a prospectus for offers of securities.

An offer to the public of new Shares has not been made, and may not be made, in a Relevant Member State except pursuant to one of the following exemptions under the Prospectus Directive as implemented in that Relevant Member State:

- to any legal entity that is authorised or regulated to operate in the financial markets or whose main business is to invest in financial instruments;
- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000 and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);

- to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2004/39/EC, “MiFID”); or
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 24 of the MiFID.

### France

This Prospectus is not being distributed in the context of a public offering of financial securities (offre au public de titres financiers) in France within the meaning of Article L.411-1 of the French Monetary and Financial Code (Code monétaire et financier) and Articles 211-1 et seq. of the General Regulation of the French Autorité des marchés financiers (“AMF”). The new Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France.

This Prospectus and any other offering material relating to the new Shares have not been, and will not be, submitted to the AMF for approval in France and, accordingly, may not be distributed (directly or indirectly) to the public in France. Such offers, sales and distributions have been and shall only be made in France to qualified investors (investisseurs qualifiés) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2, D.411-1, L.533-16, L.533-20, D.533-11, D.533-13, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the AMF, investors in France are informed that the new Shares cannot be distributed (directly or indirectly) to the public by the investors otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Monetary and Financial Code.

### Hong Kong

**WARNING:** This Prospectus has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the “SFO”). No action has been taken in Hong Kong to authorise or register this Prospectus or to permit the distribution of this Prospectus or any documents issued in connection with it. Accordingly, the new Shares have not been and will not be offered or sold in Hong Kong other than to “professional investors” (as defined in the SFO).

No advertisement, invitation or document relating to the new Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to new Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted new Shares may sell, or offer to sell, such securities

in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this Prospectus have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the Offer. If you are in doubt about any contents of this Prospectus you should obtain independent professional advice.

#### **Ireland**

The information in this Prospectus does not constitute a prospectus under any Irish laws or regulations and this Prospectus has not been filed with or approved by any Irish regulatory authority as the information has not been prepared in the context of a public offering of securities in Ireland within the meaning of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the "Prospectus Regulations"). The new Shares have not been offered or sold, and will not be offered, sold or delivered directly or indirectly in Ireland by way of a public offering, except to "qualified investors" as defined in Regulation 2(l) of the Prospectus Regulations.

#### **New Zealand**

This Prospectus has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (New Zealand). The new Shares are not being offered or sold in New Zealand, or allotted with a view to being offered for sale in New Zealand, and no person in New Zealand may accept a placement of new Shares other than to:

- persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money; or
- persons who are each required to (i) pay a minimum subscription price of at least NZ\$500,000 for the securities before allotment or (ii) have previously paid a minimum subscription price of at least NZ\$500,000 for securities of the Company ("initial securities") in a single transaction before the allotment of such initial securities and such allotment was not more than 18 months prior to the date of this document.

#### **Norway**

This Prospectus has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this Prospectus shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The new Shares may not be offered or sold, directly or indirectly, in Norway except to "professional clients" (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation).

#### **Singapore**

This Prospectus and any other materials relating to the new Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of new Shares, may not be issued, circulated or distributed, nor may the new Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), or as otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

This Prospectus has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this Prospectus immediately. You may not forward or circulate this Prospectus to any other person in Singapore.

Any offer is not made to you with a view to the new Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire new Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

#### **Switzerland**

The new Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This Prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the new Shares may be publicly distributed or otherwise made publicly available in Switzerland. The new Shares will only be offered to regulated financial intermediaries such as banks, securities dealers, insurance institutions and fund management companies as well as institutional investors with professional treasury operations.

Neither this Prospectus nor any other offering or marketing material relating to the new Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Prospectus will not be filed with, and the offer of new Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

This Prospectus is personal to the recipient only and not for general circulation in Switzerland.

## 7. DETAILS OF THE OFFER

### United Kingdom

Neither the information in this Prospectus 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 new Shares. This Prospectus is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA) in the United Kingdom, and the new Shares may not be offered or sold in the United Kingdom by means of this Prospectus any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This Prospectus should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the new Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to the Company.

In the United Kingdom, this Prospectus is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("FPO"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO, (iii) to employees of SurfDome to facilitate the acquisition and holding of shares by such persons in their capacity as employees of SurfStitch or (iv) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this Prospectus 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 Prospectus or any of its contents.



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8

INVESTIGATING  
ACCOUNTANT'S  
REPORT



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## 8. INVESTIGATING ACCOUNTANT'S REPORT



**KPMG Transaction Services**  
A division of KPMG Financial Advisory Services  
(Australia) Pty Ltd  
Australian Financial Services Licence No. 246901  
10 Shelley Street  
Sydney NSW 2000

ABN: 43 007 363 215  
Telephone: +61 2 9335 7000  
Facsimile: +61 2 9335 7001  
DX: 1056 Sydney  
www.kpmg.com.au

PO Box H67  
Australia Square 1213  
Australia

The Directors  
SurfStitch Group Limited  
SurfStitch Holdings Pty Limited  
225 Burleigh Connection Road  
Burleigh Heads, QLD 4220

27 November 2014

Dear Directors

### **Limited Assurance Investigating Accountant's Report and Financial Services Guide**

#### **Investigating Accountant's Report**

##### **Introduction**

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("KPMG Transaction Services") has been engaged by SurfStitch Group Limited ("SurfStitch") and SurfStitch Holdings Pty Limited to prepare this report for inclusion in the prospectus to be dated 27 November 2014 ("Prospectus"), and to be issued by SurfStitch, in respect of the proposed initial public offering of shares in SurfStitch and listing on the ASX (the "Offer").

Expressions defined in the Prospectus have the same meaning in this report.

##### **Scope**

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the pro forma historical and forecast financial information described below and disclosed in the Prospectus.

The pro forma historical and forecast financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

##### **Pro Forma Historical Financial Information**

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the pro forma historical financial information of SurfStitch (the responsible party) included in the Prospectus.

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG.

KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



*SurfStitch Group Limited*  
*Limited Assurance Investigating Accountant's Report and*  
*Financial Services Guide*  
*27 November 2014*

The pro forma historical financial information has been derived from the historical financial information of SurfStitch, after adjusting for the effects of pro forma adjustments described in Section 4.2 of the Prospectus.

The pro forma financial information consists of SurfStitch's:

- pro forma historical consolidated Statement of Financial Position as at 30 June 2014;
- pro forma historical consolidated Statements of Financial Performance for the financial years ended 30 June 2012, 30 June 2013 and 30 June 2014; and
- pro forma historical consolidated Statements of Cash Flows for the financial years ended 30 June 2012, 30 June 2013 and 30 June 2014

and related notes as set out in Section 4 of the Prospectus issued by SurfStitch (collectively the "Pro Forma Historical Financial Information").

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in Section 4.2 of the Prospectus. Due to its nature, the Pro Forma Historical Financial Information does not represent SurfStitch's actual or prospective financial position, financial performance, and/or cash flows.

The Pro Forma Historical Financial Information has been compiled by SurfStitch to illustrate the impact of the Offer on SurfStitch's financial position as at 30 June 2014, financial performance and cash flows for the financial years ended 30 June 2012, 30 June 2013 and 30 June 2014. As part of this process, information about SurfStitch's financial position, financial performance and cash flows has been extracted by SurfStitch from predecessor entities' audited financial statements for the financial years ended 30 June 2012, 30 June 2013 and 30 June 2014.

The financial statements of those entities for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 were audited by SurfStitch's then external auditor in accordance with Australian Auditing Standards. The audit opinions relating to those financial statements were unqualified.

For the purposes of preparing this report we have performed limited assurance procedures in relation to the Pro Forma Historical Financial Information in order to state whether, on the basis of the procedures described, anything comes to our attention that would cause us to believe that the Pro Forma Historical Financial Information is not prepared or presented fairly, in all material respects, by the Directors in accordance with the stated basis of preparation. As stated in Section 4.2 of the Prospectus, the stated basis of preparation is:

- the extraction of Historical Financial Information, comprising the:
  - historical consolidated Statement of Financial Position as at 30 June 2014;
  - historical consolidated Statement of Financial Performance for the financial years ended 30 June 2012, 30 June 2013 and 30 June 2014; and
  - historical consolidated Statement of Cash Flows for the financial years ended 30 June 2012, 30 June 2013 and 30 June 2014,

## 8. INVESTIGATING ACCOUNTANT'S REPORT

**SurfStitch Group Limited**  
*Limited Assurance Investigating Accountant's Report and  
Financial Services Guide*  
27 November 2014

(together the "Historical Financial Information") from audited financial information for the years ended 30 June 2012, 30 June 2013 and 30 June 2014;

- the application of pro forma adjustments, determined in accordance with Australian Accounting Standards and SurfStitch's accounting policies, to the Historical Financial Information to illustrate the effects of the Offer on SurfStitch described in Section 4.2 of the Prospectus.

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*.

The procedures we performed were based on our professional judgement and included:

*Historical financial information*

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the historical financial information of SurfStitch from the audited financial statements of predecessor entities for the years ended 30 June 2012, 30 June 2013 and 30 June 2014, and consideration of the acceptability of the accounting policies and the time frame covered;

*Pro forma adjustments:*

- consideration of the pro forma adjustments made to the Historical Financial Information;
- enquiry of Directors, management, personnel and advisors;
- the performance of analytical procedures applied to the Pro Forma Historical Financial Information; and
- a review of SurfStitch's accounting policies for consistency of application.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Historical Financial Information is prepared or presented fairly, in all material respects, by the Directors in accordance with the stated basis of preparation.

***Forecast Financial Information and Directors' best-estimate assumptions***

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the:

- Pro forma forecast consolidated Statements of Financial Performance for the financial year ending 30 June 2015;

**SurfStitch Group Limited**  
*Limited Assurance Investigating Accountant's Report and  
Financial Services Guide*  
27 November 2014

- Statutory forecast consolidated Statement of Financial Performance for the financial year ending 30 June 2015;
- Pro forma forecast consolidated Statements of Cash Flows for the financial year ending 30 June 2015; and
- Statutory forecast consolidated Statements of Cash Flows for the financial year ending 30 June 2015,

of SurfStitch (the responsible party) as described in Section 4 of the Prospectus (the "Forecast Financial Information"). The Directors' best-estimate assumptions underlying the Forecast Financial Information are described in Section 4.7 of the Prospectus. As stated in Section 4.7 of the Prospectus, the basis of preparation of the Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and SurfStitch's accounting policies.

We have performed limited assurance procedures in relation to the Forecast Financial Information, set out in Section 4 of the Prospectus, and the Directors' best-estimate assumptions underlying it in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that:

- the Directors' best-estimate assumptions do not provide reasonable grounds for the Directors' Forecast;
- in all material respects the Directors' Forecast is not:
  - prepared on the basis of the Directors' best-estimate assumptions as described in the Prospectus; and
  - presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards and SurfStitch's accounting policies;
- the Forecast Financial Information itself is unreasonable.

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 primarily of:

- comparison and analytical review procedures;
- discussions with management and Directors of SurfStitch of the factors considered in determining their assumptions; and
- examination, on a test basis, of evidence supporting:

## 8. INVESTIGATING ACCOUNTANT'S REPORT

*SurfStitch Group Limited*  
*Limited Assurance Investigating Accountant's Report and*  
*Financial Services Guide*  
*27 November 2014*

- the assumptions and amounts in the Forecast Financial Information; and
- the evaluation of accounting policies used in the Forecast Financial Information.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion.

### **Directors' responsibilities**

The Directors of SurfStitch are responsible for the preparation of:

- the Pro Forma Historical Financial Information, including the selection and determination of the pro forma transactions and/or adjustments made to the historical financial information and included in the Pro Forma Historical Information; and
- the Forecast Financial Information, including the Directors' best-estimate assumptions on which the Forecast Financial Information is based and the sensitivity of the Forecast Financial Information to changes in key assumptions.

The Directors' responsibility includes establishing and maintaining such internal controls as the Directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

### **Conclusions**

#### ***Review statement on the Pro Forma Historical Financial Information***

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as set out in Section 4 of the Prospectus, comprising:

- the pro forma historical consolidated Statement of Financial Position as at 30 June 2014;
- the pro forma historical consolidated Statement of Financial Performance for the financial years ended 30 June 2012, 30 June 2013 and 30 June 2014; and
- the pro forma historical consolidated Statement of Cash Flows for the financial years ended 30 June 2012, 30 June 2013 and 30 June 2014,

is not prepared or presented fairly, in all material respects, on the basis of the pro forma transactions and/or adjustments described in Section 4.2 of the Prospectus, and in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and SurfStitch's accounting policies.

#### ***Forecast Financial Information and the Directors' best-estimate assumptions***

Based on our procedures, which are not an audit, nothing has come to our attention which causes us to believe that:

*SurfStitch Group Limited*  
*Limited Assurance Investigating Accountant's Report and*  
*Financial Services Guide*  
*27 November 2014*

- the Directors' best-estimate assumptions used in the preparation of the Forecast Financial Information do not provide reasonable grounds for the Directors' Forecast; and
- in all material respects, the Forecast Financial Information:
  - is not prepared on the basis of the Directors' best-estimate assumptions as described in Section 4.7 of the Prospectus; and
  - is not presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards, and SurfStitch's accounting policies; and
- the Forecast Financial Information itself is unreasonable.

The Forecast Financial Information has been prepared by SurfStitch management and adopted and disclosed by the Directors in order to provide prospective investors with a guide to the potential financial performance of SurfStitch for the year ending 30 June 2015.

There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variation may be material. The Directors' best-estimate assumptions on which the Forecast Financial Information is based relate to future events and/or transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of SurfStitch. Evidence may be available to support the Directors' best-estimate assumptions on which the Forecast Financial Information is based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in SurfStitch, which are detailed in the Prospectus, and the inherent uncertainty relating to the Forecast Financial Information. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in Section 5 of the Prospectus. The sensitivity analysis described in Section 4.8 of the Prospectus demonstrates the impact on the Forecast Financial Information of changes in key best-estimate assumptions. We express no opinion as to whether the Forecast Financial Information will be achieved.

We have assumed, and relied on representations from certain members of management of SurfStitch, that all material information concerning the prospects and proposed operations of SurfStitch has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.



## 8. INVESTIGATING ACCOUNTANT'S REPORT

*SurfStitch Group Limited*  
*Limited Assurance Investigating Accountant's Report and*  
*Financial Services Guide*  
*27 November 2014*

### **Independence**

KPMG Transaction Services does not have any interest in the outcome of the Offer, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

### **General advice warning**

This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

### **Restriction on use**

Without modifying our conclusions, we draw attention to the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is so included, but has not authorised the issue of the Prospectus. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Prospectus.

Yours faithfully



Stewart May  
Authorised Representative

*SurfStitch Group Limited  
Limited Assurance Investigating Accountant's Report and  
Financial Services Guide  
27 November 2014*

### **Financial Services Guide Dated 27 November 2014**

#### **What is a Financial Services Guide ("FSG")?**

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) ("**KPMG Transaction Services**"), and Stewart May as an authorised representative of KPMG Transaction Services ("**Authorised Representative**") authorised representative number 404262.

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representative and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representative are authorised to provide
- how KPMG Transaction Services and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report ("Report") which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement ("PDS"). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

#### **Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide**

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;

- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

## 8. INVESTIGATING ACCOUNTANT'S REPORT

*SurfStitch Group Limited*  
*Limited Assurance Investigating Accountant's Report and*  
*Financial Services Guide*  
*27 November 2014*

### **KPMG Transaction Services and the Authorised Representative's responsibility to you**

KPMG Transaction Services has been engaged by SurfStitch Group Limited ("SurfStitch") to provide general financial product advice in the form of a Report to be included in the prospectus ("Prospectus") prepared by SurfStitch in relation to the initial public offering of shares in SurfStitch on the ASX ("Offer").

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the Client.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

### **General Advice**

As KPMG Transaction Services has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

### **Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives**

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, SurfStitch. Fees are agreed on either a fixed fee or a time cost basis. In this instance, SurfStitch has agreed to pay KPMG Transaction Services approximately \$0.6 million for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

### **Referrals**

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

### **Associations and relationships**

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of tax and advisory services to SurfStitch for which professional fees are received. Over the past two years professional fees of \$0.5 million have been received from SurfStitch or its subsidiaries. Non of these services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

**SurfStitch Group Limited**  
*Limited Assurance Investigating Accountant's Report and  
 Financial Services Guide*  
 27 November 2014

### Complaints resolution

#### Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

#### External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service ("FOS"). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO  
Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08  
 Facsimile: (03) 9613 6399  
 Email: [info@fos.org.au](mailto:info@fos.org.au).

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

### Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

### Contact Details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services

A division of KPMG Financial Advisory  
 Services (Australia) Pty Ltd  
 10 Shelley St  
 Sydney NSW 2000  
 PO Box H67  
 Australia Square  
 NSW 1213  
 Telephone: (02) 9335 7000  
 Facsimile: (02) 9335 7200

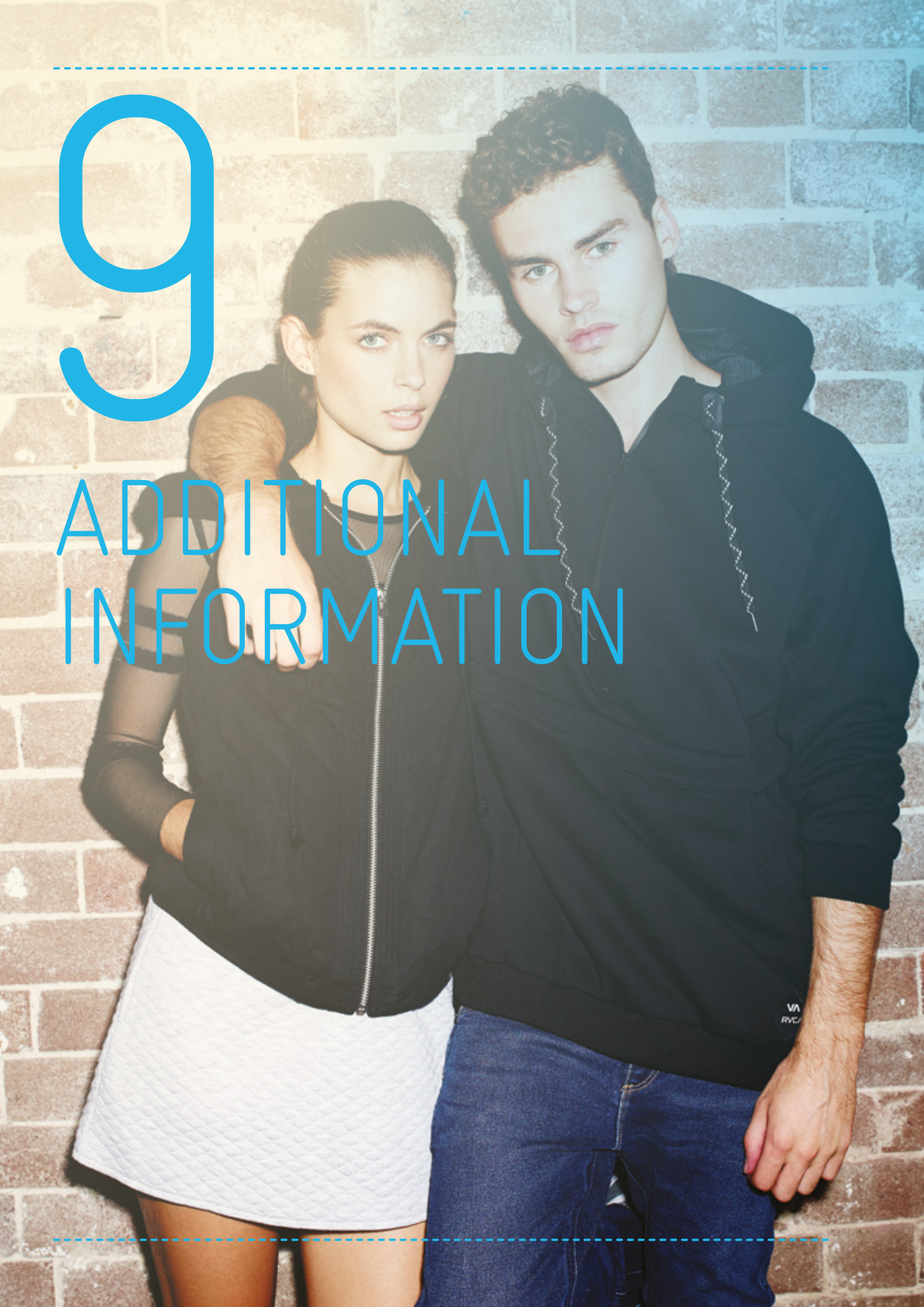
Stewart May  
 C/O KPMG  
 PO Box H67  
 Australia Square  
 NSW 1213  
 Telephone: (02) 9335 7000  
 Facsimile: (02) 9335 7200



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9

ADDITIONAL  
INFORMATION





## 9. ADDITIONAL INFORMATION

### 9.1 REGISTRATION

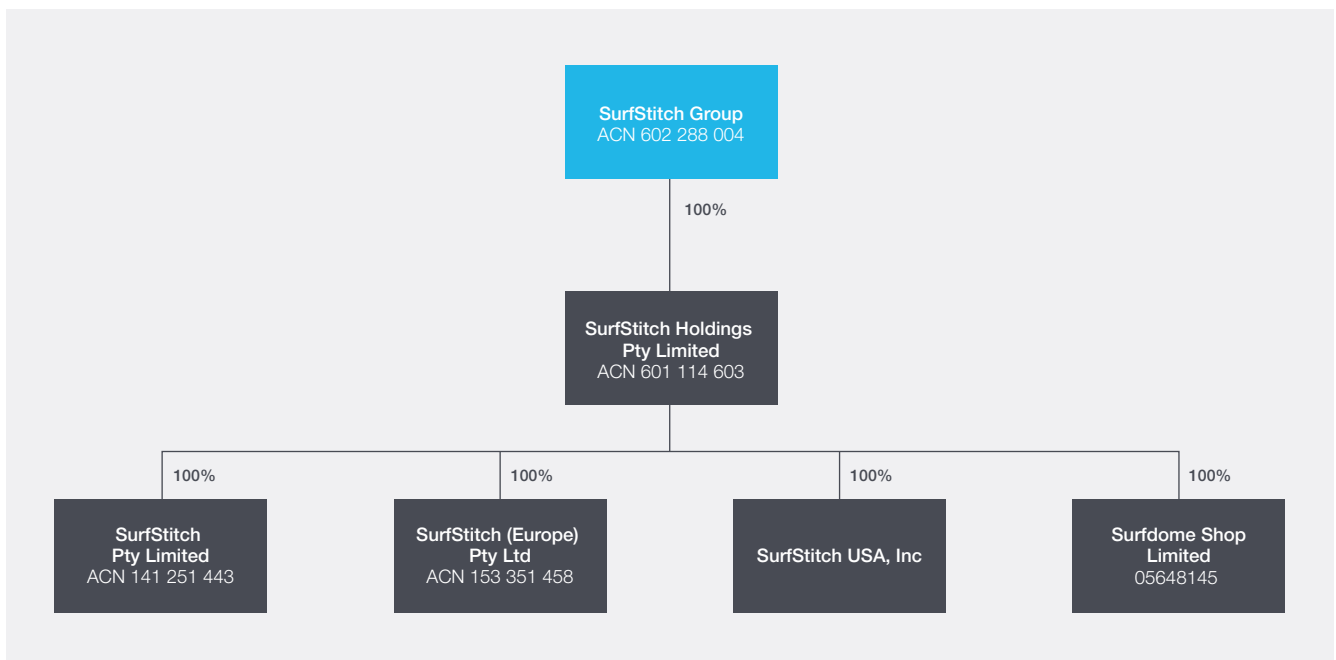
SurfStitch Group was registered in Victoria on 13 October 2014 as a public company limited by shares.

### 9.2 COMPANY TAX STATUS

SurfStitch Group intends to form an Australian tax consolidated group. Accordingly, SurfStitch Group and its Australian resident subsidiaries will be subject to tax at the Australian corporate tax rate which at present is 30%.

### 9.3 CORPORATE STRUCTURE

The corporate structure of SurfStitch immediately after Completion of the Offer and completion of the SurfDome acquisition will be:



Each of the entities above undertakes the business of SurfStitch as set out in this Prospectus.

### 9.4 UNDERWRITING AGREEMENT

The Offer is underwritten by the Lead Manager pursuant to an underwriting agreement dated 27 November 2014 between SurfStitch Holdings, SurfStitch Group and the Lead Manager (“Underwriting Agreement”). Under the Underwriting Agreement, the Lead Manager has agreed to arrange, manage and underwrite the Offer.

#### Commission, fees and expenses

SurfStitch Group has agreed to pay the Lead Manager an underwriting and management fee equal to the greater of \$3.5 million or 3.5% of the proceeds of the Offer. SurfStitch Group may, in its absolute discretion, pay the Lead Manager an incentive fee equal to 0.5% of the proceeds of the Offer. SurfStitch Group has also agreed to pay to Bell Potter a co-lead manager fee of \$200,000. The fees will become payable by SurfStitch Group on the date of Settlement of the Offer. In addition to the fees described above, SurfStitch has agreed to reimburse the Lead Manager for certain agreed costs and expenses, including legal expenses, incurred by the Lead Manager in relation to the Offer.

For the purpose of this Section 9.4, “Offer Documents” means the documents issued or published by or on behalf of SurfStitch Group and with its prior approval in respect of the Offer including:

- the initial pathfinder and any document which supplements or replaces the initial pathfinder (including any addendum to the initial pathfinder);
- the Prospectus and any Application Form;
- any cover email, including an appropriate cautionary legend, sent to eligible Institutional Investors in Australia and New Zealand and other agreed foreign jurisdictions with a link to or attaching the initial pathfinder in connection with the Institutional Offer and bookbuild; and
- any investor presentation or marketing presentation and/or ASX announcement used in connection with the Institutional Offer or the Broker Firm Offer (including any addendum to those presentations and any draft of such documents used for roadshow purposes prior to the lodgement date).

## 9. ADDITIONAL INFORMATION

### 9.4.1 Termination events

The Lead Manager may terminate the Underwriting Agreement, without cost or liability, by notice to SurfStitch Group and SurfStitch Holdings, if any of the following events occur at any time from the date of the Underwriting Agreement until on or before 1.59pm on the date of Settlement:

- a statement in any of the Offer Documents or public information is or becomes false, misleading or deceptive or is likely to mislead or deceive (including by omission), or a matter required to be included is omitted from an Offer Document;
- SurfStitch Group issues or, in the reasonable opinion of the Lead Manager, is required to issue, a supplementary prospectus to comply with section 719 of the Corporations Act;
- at any time the S&P/ASX 200 index falls to a level that is 90% or less of the level as at the close of trading on the day immediately prior to the date of lodgement of the Prospectus or is at or below that level at the close of trading:
  - for two consecutive Business Days during any time after the date of the Underwriting Agreement; or
  - on the Business Day immediately prior to, either, the date of Settlement or the issue date,
- any of the restriction deeds are withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with;
- the Implementation Deed is withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with;
- any Shareholder Deed is withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with;
- SurfStitch Group or SurfStitch Holdings or any of their respective Directors or Officers (as those terms are defined in the Corporations Act) engage, or have engaged since the date of the Underwriting Agreement, in any fraudulent conduct or activity whether or not in connection with the Offer;
- approval is refused or not granted, or approval is granted subject to conditions other than customary conditions, to:
  - SurfStitch Group's admission to the Official List of ASX on or before the listing approval date; or
  - the quotation of all of SurfStitch Group's ordinary shares, including the Shares, on ASX or for SurfStitch Group's ordinary shares, including the Shares, to be traded through CHESS on or before the date on which the Shares are to be first quoted on ASX, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
- any of the following notifications are made in respect of the Offer:
  - ASIC issues an order (including an interim order) under section 739 of the Corporations Act and any such order becomes public and is not withdrawn within three Business Days of when it is made, or if it is made within three Business Days of the date of Settlement, it has not been withdrawn by the date of Settlement;
  - ASIC holds a hearing under section 739(2) of the Corporations Act;
  - an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or an Offer Document or ASIC commences any investigation or hearing under Part 3 of the *Australian Securities and Investments Commission Act 2001* (Cth) in relation to the Offer or an Offer Document and any such application, inquiry or hearing becomes public and is not withdrawn within three Business Days of when it is made, or if it is made within three Business Days of the date of Settlement, it has not been withdrawn by the date of Settlement;
  - any person (other than the Lead Manager) who has previously consented to the inclusion of its name in any Offer Document withdraws that consent; or
  - any person (other than the Lead Manager) gives a notice under section 730 of the Corporations Act in relation to an Offer Document;
- SurfStitch Group or SurfStitch Holdings does not provide a closing certificate as and when required by the Underwriting Agreement;
- if any of the obligations of the relevant parties under the Material Contracts are not capable of being performed in accordance with their terms (in the reasonable opinion of the Lead Manager) or if all or any part of any of such contracts:
  - is amended or varied without the consent of the Lead Manager (acting reasonably);
  - is terminated;
  - is breached;
  - ceases to have effect, otherwise than in accordance with its terms; or
  - is or becomes void, voidable, illegal, invalid or unenforceable (other than by reason only of a party waiving any of its rights) or capable of being terminated, rescinded or avoided or of limited force and affect, or its performance is or becomes illegal;
- SurfStitch Group withdraws the Prospectus;
- SurfStitch Group or SurfStitch Holdings becomes insolvent, or there is an act or omission which is likely to result in SurfStitch Group or SurfStitch Holdings becoming insolvent;
- an event specified in the timetable up to and including the date of Settlement is delayed by more than three Business Days (other than any delay agreed between SurfStitch Group and the Lead Manager);
- SurfStitch Group is prevented from allotting and issuing Shares under the Offer within the time required by the timetable in the Underwriting Agreement, the Offer

Documents, the ASX Listing Rules, by applicable laws, an order of a court of competent jurisdiction or a governmental agency;

- if a regulatory body withdraws, revokes or in any material respect amends any regulatory approvals required for SurfStitch Group or SurfStitch Holdings to perform their obligations under the Underwriting Agreement or to carry out the transactions contemplated by the Offer Documents;
- any of the following occur:
  - there is a change in the composition of the board of directors of SurfStitch Group; or
  - any of Justin Cameron, Lex Pedersen, Howard McDonald or Mark Storey resign or change their position within SurfStitch Group; or
- any of the following occur:
  - a director or proposed director named in the initial pathfinder or Prospectus of SurfStitch Group or SurfStitch Holdings is charged with an indictable offence; or
  - any governmental agency commences any public action against SurfStitch Group or SurfStitch Holdings or any of their directors in their capacity as a director of SurfStitch Group or SurfStitch Holdings, or announces that it intends to take action; or
  - any director or proposed director named in the initial pathfinder or Prospectus of SurfStitch Group or SurfStitch Holdings is disqualified from managing a corporation under Part 2D.6 of the Corporations Act.

#### Termination events subject to materiality

The Lead Manager may terminate the Underwriting Agreement, without cost or liability, by notice to SurfStitch Group and SurfStitch Holdings, if any of the following events occur at any time from the date of the Underwriting Agreement until on or before 1.59pm on the date of Settlement, only if the Lead Manager has reasonable grounds to believe that the event:

- has or is likely to have a materially adverse effect on:
  - the success or marketing of the Offer or the ability of the Lead Manager to market or promote or settle the Offer; or
  - the likely price at which the Offer Shares will trade on ASX; or
- has given, or would be likely to give rise to a liability of the Lead Manager under, or result in, a contravention by the Lead Manager or its affiliates of, or the Lead Manager or its affiliates being involved in a contravention of, the Corporations Act or any applicable law, or any rules or policies of a self-regulatory body or the Underwriting Agreement.

The Lead Manager can terminate as above if any of the following events occur:

- any Group member (other than SurfStitch Group or SurfStitch Holdings) becomes insolvent, or there is an act

or omission which is likely to result in a Group member (other than SurfStitch Group or SurfStitch Holdings) becoming insolvent;

- the due diligence report or verification material or any other information supplied by or on behalf of SurfStitch Group or SurfStitch Holdings to the Lead Manager in relation to the Group or the Offer is (or is likely to be), or becomes (or becomes likely to be), false, misleading or deceptive, including by way of omission;
- any adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of SurfStitch Group and the Group (insofar as the position in relation to an entity in the Group affects the overall position of SurfStitch Group), including any adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of SurfStitch Group or the Group from those respectively disclosed in any Offer Document or the public information;
- there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia, New Zealand, the United States, Canada, the United Kingdom, Japan, Hong Kong or any Member State of the European Union or any State or Territory of Australia a new law, or the Reserve Bank of Australia or New Zealand, or any Commonwealth or State authority, including ASIC, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement);
- a representation, warranty, undertaking or obligation contained in the Underwriting Agreement on the part of SurfStitch Group or SurfStitch Holdings (whether severally or jointly) is breached, becomes not true or correct or is not performed;
- SurfStitch Group or SurfStitch Holdings defaults on one or more of its obligations under the Underwriting Agreement;
- SurfStitch Group varies any term of its constitution without the prior written consent of the Lead Manager or SurfStitch Group does not comply with its constitution;
- any of the following occur:
  - the commencement of legal proceedings against SurfStitch Group, any other Group member or against any director of the Company or any other Group member in that capacity; or
  - any regulatory body commences any enquiry or public action against a Group member;
- any information supplied (including any information supplied prior to the date of the Underwriting Agreement) by or on behalf of a Group member to the Lead Manager in respect of the Offer or the Group is, or is found to be, false, misleading or deceptive, or likely to mislead or deceive (including by omission);
- hostilities not presently existing commence (whether war has been declared or not) or an escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, the United States, Canada, the United Kingdom, the People's Republic of China, Singapore, or any Member State of the European

## 9. ADDITIONAL INFORMATION

Union, or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries;

- a statement in any closing certificate required to be given under the Underwriting Agreement is false, misleading, inaccurate or untrue or incorrect;
- any of the following occur:
  - a general moratorium on commercial banking activities in Australia, Singapore, Hong Kong, the United Kingdom or the United States is declared by the relevant central banking authority in those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries;
  - any adverse affect on the financial markets in Australia, Singapore, Hong Kong, the United Kingdom or the United States, or in foreign exchange rates or any development involving a prospective change in political, financial or economic conditions in any of those countries; or
  - trading in all securities quoted or listed on ASX, New York Stock Exchange, London Stock Exchange, Hong Kong Stock Exchange or the Singapore Stock Exchange is suspended or limited in a material respect for one day (or a substantial part of one day) on which that exchange is open for trading.

### Conditions, warranties, undertakings and other terms

The Underwriting Agreement contains certain standard representations, warranties and undertakings by SurfStitch Group and SurfStitch Holdings to the Lead Manager as well as common conditions precedent, including conducting due diligence, lodgement of this Prospectus, delivery of a legal opinion, entry into restriction agreements in respect of the Escrowed Shareholders and SurfStitch Group obtaining specific ASX waivers and ASIC modifications.

The representations and warranties given by SurfStitch Group and SurfStitch Holdings relate to matters such as their conduct, power and authorisations, information provided by SurfStitch Group and SurfStitch Holdings, financial information, information in the Offer Documents, the conduct of the Offer and compliance with laws, ASX Listing Rules and other legally binding requirements. SurfStitch Group and SurfStitch Holdings also provide additional representations and warranties, including in connection with their assets, Material Contracts, insurance, litigation, property, authorisations, eligibility for listing and internal accounting controls. SurfStitch Group's and SurfStitch Holdings' undertakings include that they will not, during the period following the date of the Underwriting Agreement until 90 days after the date on which settlement of the Shares occurs, issue any equity securities or securities that are convertible into equity or alter the capital structure of SurfStitch Group without the consent of the Lead Manager and that SurfStitch Group and SurfStitch Holdings will, during the period following the date of the Underwriting Agreement until 90 days after the date on which settlement of the Shares occurs, carry on their business in the ordinary course and not dispose

of all or any material part of their business or property without the prior written consent of the Lead Manager (such consent not to be unreasonably withheld or delayed).

### Indemnity

Subject to certain exclusions relating to, among other things, fraud, wilful default or gross negligence of the Lead Manager or certain affiliated parties, SurfStitch Group and SurfStitch Holdings agree to keep the Lead Manager and certain affiliated parties indemnified from losses suffered in connection with the Offer.

## 9.5 SHARE SALE AND PURCHASE AGREEMENTS

SurfStitch Holdings entered into SPAs on 7 November 2014 with each of the shareholders of SDUK including Na Pali Europe S.ar.l (part of Quiksilver) ("Na Pali") and Justin Stone. Under the SPAs, the SurfStitch Shareholders have agreed to sell and SurfStitch Holdings has agreed to buy all the issued shares in SDUK.

The SPAs are governed by English law.

### Consideration

Under the SPA with Na Pali, SurfStitch Holdings has agreed to procure SDUK to repay the shareholder loan owed by SDUK to Na Pali and to pay any outstanding trade payables owed to Quiksilver.

The aggregate cash amount payable by SurfStitch Holdings to the SurfStitch Shareholders under the SPAs (representing purchase price and the payments described in the previous paragraph) comprise both a US dollar and Australian dollar component. Assuming an exchange rate of 1.1377 Australian dollars per US dollar, this equates to a total cash amount of approximately \$31 million.

In addition, the Company will issue 14,315,354 Shares in the Company.

### Representations and warranties

The SurfStitch Shareholders have provided certain standard representations and warranties to SurfStitch Holdings in relation to the SDUK shares being sold, title, power to sell, disputes and solvency. Justin Stone has provided additional representations and warranties in relation to SDUK, SurfStitch and its assets, material contracts, intellectual property rights, taxation status, insurance arrangements, information technology systems, employees, solvency and corporate records.

### Completion

The SPAs are interconditional and are subject to the condition precedent that Completion of the Offer occurs. The SPAs will complete on the same day as and following Completion of the Offer.

Title to and risk in the SDUK shares will pass to SurfStitch Holdings on completion of the SPAs.

## 9.6 OTHER MATERIAL CONTRACTS

### 9.6.1 Quiksilver Supply Agreement

As part of the SurfDome acquisition, it is expected that SurfStitch will enter a two year supply agreement with Quiksilver covering SurfDome and the rest of SurfStitch.

### 9.6.2 Billabong Supply Agreements

On 5 September 2014 each of SSA, SSE and SSUSA entered into supply agreements with certain Billabong Group entities. The Supply Agreements relate to the supply and consignment of certain products by Billabong. The agreements range in term from two to three years.

Under the terms of the Supply Agreements, SurfStitch has agreed to sales targets, purchase amounts and promotional undertakings. Each of the Supply Agreements also deals with territory and sales restrictions. SurfStitch may benefit from certain contributions, discounts and exclusivity arrangements that are contemplated by the Supply Agreements.

SurfStitch considers that the Supply Agreements are material to its business. Investors under the Offer should carefully consider the risks set out in Section 5 of this Prospectus, in particular the risk related to third party suppliers as detailed in Section 5.2.5.

### 9.6.3 Implementation Deed

On 27 November 2014, SurfStitch Group and SurfStitch Holdings entered into an implementation deed poll under which SurfStitch Holdings agreed to undertake certain capital re-organisation actions (as outlined below) conditional on Settlement occurring under the Underwriting Agreement and SurfStitch Group irrevocably offered to acquire all of the existing shares in SurfStitch Holdings from the Existing Shareholders. The offer by SurfStitch Group under the Implementation Deed is conditional on Settlement occurring under the Underwriting Agreement.

The Existing Shareholders have irrevocably accepted the Implementation Deed offer and made elections in relation to the form of consideration that they wish to receive. Therefore, assuming that the Implementation Deed becomes unconditional, the interests of the Existing Shareholders before Completion of the Offer and after Completion of the Offer and completion of the SurfDome acquisition will be as set out in Section 7.1.6.

As consideration for the acquisition of the shares in SurfStitch Holdings, SurfStitch Group will either pay \$1.00 per fully paid existing share or deliver one Share for each share (or a combination of cash and Shares) as elected by Existing Shareholders.

## 9.7 LITIGATION AND CLAIMS

SurfStitch is, from time to time, party to various disputes and legal proceedings incidental to the conduct of its business. As far as the Directors are aware, there is no current or threatened civil litigation, arbitration proceeding or administrative appeal, or criminal or governmental prosecution of a material nature in which SurfStitch is directly or indirectly concerned, which is likely to have a material adverse effect on the business or financial position of SurfStitch.

## 9.8 CONSENTS

Written consents to be named in this Prospectus have been given and, at the time of lodgement of this Prospectus with ASIC, had not been withdrawn by the following parties:

- J.P. Morgan has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the Lead Manager and Underwriter to the Offer in the form and context in which it is named;
- KPMG Transaction Services has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Investigating Accountant to SurfStitch Group in relation to the Pro Forma Historical Financial Information and the Forecast Financial Information in the form and context in which it is named and has given and not withdrawn its consent to the inclusion in this Prospectus of its Investigating Accountant's Report in the form and context in which it is included;
- KPMG has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Australian taxation adviser to SurfStitch Group in relation to the Offer in the form and context in which it is named;
- Herbert Smith Freehills has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Australian legal adviser (other than in respect of taxation matters) to SurfStitch Group in relation to the Offer in the form and context in which it is named;
- Link Market Services has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the share registry in the form and context in which it is named. Link Market Services has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry to SurfStitch;
- Bell Potter has given and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Co-Lead Manager in the form and context in which it is named;
- Ord Minnett has given and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Co-Manager in the form and context in which it is named;
- Pitcher Partners has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus in the form and context in which it is named;
- PricewaterhouseCoopers has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named as the auditor of SSA, SSE and Swell in the form and context in which it is named; and



## 9. ADDITIONAL INFORMATION

- Constantin has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named as the auditor of SDUK in the form and context in which it is named.

Each of the persons and entities referred to above has not authorised or caused the issue of this Prospectus, does not make any offer of Shares and, subject to the law, expressly disclaims and takes no responsibility for any statements or omissions in this Prospectus except as stated above.

### 9.9 DESCRIPTION OF SYNDICATE

The Lead Manager and Underwriter to the Offer is J.P. Morgan. The Co-Lead Manager to the Offer is Bell Potter. The Co-Manager to the Offer is Ord Minnett.

### 9.10 TAX CONSIDERATIONS

The comments in this Section provide a general outline of Australian tax issues for Australian tax resident Shareholders and non-Australian tax resident Shareholders that hold Shares in SurfStitch Group on capital account for Australian income tax purposes (i.e. the comments do not apply to Shareholders who hold the Shares on revenue account or as trading shares). They also do not apply to Shareholders that are companies, banks, insurance companies, or taxpayers that carry on a business of trading in shares or that are subject to the Taxation of Financial Arrangement rules contained in Division 230 of the Income Tax Assessment Act 1997.

The summary below is general in nature and is not exhaustive of all income tax consequences that could apply in all circumstances of any given Shareholder. The individual circumstances of each Shareholder may affect the taxation implications of the investment of that Shareholder.

It is recommended that all Shareholders consult their own independent tax advisers regarding the income tax (including capital gains tax), stamp duty and GST consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.

Tax law is complex and subject to ongoing change. The summary below is based on the relevant Australian tax law in force, established interpretations of that law and understanding of the practice of the tax authority at the time of issue of this Prospectus.

The tax consequences discussed in this summary do not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in administrative practice or interpretation by the relevant authorities. If there is a change, including a change having retrospective effect, the tax, stamp duty and GST consequences should be reconsidered by Shareholders in light of the changes. The precise implications will depend upon each Shareholder's specific circumstances.

This summary does not constitute financial product advice as defined in the Corporations Act. This summary is confined to taxation issues and is only one of the matters you need to consider when making a decision about your investments. You should consider taking advice from a licensed adviser, before making a decision about your investments.

SurfStitch Group and its advisers disclaim all liability to any Shareholder or other party for all costs, losses, damages and liabilities that the Shareholder or other party may suffer or incur arising from or relating to or in any way connected with the contents of this summary or the provision of this summary to the Shareholder or any other party or the reliance on it by the Shareholder or any other party.

#### 9.10.1 Income tax treatment of dividends received for Australian resident Shareholders

In the event that an Australian tax resident Shareholder receives a dividend from SurfStitch Group, the cash dividend will be included in the Shareholder's assessable income. In addition, to the extent that SurfStitch Group "franks" the dividend, the franking credit attached to the dividend should generally also be included in the Shareholder's assessable income.

Where the franking credit is included in the Australian tax resident Shareholder's assessable income, the Australian tax resident Shareholder should generally be entitled to a corresponding tax offset against tax payable by the Shareholder. The tax offset can be applied to reduce the tax payable on the Australian tax resident Shareholder's taxable income. Where the tax offset exceeds the tax payable on the Australian tax resident Shareholder's taxable income, the Shareholder may be entitled to a tax refund.

To be eligible for the franking credit and tax offset, an Australian tax resident Shareholder must satisfy the "holding period" rule and "related payments" rule. This requires that a Shareholder hold the Shares in SurfStitch Group "at risk" for a period of not less than 45 days (not including the date of acquisition or the date of disposal). In addition, an Australian tax resident Shareholder must not be obliged to make a "related payment" in respect of any dividend, unless they hold the Shares at risk for the required holding period around all dividend dates.

Shareholders should seek professional advice to determine if these requirements, as they apply to them, have been satisfied.

The holding period rule should not apply to a Shareholder who is an individual whose tax offset entitlement (for all franked distributions received in the income year) does not exceed \$5,000 for the income year in which the franked dividend is received. However, this exemption does not apply to a dividend which is subject to the related payments rule.

The Government has announced proposed changes that may apply to deny franking tax offsets to certain "dividend washing" arrangements. No legislation in respect to these proposed changes has been released at this time. Shareholders should have regard to these proposed changes in considering the tax implications of their personal circumstances.

#### 9.10.2 Income tax treatment of dividends received for Non-Australian tax resident Shareholders

Dividends paid by SurfStitch Group on a Share to a non-Australian tax resident Shareholder may be subject to dividend withholding tax.

To the extent that franked dividends are paid to a non-Australian tax resident Shareholder, no dividend withholding tax is required to be withheld. Where unfranked dividends are paid to a non-Australian tax resident Shareholder, SurfStitch Group will generally be required to withhold tax from the payment of the dividend under the withholding tax rules. To the extent that unfranked dividends are declared to include amounts of conduit foreign income, no dividend withholding tax is required to be withheld. No further Australian tax liability arises for non-Australian tax resident Shareholders to the extent that the dividend is franked, declared as conduit foreign income, or subject to dividend withholding tax.

Non-Australian tax resident Shareholders should seek their own independent tax advice as the above comments are general in nature, and any tax liability may vary depending on the Shareholder's individual circumstances.

### 9.10.3 Capital Gains Tax implications for Australian resident Shareholders

Where an Australian resident Shareholder holds their Shares in SurfStitch Group on capital account, the disposal of the Shares should be taxed under the Capital Gains Tax ("CGT") rules.

For CGT purposes, the Australian tax resident Shareholder will make a capital gain where the capital proceeds received for the disposal of their Shares exceeds the CGT cost base of their Shares. Similarly, the Australian tax resident Shareholder will make a capital loss where the capital proceeds received for their Shares are less than the reduced cost base of their Shares.

Broadly, the cost base and reduced cost base of the Shares should be equal to the amount paid to acquire the Shares. Certain other costs associated with holding the Shares, such as incidental costs of acquisition and disposal, may be added to the cost base and reduced cost base.

Generally, all capital gains and losses made by an Australian tax resident Shareholder for an income year will be aggregated to determine whether the Shareholder has made a net capital gain or a net capital loss for the year. A net capital gain is included in the Australian tax resident Shareholder's assessable income whereas a net capital loss is carried forward and may be available to set off against capital gains of later years. Capital losses cannot be offset against other assessable income.

If an Australian tax resident Shareholder is an individual, complying superannuation entity or trust, and has held the Shares for 12 months or more before disposal of the Shares, the Shareholder will prima facie be entitled to a "CGT discount" for any capital gain made on the disposal of the Shares. Capital gains may be discounted by half in the case of individuals and trusts, and by one-third in the case of complying superannuation entities. Shareholders that are companies are not entitled to a CGT discount.

Capital losses must be applied first to reduce a capital gain before applying the discount.

Where the Australian tax resident Shareholder is a trustee of a trust that has held the Shares for 12 months or more before disposal, the CGT discount may flow through to the beneficiaries of that trust if those beneficiaries are not companies. Shareholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

### 9.10.4 Capital Gains Tax implications for Non-Australian tax resident Shareholders

Where a non-Australian tax resident Shareholder (and any associates) holds less than 10% of the Shares, any capital gain made on disposal of the Shares will be exempt from CGT, unless the Shares are an asset of an Australian situated permanent establishment of a non-Australian tax resident Shareholder.

A non-Australian tax resident Shareholder (and any associates) holding at least 10% of the voting entitlements in SurfStitch Group will only be liable to tax where more than 50% of the value of SurfStitch Group's assets is attributable to Australian real property. Where this is not the case, any capital gain made on disposal of the Shares will be exempt from CGT.

As the application of the CGT rules will vary depending on the Shareholder's individual circumstances, non-Australian tax resident Shareholders should seek their own professional advice when disposing of their Shares.

### 9.10.5 Tax File Numbers

An Australian tax resident Shareholder is not required to quote their Tax File Number ("TFN"), or where relevant, Australian Business Number ("ABN") to SurfStitch Group. However, if an Australian tax resident Shareholder's TFN, ABN or exemption details are not provided, Australian tax may be required to be deducted by SurfStitch Group from distributions and/or unfranked dividends at the maximum marginal tax rate plus the Medicare levy. An exemption from the requirement to withhold applies in respect of a fully franked dividend paid by SurfStitch Group.

A Shareholder that holds Shares as part of an enterprise may quote their ABN instead of their TFN.

### 9.10.6 Goods and Services Tax implications

No Goods and Services Tax ("GST") should be payable by Shareholders in respect of the acquisition or disposal of their Shares in SurfStitch Group, regardless of whether or not the Shareholder is registered for GST.

The extent to which each Shareholder is entitled to recover any GST incurred on costs relating to the acquisition or disposal of Shares in SurfStitch Group will depend on the individual circumstances of each Shareholder.

No GST should be payable by Shareholders on receiving dividends distributed by SurfStitch Group.

## 9. ADDITIONAL INFORMATION

### 9.10.7 Stamp duty

No Australian stamp duty should be payable by Shareholders in respect of the Offer or their acquisition or disposal of their Shares in SurfStitch Group whilst it is a listed company. Individual Shareholders should obtain their own independent advice depending on their individual circumstances.

### 9.10.8 Employee Gift Offer

SurfStitch Group will provide a general summary of Australian tax issues relating to the Employee Gift Offer to Australian Eligible Employees in the separate offer letter.

## 9.11 ASX AND ASIC

### 9.11.1 ASX waiver

The Company has applied to ASX for a waiver from Listing Rule 10.14 in connection with the proposed employee incentive schemes to be put in place by the Company.

### 9.11.2 ASIC modification

The Company has applied for an exemption from the requirements of section 734(2) of the Corporations Act to enable the Company to communicate limited information about the Offer to its employees prior to lodgement of this Prospectus.

## 9.12 CONTRACT SUMMARIES

The summaries of contracts set out in the body of this Prospectus, including the summary of the Underwriting Agreement in Section 9.4, the Implementation Deed in Section 9.6.3 and the Supply Agreements in Section 9.6.2, are included for the information of potential investors under the Offer but do not purport to be complete and are qualified by the text of the contracts themselves.

## 9.13 PRIVACY

By filling out the Application Form to apply for new Shares you are providing personal information to SurfStitch Group through its Share Registry, which is contracted by SurfStitch Group to manage Applications. SurfStitch Group, and the Share Registry on its behalf, may collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and administer SurfStitch Group. If you do not provide the information requested in the Application Form, SurfStitch Group and the Share Registry may not be able to process or accept your Application.

Your personal information may also be used from time to time to inform you about other products and services offered by SurfStitch Group, which it considers may be of interest to you. Your personal information may also be provided to SurfStitch Group's members, agents and service providers on the basis that they deal with such information in accordance with SurfStitch Group's privacy policy and applicable laws. The members, agents and service providers of SurfStitch Group may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law.

The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the Shareholder register;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

You may request access to your personal information held by or on behalf of SurfStitch Group. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information by writing to or telephoning the Share Registry as follows:

Telephone: 1300 554 474

Address: Level 15, 324 Queen Street,  
Brisbane Qld 4000

## 9.14 PHOTOGRAPHS AND DIAGRAMS

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by SurfStitch. Diagrams and maps used in this Prospectus are illustrative only and may not be drawn to scale.

## 9.15 GOVERNING LAW

This Prospectus and the contracts that arise from the acceptance of the Applications under this Prospectus are governed by the law applicable in New South Wales and each Applicant under this Prospectus submits to the exclusive jurisdiction of the courts of New South Wales.

## 9.16 STATEMENT OF DIRECTORS

This Prospectus is authorised by each Director and Justin Stone as a proposed director, who have consented to its lodgement with ASIC and to its issue.



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# 10

SUMMARY OF  
SIGNIFICANT  
ACCOUNTING  
POLICIES

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# 10. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Financial Information included in Section 4 of this Prospectus are set out below. These policies are consistent with the last audited special purpose financial statements of SSA for the year ended 30 June 2014.

## (A) BASIS OF PREPARATION

### (i) Historical cost convention

The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

### (ii) Critical accounting estimates

The preparation of the Financial Information requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the business's accounting policies. There are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information that require separate disclosure in this Prospectus.

## (B) FOREIGN CURRENCY TRANSLATION

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

## (C) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The business recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the business's activities as described below. The business bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

### Sale of goods – retail

The business operates a number of retail website stores selling surf and fashion clothing and accessories. Revenue from the sale of goods is recognised when the business sells a product to the customer. Retail sales are usually by credit card, Paypal or direct debit.

It is the business's policy to sell its products to the end customer with a right of return within 100 days. Accumulated experience is used to estimate and provide for such returns at the time of sale.

## (D) INCOME TAX

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.



Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

## (E) LEASES

Leases of property, plant and equipment where the business, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the business will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the business as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Any lease income from operating leases where the business is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

## (F) IMPAIRMENT OF ASSETS

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are assessed at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or business of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## (G) CASH AND CASH EQUIVALENTS

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

## (H) TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the business will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

# 10. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## (I) INVENTORIES

### Finished goods

Finished goods are stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## (J) INVESTMENTS AND OTHER FINANCIAL ASSETS

### Classification

Financial assets are classified in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 5) and receivables (note 7) in the balance sheet.

### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the business's management has the positive intention and ability to hold to maturity. If the business were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

### (iv) Available for sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or Management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and Management intends to hold them for the medium to long term.

## (K) PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the business and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is de-recognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Leasehold improvements	20 years
Owned and leased plant and equipment	3 to 20 years
Furniture, fittings and equipment	3 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is business policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

## (L) INTANGIBLE ASSETS

### (i) Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, which vary from three to five years.

### (ii) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from three to five years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the business has an intention and ability to use the asset.

### (iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from three to five years.

## (M) TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the business prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## (N) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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

## (O) BORROWING COSTS

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

## (P) PROVISIONS

Provisions for legal claims, service warranties and make good obligations are recognised when the business has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

# 10. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of Management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

## (Q) EMPLOYEE BENEFITS

### (i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

### (ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### (iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The business recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

## (R) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

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

## (S) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.



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11

GLOSSARY





# 11. GLOSSARY

Term	Meaning
Action Sports	Sports including skateboarding, surfing, snowboarding, bicycle motocross and motocross.
Action Sports segment	The Action Sports segment of the retail market is defined by equity research firm Piper Jaffray as the market for skate, surf, snowboard, street, bicycle motocross and motocross apparel, footwear, accessories and hard goods.
Active Customer	Customer who has placed an order in the last 12 months.
AOV	Average order value.
Applicant	A person who submits an Application.
Application	Application made to subscribe for Shares under the Offer.
Application Form	The relevant form attached to or accompanying this Prospectus, including the online application form available at SurfStitch.com pursuant to which Applicants apply for Shares.
Application Monies	The amount accompanying an Application Form submitted by an Applicant.
ASIC	The Australian Securities and Investments Commission.
ASX	ASX Limited (ABN 98 008 624 691), or the market operated by ASX Limited, as the context requires.
ASX Listing Rules	The official rules of ASX.
ASX Recommendations	The Corporate Governance Principles and Recommendations issued by the ASX.
ASX Settlement	ASX Settlement Pty Ltd (ABN 49 008 504 532).
ASX Settlement Operating Rules	The operating rules of ASX Settlement.
Bell Potter	Bell Potter Securities Limited (ACN 006 390 772).
Billabong	The corporate group of which Billabong International Limited (ACN 084 923 946) is the ultimate holding company, and which includes GSM (Operations) Pty Ltd, GSM (Europe) Pty Ltd and Burleigh Point Limited, among others.
Board	The Board of Directors of SurfStitch Group.
Broker	Any ASX participating organisation selected by the Lead Manager to participate in the Broker Firm Offer.
Broker Firm Applicant	A person who applies to subscribe for Shares under the Broker Firm Offer.
Broker Firm Offer	The offer of Shares under this Prospectus to Australian residents who are sophisticated or professional investors (within the meaning of sections 708(8) and 708(11) of the Corporations Act, respectively) or, following lodgement of this Prospectus, to Australian resident investors who are not Institutional Investors and have received a firm allocation from their Broker.
Business Day	A day on which: <ul style="list-style-type: none"> <li>▪ ASX is open for trading in securities; and</li> <li>▪ banks are open for general banking business in Sydney.</li> </ul>
CAGR	Compound annual growth rate.
Chairman	Howard McDonald.
Chairman's List Offer	An offer which is open to selected investors who have received a Chairman's List invitation.

Term	Meaning
CHESS	Clearing House Electronic Sub-register System operated in accordance with the Corporations Act.
Chief Executive Officer or CEO	Justin Cameron.
Chief Financial Officer	Karen Birner.
Co-Lead Manager	Bell Potter.
Co-Manager	Ord Minnett.
Completion of the Offer	Completion in respect of the issue of Shares in accordance with the Underwriting Agreement.
Constitution	The constitution of the Company.
Corporations Act	The <i>Corporations Act 2001</i> (Cth).
Director	Each of the Directors of SurfStitch Group from time to time.
Dollars or \$	Australian dollars.
Dotcomsurfwear Unit Trust	The unit trust constituted by the trust deed establishing the Dotcomsurfwear Unit Trust between Brook Worthington (as settlor), Online Brands Pty Limited (ACN 124 021 521) (as trustee) and Justin Peter Cameron, Lex Ward Pedersen and Haydn Brian Smith (as foundation unitholders).
Eligible Employees	Permanent full-time employees of SurfStitch in Australia who have been employed by SurfStitch for at least six months as at 5.00pm on 26 November 2014.
Escrowed Shares	Each of the Shares held by the Escrowed Shareholders at Completion of the Offer and completion of the SurfDome acquisition.
Escrowed Shareholders	Each of the Management Shareholders, the Pre-IPO Investors, the SurfDome Shareholders and Stephen Goddard.
Employee Gift Offer	The offer made under this Prospectus under which Eligible Employees who have received an offer from SurfStitch Group may acquire, at no cost, the nearest number of whole Shares (rounded down) up to a value of \$1,000 each as described in Section 7.4.
Executive Directors	Justin Cameron and Lex Pedersen as well as Justin Stone following Completion of the Offer and completion of the SurfDome acquisition.
Existing Shareholders	The persons holding ordinary shares in SurfStitch Holdings immediately prior to Completion of the Offer which includes Management Shareholders, Other Existing Shareholders and Pre-IPO Investors.
Expiry Date	The date which is 13 months after the Prospectus Date, after which no Shares will be issued under this Prospectus.
Exposure Period	The period specified in section 723(3) of the Corporations Act, being a minimum of seven days from the Prospectus Date, during which an application must not be accepted. ASIC may extend this period by a further seven days after the end of this period.
Financial Information	Has the meaning given in Section 4.
Forecast Financial Information	Has the meaning given in Section 4.
FY2012	Financial year ended 30 June 2012.
FY2013	Financial year ended 30 June 2013.
FY2014	Financial year ended 30 June 2014.

# 11. GLOSSARY

Term	Meaning
FY2015	The forecast financial year ending 30 June 2015.
Group	SurfStitch Holdings and its Subsidiaries prior to Completion of the Offer, and SurfStitch Group and its Subsidiaries after Completion of the Offer and completion of the SurfDome acquisition.
GST	Goods and services tax imposed in Australia.
Herbert Smith Freehills	Herbert Smith Freehills, an Australian Partnership, and SurfStitch's Australian legal advisers in connection with the Offer.
HIN	Holder Identification Number.
Implementation Deed	The deed poll given by SurfStitch Group in favour of each selling Shareholder containing an offer to acquire all the issued shares in SurfStitch Holdings.
Institutional Investors	An investor to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus, including in Australia persons to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus under Section 708 of the Corporations Act.
Institutional Offer	The invitation to bid for Shares made to Institutional Investors under this Prospectus as described in Section 7.8.
Investigating Accountant	KPMG Transaction Services.
Investigating Accountant's Report	The Investigating Accountant's report set out in Section 8.
IT	Information Technology.
J.P. Morgan	J.P. Morgan Australia Limited (ABN 52 002 888 011).
KPMG Transaction Services	KPMG Financial Advisory Services (Australia) Pty Limited (of which KPMG Transaction Services is a division).
KPMG	KPMG, an Australian Partnership.
Lead Manager or Underwriter to the Offer	J.P. Morgan.
Listing Date	The date on which SurfStitch Group is admitted to the Official List of the ASX and trading of its Shares commences.
Loan Plan	Prior to Completion of the Offer, the limited recourse loan plan established by SurfStitch Holdings, and on and following Completion of the Offer, the equivalent limited recourse loan plan of SurfStitch Group which will replace the limited recourse loan plan established by SurfStitch Holdings, as described in Section 6.3.4.3.
Loan Plan Rules	The rules of a Loan Plan.
Loan Shares	Ordinary shares in SurfStitch Holdings acquired under the SurfStitch Holdings Loan Plan or Shares in SurfStitch Group acquired under the SurfStitch Group Loan Plan, as the case may be.
LTI	Long-term incentive.
Management	The individuals outlined in Section 6.2.
Management Shareholders	Entities through which Justin Cameron and Lex Pedersen hold existing shares in SurfStitch Holdings immediately prior to Completion of the Offer and Shares in SurfStitch Group immediately post Completion of the Offer.
Material Contracts	Each of the contracts summarised in Section 9.6.

Term	Meaning
Na Pali	Na Pali Europe S.ar.l (part of Quiksilver).
New Shareholders	Shareholders who subscribe or will subscribe for Shares in the Offer.
NZ	New Zealand
Non-IFRS financial information	Has the meaning given in Section 4.
OBPL	Online Brands Pty Limited, ACN 124 021 521, as trustee for the Dotcomsurfwear Unit Trust, ABN 41 414 582 227.
OB2	Online Brands No.2 Limited, a company incorporated under the laws of British Virgin Islands and having company number 1664570.
Offer	The offer under this Prospectus of new Shares in SurfStitch Group and includes the Institutional Offer, the Broker Firm Offer and the Chairman's List Offer.
Offer Documents	Has the meaning given in Section 9.4.
Offer Price	\$1.00 per Share, payable on application for the Shares.
Ord Minnett	Ord Minnett Limited (ACN 002 733 048).
ORIA	Online Retailer Industry Awards.
Other Existing Shareholders	Shareholders of SurfStitch Holdings who are not Management Shareholders or Pre-IPO Investors.
PacSun	Pacific Sunwear of California.
pcp	Prior corresponding period refers to the corresponding reporting quarter, half year or year in the previous financial year.
Pitcher Partners	Pitcher Partners Advisors Proprietary Limited (ABN 80 052 920 206).
Performance Rights	Rights to acquire shares, which are granted under a Plan, subject to the satisfaction of vesting conditions.
Plan	Prior to Completion of the Offer, the SurfStitch Holdings Plan, and on and following Completion of the Offer, the SurfStitch Group Plan, as described in Section 6.3.4.4
Plan Rules	The rules of a Plan.
Pre-IPO Investors	Investors who subscribed for shares in SurfStitch Holdings in the Pre-IPO Transaction.
Pre-IPO Transaction	The \$65 million capital raising from a group of Australian and offshore institutional and sophisticated investors and the acquisition of all the shares in SSA and SSE including Billabong's 51% interest and 100% of the assets of Billabong's USA-based e-Commerce action sports business Swell.
Pro Forma Historical Financial Information	Has the meaning given in Section 4.
Prospectus	This document (including the electronic form of this Prospectus) and any supplementary or replacement Prospectus in relation to this document.
Quiksilver	The corporate group of which Quiksilver Inc. is the ultimate holding company, and which includes Na Pali.
Regulation S	Regulation S promulgated under the US Securities Act.
Related body corporate	Has the meaning given in the Corporations Act.

# 11. GLOSSARY

Term	Meaning
Restricted Share	A share issued under a Plan that is subject to vesting conditions.
Retail Offer	Consists of the Broker Firm Offer and the Chairman's List Offer.
Rolling Surfdomes Shareholders	All shareholders of SDUK other than Na Pali and Justin Stone.
SDUK	Surfdome Shop Limited, a company incorporated under the laws of England with registered number 05648145.
SEM	Search engine marketing.
SEO	Search engine optimisation.
Settlement	Settlement in respect of the Shares the subject of the Offer, occurring as described in the Underwriting Agreement.
Share	A fully paid ordinary share in SurfStitch Group.
Shareholder	The registered holder of a Share.
Shareholder Deeds	The shareholder deed polls given by each selling Shareholder in favour of SurfStitch Group, containing an acceptance of the Offer in the Implementation Deed.
Share Registry	Link Market Services Limited.
SPAs	The binding share sale and purchase agreements with each of the shareholders of SDUK and SurfStitch Holdings.
SRN	Securityholder Reference Number.
SSA	SurfStitch Pty Limited (ACN 141 251 443).
SSE	SurfStitch (Europe) Pty Ltd (ACN 153 351 458).
SSUSA	SurfStitch USA Inc.
STI	Short-term incentive.
Subsidiary	Has the meaning given in the Corporations Act.
Supply Agreements	The supply agreements as described in Section 9.6.2.
Surfdome	The business owned and operated by SDUK.
Surfdome Shareholders	Na Pali, Justin Stone and the Rolling Surfdomes Shareholders.
SurfStitch	SurfStitch Group and its controlled entities post Completion of the Offer (including SDUK) and SurfStitch Holdings and its controlled entities prior to Completion of the Offer and, where the context requires, the businesses conducted by those companies.
SurfStitch Australia	The business owned and operated by SSA.
SurfStitch Europe	The business owned and operated by SSE.
SurfStitch Group or the Company	SurfStitch Group Limited (ACN 602 288 004).
SurfStitch Group Plan	The equity incentive plan established by SurfStitch which will replace the SurfStitch Holdings Plan.
SurfStitch Holdings	SurfStitch Holdings Pty Limited (ACN 601 114 603).
SurfStitch Holdings Plan	The equity incentive plan established by SurfStitch Holdings.



Term	Meaning
Swell	SSUSA and as the context requires the e-Commerce business through Swell.com.
TFR	Total fixed remuneration.
TSR	Total shareholder return.
TSR Condition	The performance condition associated with the Loan Shares, which is based on SurfStitch Group's relative total shareholder return measured over a performance period commencing on the Listing Date and ending on 30 June 2017.
UK	United Kingdom.
Underwriting Agreement	The underwriting agreement dated 27 November 2014 between SurfStitch Group, SurfStitch Holdings and the Lead Manager in connection with the Offer.
USA	United States of America.
US Investment Company Act	The Investment Company Act of 1940 (US), as amended.
US Securities Act	The Securities Act of 1933 (US), as amended.
Websites	Each of SurfStitch's websites SurfStitch.com, Swell.com and, upon completion of the SurfDome acquisition, SurfDome.com and SurfDome.fr.

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# CORPORATE DIRECTORY

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## Registered Office of the Company

**SurfStitch Group Limited**  
225 Burleigh Connection Road  
Burleigh Heads Qld 4220

## Lead Manager and Underwriter to the Offer

**J.P. Morgan Australia Limited**  
Level 18, J.P. Morgan House  
85 Castlereagh Street  
Sydney NSW 2000

## Co-Lead Manager

**Bell Potter Securities Limited**  
Level 38, Aurora Place  
88 Phillip Street  
Sydney NSW 2000

## Co-Manager

**Ord Minnett Limited**  
Level 8, NAB House  
255 George Street  
Sydney NSW 2000

## Legal Adviser

**Herbert Smith Freehills**  
ANZ Tower  
161 Castlereagh Street  
Sydney NSW 2000

## Investigating Accountant

**KPMG Financial Advisory Services (Australia) Pty Limited**  
**(of which KPMG Transaction Services is a division)**  
10 Shelley Street  
Sydney NSW 2000

## Auditor

**KPMG**  
10 Shelley Street  
Sydney NSW 2000

## Tax Adviser

**KPMG**  
10 Shelley Street  
Sydney NSW 2000

## Tax Adviser (employee incentive arrangements)

**Pitcher Partners**  
Level 19, 15 William Street  
Melbourne Vic 3000

## Registry

**Link Market Services Limited**  
Level 15, 324 Queen Street  
Brisbane Qld 4000

## SurfStitch Offer Information Line

Within Australia (toll free) 1300 553 490  
Outside of Australia +61 1300 553 490  
Between 8.30am and 5.00pm (Sydney time),  
Monday to Friday

## SurfStitch Website

[www.SurfStitch.com](http://www.SurfStitch.com)



