

SURFSTITCH PTY LIMITED

ABN: 65 141 251 443

SPECIAL PURPOSE ANNUAL REPORT

30 JUNE 2013

These financial statements are presented in Australian currency and relate to SurfStitch Pty Limited, a company limited by shares, incorporated and domiciled in Australia.

SurfStitch's registered office and principal place of business is:

Registered Office

1 Billabong Place

Burleigh Heads QLD 4220

Place of Business

225 Burleigh Connection Road

Burleigh Heads QLD 4220

A description of the nature of the entity's operations and its principal activities is included in the Directors' report on page 1, which is not part of the financial statements.

The financial statements were authorised for issue by the Directors on 28 April 2014. The Directors' have the power to amend and reissue the financial statements.

SURFSTITCH PTY LIMITED

ABN: 65 141 251 443

SPECIAL PURPOSE ANNUAL REPORT – 30 JUNE 2013

CONTENTS

Directors' Report	1
Auditor's Independence Declaration	3
Income Statement	4
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Statement of Cash Flows	8
Notes to the Financial Statements	
Note 1 Summary of significant accounting policies	9
Note 2 Expenses	16
Note 3 Income tax expense	16
Note 4 Current assets – Cash and cash equivalents	17
Note 5 Current assets – Trade and other receivables	17
Note 6 Current assets – Inventories	17
Note 7 Non-current assets – Receivables	17
Note 8 Non-current assets – Property, plant and equipment	18
Note 9 Non-current assets – Intangible assets	18
Note 10 Non-current assets – Deferred tax assets	19
Note 11 Current liabilities – Trade and other payables	19
Note 12 Current liabilities – Borrowings	19
Note 13 Current liabilities – Provisions	19
Note 14 Non-current liabilities – Borrowings	19
Note 15 Non-current liabilities – Other liabilities	19
Note 16 Non-current liabilities – Deferred tax liabilities	19
Note 17 Contributed equity	20
Note 18 Remuneration of auditors	21
Note 19 Related party transactions	21
Note 20 Reconciliation of profit/(loss) for the year to net cash inflow from operating activities	21
Directors' Declaration	22
Independent Auditor's Report to the members of SurfStitch Pty Ltd	23

Directors' Report

Your directors present their report on SurfStitch Pty Ltd (referred to hereafter as the business) for the year ended 30 June 2013.

Directors

The following persons were directors of SurfStitch Pty Ltd during the whole financial year and up to the date of this report:

- J P Cameron

J C U White was a director from the beginning of the financial year until his resignation on 20 December 2012.

S L North was a director from the beginning of the financial year until his resignation on 19 April 2013. S L North was then re-appointed as a director on 22 October 2013 and continues in office at the date of this report.

J D A Millett was appointed as a director on 2 January 2013 and resigned as a director on 22 October 2013.

C M Haggerty was appointed as a director on 19 April 2013 and resigned as a director on 22 October 2013.

P D Myers was appointed as a Director on 22 October 2013 and continues in office at the date of this report.

Principal Activities

During the year the principal activities of the business consisted of operating as an online retailer of surf and fashion clothing and accessories.

Dividends

No dividends were declared or paid to members during the financial year. No dividends have been declared since the end of the financial period.

Review of operations

The profit after income tax for the year amounted to \$1,396,000 (2012: \$503,000). The primary reason for the increase in profit relates to sales increasing from \$30.7 million in 2012 to \$48.8 million in 2013 and gross profit increasing from \$11.0 million in 2012 to \$16.8 million in 2013.

Significant changes in the state of affairs

On 4 October 2012 GSM (Operations) Pty Ltd acquired a further 31% of the issued shares in SurfStitch Pty Limited, taking its shareholding to 51%. There were no other significant changes in the state of affairs of the business during the financial year.

Matters subsequent to the end of the financial year

No matters or circumstances have arisen since 30 June 2013 that have significantly affected, or may significantly affect:

- (a) The business's operations in future financial years, or
- (b) The results of those operations in future financial years, or
- (c) The business's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the business and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the business.

Environmental regulation

The business is not subject to significant environmental regulation under either Commonwealth or State legislation.

Insurance of officers

During the financial year SurfStitch Pty Limited paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all executive officers of the Group against a liability incurred as such a Director, Secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*

Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on Page 3.

This report is made in accordance with a resolution of directors.



J P Cameron
Director

Gold Coast
28 April 2014



Auditor's Independence Declaration

As lead auditor for the audit of Surfstitch Pty Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Steven Bosiljevac'.

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane
28 April 2014

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

SurfStitch Pty Limited
Income Statement
For the year ended 30 June 2013

	Notes	2013 \$'000	2012 \$'000
Revenue		48,823	30,747
Cost of goods sold		(31,994)	(19,700)
Other revenue		397	391
Selling, general and administrative expenses		(14,904)	(9,741)
Finance costs	2	(348)	(498)
Other expenses		(259)	(237)
Profit before income tax		1,715	962
Income tax expense	3	(319)	(459)
Profit for the year attributable to owners of SurfStitch Pty Ltd		1,396	503

The above income statement should be read in conjunction with the accompanying notes.

SurfStitch Pty Limited
Statement of Comprehensive Income
For the year ended 30 June 2013

	Notes	2013 \$'000	2012 \$'000
Profit for the year		1,396	503
Total comprehensive income for the year attributable to the owners of SurfStitch Pty Ltd		<u>1,396</u>	<u>503</u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

SurfStitch Pty Limited
Statement of Financial Position
As at 30 June 2013

	Notes	2013 \$'000	2012 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	4	4,437	1,595
Trade and other receivables	5	1,762	1,741
Inventories	6	9,163	7,820
Total current assets		15,362	11,156
Non-current assets			
Trade and other receivables	7	400	242
Property, plant and equipment	8	1,224	875
Intangible assets	9	2,308	1,975
Deferred tax assets	10	424	702
Total non-current assets		4,356	3,794
Total assets		19,718	14,950
LIABILITIES			
Current liabilities			
Trade and other payables	11	11,128	10,965
Borrowings	12	35	39
Provisions	13	264	182
Total current liabilities		11,428	11,186
Non-current liabilities			
Borrowings	14	6,250	2,563
Other Liabilities	15	449	1,048
Deferred tax liabilities	16	187	145
Total non-current liabilities		6,886	3,756
Total liabilities		18,314	14,942
Net assets		1,404	8
EQUITY			
Contributed equity	17	1,832	1,832
Retained earnings		(428)	(1,824)
Total equity		1,404	8

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

SurfStitch Pty Limited
Statement of Changes in Equity
For the year ended 30 June 2013

	Share Capital \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 July 2011	1,832	(2,327)	(495)
Profit for the year	-	503	503
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	503	503
Contributions of Equity	-	-	-
Dividends paid or provided for	-	-	-
Sub-total	-	503	503
Balance at 30 June 2012	1,832	(1,824)	8
Profit for the year	-	1,396	1,396
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	1,396	1,396
Contributions of Equity	-	-	-
Dividends paid or provided for	-	-	-
Sub-total	-	1,396	1,396
Balance at 30 June 2013	1,832	(428)	1,404

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

SurfStitch Pty Limited
Statement of Cash Flows
For the year ended 30 June 2013

	Notes	2013 \$'000	2012 \$'000
Cashflows from operating activities			
Receipts from customers (inclusive of GST)		53,655	34,164
Payments to suppliers & employees (inclusive of GST)		(52,167)	(31,741)
		<u>1,488</u>	<u>2,423</u>
Other Revenue			
Interest received		90	35
Interest paid		(125)	(76)
Net cashflow from operating activities	20	<u>1,453</u>	<u>2,382</u>
Cashflows from investing activities			
Payment for property, plant & equipment		(510)	(429)
Payments for intangible assets		(946)	(1,191)
Loans repaid to related parties		(1,000)	-
Loans from related parties		4,688	286
Net cashflow from investing activities		<u>2,232</u>	<u>(1,334)</u>
Cash flows from financing activities			
Repayment of borrowings (all non-related party borrowings)		(245)	(778)
Finance lease payments		(599)	1,029
Net Cashflow from financing activities		<u>(844)</u>	<u>251</u>
Net Increase (decrease) in cash held		2,842	1,300
Cash at the beginning of the year		<u>1,595</u>	<u>295</u>
Cash at the end of the year		<u>4,437</u>	<u>1,595</u>

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

Note 1 – Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for SurfStitch Pty Ltd.

(a) Basis of preparation

(i) Special purpose financial report

In the directors' opinion, the company is not a reporting entity because there are no users dependent on general purpose financial reports.

This is a special purpose financial report that has been prepared for the sole purpose of complying with the Corporations Act 2001 requirements to prepare and distribute a financial report to the members and must not be used for any other purpose.

The financial report has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards and other mandatory professional requirements in Australia. It contains only those disclosures considered necessary by the directors to meet the needs of the members.

(ii) Early adoption of standards

The company has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2012.

(iii) Historical cost convention

These financial statements have 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.

(iv) Critical accounting estimates

The preparation of financial statements 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 statements that require separate disclosure in these financial statements.

(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.

Note 1 – Summary of significant accounting policies continued

(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

Note 1 – Summary of significant accounting policies continued

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.

(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.

Note 1 – Summary of significant accounting policies continued

(j) Investments and other financial assets

Classification

The business classifies its financial assets 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	3-20 years
Furniture, fittings and equipment	3-20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Note 1 – Summary of significant accounting policies continued

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 3 to 5 years.

(ii) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses 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 3 to 5 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 3 to 5 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

Note 1 – Summary of significant accounting policies continued

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.

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.

Note 1 – Summary of significant accounting policies continued

(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.

(t) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below:

There are no other standards that are not yet effective and are expected to have a material impact on the company in the current or future reporting periods and on foreseeable future transactions.

SurfStitch Pty Limited
Notes to the financial statements
30 June 2013

	2013 \$'000	2012 \$'000
Note 2 Expenses		
Profit before income tax includes the following specific expenses:		
<i>Employee benefits expense</i>	7,752	5,231
<i>Depreciation</i>		
Plant and equipment	156	95
Leasehold improvements	5	4
	<u>160</u>	<u>99</u>
<i>Amortisation of finite life intangible assets</i>	613	460
<i>Finance Costs</i>		
Interest costs	301	474
Other borrowing costs	47	24
	<u>348</u>	<u>498</u>
<i>Net Loss on Disposal of Assets</i>	-	10
<i>Rental expense relating to operating leases</i>	487	299
<i>Net foreign exchange (gains)/losses included in other revenue or other expenses for the year</i>	(16)	(5)
Note 3 Income tax expense		
(a) Income tax expense		
Deferred tax	319	459
	<u>319</u>	<u>459</u>
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 10)	278	379
(Decrease) increase in deferred tax liabilities (note 16)	42	80
	<u>319</u>	<u>459</u>
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(Loss) from continuing operations before income tax expense	1,715	962
	<u>1,715</u>	<u>962</u>
Tax at the Australian tax rate of 30% (2010 – 30%)	515	289
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other income adjustments	(46)	171
Adjustments for current tax of prior periods	(149)	-
Income tax expense	<u>319</u>	<u>459</u>

SurfStitch Pty Limited
Notes to the financial statements
30 June 2013

	2013 \$'000	2012 \$'000
Note 4 Current assets – Cash and cash equivalents		
Cash at bank and in hand	4,437	1,595
	<u>4,437</u>	<u>1,595</u>

Note 5 Current assets – Trade and other receivables

Trade receivables	259	202
	<u>259</u>	<u>202</u>
Related party receivables	1,023	778
Other receivables	80	9
Prepayments	400	752
	<u>1,762</u>	<u>1,741</u>

Note 6 Current assets – Inventories

Finished goods	9,163	7,820
	<u>9,163</u>	<u>7,820</u>

Note 7 Non-current assets – Receivables

Loans to related parties	242	242
Prepayments	158	-
	<u>400</u>	<u>242</u>

SurfStitch Pty Limited
Notes to the financial statements
30 June 2013

Note 8 Non-current assets – Property, plant and equipment

	Plant and Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
At 30 June 2012			
Cost or fair value	1,028	102	1,130
Accumulated depreciation	(249)	(5)	(255)
Net book amount	<u>778</u>	<u>97</u>	<u>875</u>
At 30 June 2013			
Cost or fair value	1,519	120	1,639
Accumulated depreciation	(406)	(10)	(415)
Net book amount	<u>1,114</u>	<u>110</u>	<u>1,224</u>

Note 9 Non-current assets – Intangible assets

	Patents and Trademarks \$ 000	Software \$ 000	Total \$ 000
At 30 June 2012			
Cost or fair value	13	2,665	2,678
Accumulated amortisation and impairment	-	(703)	(703)
Net book amount	<u>13</u>	<u>1,962</u>	<u>1,975</u>
At 30 June 2013			
Cost or fair value	13	3,610	3,624
Accumulated amortisation and impairment	-	(1,316)	(1,316)
Net book amount	<u>13</u>	<u>2,294</u>	<u>2,308</u>

SurfStitch Pty Limited
Notes to the financial statements
30 June 2013

	2013 \$'000	2012 \$'000
Note 10 Non-current assets – Deferred tax assets		
Deferred tax assets expected to be recovered within 12 months	148	91
Deferred tax assets expected to be recovered after more than 12 months	276	611
	<u>424</u>	<u>702</u>
Note 11 Current liabilities – Trade and other payables		
Trade payables	8,985	9,436
Other payables	2,143	1,529
	<u>11,128</u>	<u>10,965</u>
Note 12 Current liabilities – Borrowings		
Secured		
Credit Card Facilities	35	39
	<u>35</u>	<u>39</u>
Note 13 Current liabilities – Provisions		
Employee benefits	264	182
	<u>264</u>	<u>182</u>
Note 14 Non-current liabilities – Borrowings		
Unsecured		
Loans to related parties - Online Brands Pty Ltd	1,250	2,250
Loans to related parties - GSM Operations Pty Ltd	5,000	313
	<u>6,250</u>	<u>2,563</u>
Note 15 Non-current liabilities – Other liabilities		
Finance Leases	449	1,048
	<u>449</u>	<u>1,048</u>
Note 16 Non-current liabilities – Deferred tax liabilities		
Deferred tax liabilities expected to be recovered within 12 months	-	-
Deferred tax liabilities expected to be recovered after more than 12 months	187	145
	<u>187</u>	<u>145</u>

SurfStitch Pty Limited
Notes to the financial statements
30 June 2013

	Notes	2013 Shares	2012 Shares	2013 \$'000	2012 \$'000
Note 17 Contributed equity					
(a) Share capital					
Ordinary Shares					
Fully paid	(c)	100	100	832	832
Class B Shares fully paid		20	20	1,000	1,000
		<u>120</u>	<u>120</u>	<u>1,832</u>	<u>1,832</u>
Total contributed equity				<u>1,832</u>	<u>1,832</u>

(b) Movements in ordinary share capital:

2012		Number of Shares	\$ 000
Date	Details		
1 Jul 2011	Opening Balance	80	782
4 Oct 2012	A Class shares converted to ordinary shares	<u>20</u>	<u>50</u>
30 Jun 2012	Balance	<u>100</u>	<u>832</u>
2013		Number of Shares	\$ 000
Date	Details		
1 Jul 2012	Opening Balance	<u>100</u>	<u>832</u>
30 Jun 2013	Balance	<u>100</u>	<u>832</u>

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

SurfStitch Pty Limited
Notes to the financial statements
30 June 2013

2013	2012
\$'000	\$'000

Note 18 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) PwC Australia

Audit of financial statements

Tax compliance services

Total remuneration of PwC Australia

35	30
16	16
<u>50</u>	<u>46</u>

Note 19 Related party transactions

(a) Parent Entities

The related parties of SurfStitch Pty Ltd are the shareholders
Online Brands Pty Ltd and GSM (Operations) Pty Ltd

(b) Loans to/from related parties

Loans from Online Brands Pty Ltd

Beginning of the year

Loans advanced

Loan repayments received

Interest charged

Interest received

End of year

2,156	2,067
-	-
(1,000)	(27)
132	199
(43)	(85)
<u>1,245</u>	<u>2,156</u>

Loans from GSM (Operations) Pty Ltd

Beginning of the year

Loans advanced

Loan repayments received

Interest charged

Interest received

End of year

336	-
5,000	313
(313)	-
168	24
(36)	-
<u>5,157</u>	<u>336</u>

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

Note 20 Cash flow information

a) Reconciliation of cash flow from operations with profit after income tax

Profit after income tax for the year

Depreciation & amortisation

Net loss on disposal of property, plant and equipment

1,396

503

774

559

-

10

Changes in assets and liabilities

Decrease / (increase) in trade and other receivables

Decrease / (increase) in inventories

Decrease / (increase) in deferred tax assets

Increase / (decrease) in trade and other payables

Increase / (decrease) in deferred tax liabilities

Increase / (decrease) in employee benefits

Increase / (decrease) in other borrowings

Net cash provided by operating activities

66	(712)
(1,343)	(3,532)
278	379
163	5,050
42	80
81	19
(3)	27
<u>1,453</u>	<u>2,382</u>

Directors' Declaration

As stated in Note 1(a) to the financial statements, in the directors' opinion, the company is not a reporting entity because there are no users dependent on general purpose financial reports. This is a special purpose financial report that has been prepared to meet Corporations Act 2001 requirements. The financial report has been prepared in accordance with Accounting Standards and mandatory professional reporting requirements to the extent described in Note 1.

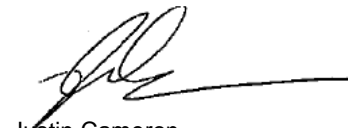
In the Directors' opinion:

(a) the financial statements and notes set out on pages 4 to 21 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements as detailed above, and
- (ii) giving a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the financial year ended on that date, and

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

This declaration is made in accordance with a resolution of the Directors.



Justin Cameron
Director

Gold Coast
28 April 2014



Independent auditor's report to the members of Surfstitch Pty Limited

Report on the financial report

We have audited the accompanying financial report, being a special purpose financial report, of Surfstitch Pty Limited (the company), which comprises the statement of financial position as at 30 June 2013, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members.

The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



Auditor's opinion


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

- (a) giving a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note 1 and complying with the *Corporations Regulations 2001*.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared as requested by the Australian Securities and Investments Commission under section 294 of the *Corporations Act 2001* for distribution to members and lodgement with the Commission. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the members of Surfstitch Pty Limited.


PricewaterhouseCoopers


Steven Bosiljevac
Partner

Brisbane
28 April 2014