

# SURFSTITCH PTY LIMITED

ABN: 65 141 251 443

## SPECIAL PURPOSE ANNUAL REPORT

30 JUNE 2014

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 5 September 2014. The Directors' have the power to amend and reissue the financial statements.

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## SPECIAL PURPOSE ANNUAL REPORT – 30 JUNE 2014

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## **Directors' Report**

Your directors present their report on SurfStitch Pty Ltd (referred to hereafter as the business) for the year ended 30 June 2014.

### **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

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 loss after income tax for the year amounted to \$387,000 (2013: profit \$1,257,000). The primary reason for the decrease in profit relates to increasing selling, general and administrative expenses from \$15.1 million in 2013 to \$18.8 million in 2014.

### **Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the business during the financial year.

### **Matters subsequent to the end of the financial year**

On 5 September, Surfstitch Australia and Surfstitch Europe, a related party of Surfstitch Australia were sold to a group of investors. No impairment of Surfstitch Australia's assets was deemed necessary as a result of the transaction and the Company expects to recover its debtors at the amounts recorded in the financial statements.

No other matters or circumstances have arisen since 30 June 2014 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 B Cameron  
Director

Gold Coast  
5 September 2014



## Auditor's Independence Declaration

As lead auditor for the audit of Surfstitch Pty Ltd for the year ended 30 June 2014, 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  
5 September 2014

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
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T: +61 7 3257 5000, F: +61 7 3257 5999, [www.pwc.com.au](http://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 2014

	Notes	2014 \$'000	2013 Restated * \$'000
Revenue		60,178	48,823
Cost of goods sold		(41,518)	(31,994)
Other income		738	397
Selling, general and administrative expenses		(18,846)	(15,102)
Finance costs	2	(746)	(348)
Other expenses		<u>(360)</u>	<u>(259)</u>
<b>Profit/(loss) before income tax</b>		<b>(554)</b>	<b>1,517</b>
Income tax expense	3	<u>167</u>	<u>(260)</u>
Profit/(loss) for the year attributable to owners of SurfStitch Pty Ltd		<u>(387)</u>	<u>1,257</u>

\* See note 20 for details regarding the restatement as a result of an error.

*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 2014

	Notes	2014 \$'000	2013 Restated * \$'000
Profit/(loss) for the year		(387)	1,257
Total comprehensive income for the year attributable to the owners of SurfStitch Pty Ltd		<u>(387)</u>	<u>1,257</u>

\* See note 20 for details regarding the restatement as a result of an error.

*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 2014

	Notes	2014 \$'000	2013 Restated * \$'000	2012 Restated * \$'000
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	4	2,977	4,437	1,595
Trade and other receivables	5	3,609	1,855	1,757
Inventories	6	11,500	9,163	7,820
Total current assets		18,086	15,455	11,172
<b>Non-current assets</b>				
Trade and other receivables	7	1,757	400	242
Property, plant and equipment	8	1,428	1,224	875
Intangible assets	9	3,242	2,308	1,975
Deferred tax assets	10	690	484	737
Total non-current assets		7,117	4,416	3,829
Total assets		25,203	19,871	15,001
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	11	16,149	10,745	39
Borrowings	12	24	35	182
Provisions	13	685	556	11,097
Total current liabilities		16,858	11,336	11,318
<b>Non-current liabilities</b>				
Borrowings	14	7,241	6,634	2,563
Other Liabilities	15	-	449	1,048
Deferred tax liabilities	16	226	187	145
Total non-current liabilities		7,467	7,270	3,756
Total liabilities		24,325	18,607	15,074
Net assets		878	1,265	(73)
<b>EQUITY</b>				
Contributed equity	17	1,832	1,832	1,832
Retained earnings		(954)	(567)	(1,905)
Total equity		878	1,265	(73)

\* See note 20 for details regarding the restatement as a result of an error.

*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 2014

	Notes	Share Capital \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 July 2012		1,832	(1,824)	8
Correction of error	20	-	(81)	(81)
Restated total equity at 1 July 2012		1,832	(1,905)	(73)
Profit for the year as reported in 2013 financial statements		-	1,396	1,396
Correction of error (net of tax)	20	-	(139)	(139)
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	1,257	1,257
Contributions of Equity		-	-	-
Dividends paid or provided for		-	-	-
Sub-total		-	1,257	1,257
Correction of error		-	81	81
Balance at 30 June 2013		1,832	(567)	1,265
Profit for the year		-	(387)	(387)
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	(387)	(387)
Contributions of Equity		-	-	-
Dividends paid or provided for		-	-	-
Sub-total		-	(387)	(387)
Balance at 30 June 2014		1,832	(954)	878

*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 2014

	Notes	2014 \$'000	2013 \$'000
<b>Cashflows from operating activities</b>			
Receipts from customers (inclusive of GST)		66,268	53,655
Payments to suppliers & employees (inclusive of GST)		<u>(62,217)</u>	<u>(52,167)</u>
		4,051	1,488
Other Revenue			
Interest received		84	90
Interest paid		<u>(350)</u>	<u>(125)</u>
<b>Net cashflow from operating activities</b>	21	<u>3,785</u>	<u>1,453</u>
<b>Cashflows from investing activities</b>			
Payment for property, plant & equipment		(454)	(510)
Payments for intangible assets		<u>(1,870)</u>	<u>(945)</u>
<b>Net cashflow from investing activities</b>		<u>(2,324)</u>	<u>(1,455)</u>
<b>Cash flows from financing activities</b>			
Loans to non-related parties		(2,924)	(245)
Loans repaid to related parties		(1,477)	(1,000)
Loans from related parties		1,930	4,688
Finance lease payments		<u>(449)</u>	<u>(599)</u>
<b>Net Cashflow from financing activities</b>		<u>(2,920)</u>	<u>2,844</u>
<b>Net Increase (decrease) in cash held</b>		(1,460)	2,842
<b>Cash at the beginning of the year</b>		<u>4,437</u>	<u>1,595</u>
<b>Cash at the end of the year</b>		<u>2,977</u>	<u>4,437</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 2013.

#### *(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 2014 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below:

*(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transaction Disclosures (effective from 1 January 2018)*

In AASB 9, the AASB added requirements for the classification and measurement of financial liabilities that are generally consistent with the equivalent requirements in AASB 139 except in respect of the fair value option; and certain derivatives linked to unquoted equity instruments. The AASB also added the requirements in AASB 139 in relation to the de-recognition of financial assets and financial liabilities to AASB9. AASB9 retained but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in AASB 139 on hedge accounting continues to apply as long as hedge accounting provisions in AASB 2013-9 are not applied. The Company does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2018.

*(ii) AASB 2014-1 Amendments to AASB: Part A: Annual Improvements 2010-2012 and 2011-2013 cycles.*

Amendments to existing accounting standards, particularly in relation to clarifying share-based payments vesting and non-vesting conditions, operating segment asset disclosures, clarification of current/non-current classification of debt, clarification of KMP when and entity has a management entity/responsible entity (such as a trustee), the meaning of effective IFRS, exemptions for joint ventures from business combination requirements, clarification of the scope exception for measuring the fair value of financial assets and liabilities on a portfolio basis, and clarifying the interrelationship between business combinations and investment property when classifying property as investment property or owner-occupied. The standard will become mandatory for the Company's 30 June 2015 financial statements and is not expected to have a significant impact on the financial statements.

SurfStitch Pty Limited  
Notes to the financial statements  
30 June 2014

	2014 \$'000	2013 \$'000
<b>Note 2 Expenses</b>		
Profit before income tax includes the following specific expenses:		
<i>Employee benefits expense</i>	9,482	7,951
<i>Depreciation</i>		
Plant and equipment	245	156
Leasehold improvements	6	4
	<u>251</u>	<u>160</u>
<i>Amortisation of finite life intangible assets</i>	935	614
<i>Finance Costs</i>		
Interest costs	684	301
Other borrowing costs	62	47
	<u>746</u>	<u>348</u>
<i>Rental expense relating to operating leases</i>	593	487
<i>Net foreign exchange (gains)/losses included in other revenue or other expenses for the year</i>	(58)	(16)
<b>Note 3 Income tax expense</b>		
<b>(a) Income tax expense</b>		
Deferred tax	(167)	260
	<u>(167)</u>	<u>260</u>
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 10)	(206)	218
(Decrease) increase in deferred tax liabilities (note 16)	39	42
	<u>(167)</u>	<u>260</u>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit/(Loss) from continuing operations before income tax expense	(554)	1,517
	<u>(554)</u>	<u>1,517</u>
Tax at the Australian tax rate of 30% (2010 – 30%)	(166)	455
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other income adjustments	(55)	(46)
Adjustments for current tax of prior periods	54	(149)
Income tax expense	<u>(167)</u>	<u>260</u>

SurfStitch Pty Limited  
Notes to the financial statements  
30 June 2014

	2014 \$'000	2013 \$'000
<b>Note 4 Current assets – Cash and cash equivalents</b>		
Cash at bank and in hand	<u>2,977</u>	<u>4,437</u>
	2,977	4,437

**Note 5 Current assets – Trade and other receivables**

Trade receivables	<u>447</u>	<u>258</u>
	447	258
Related party receivables	2,526	1,117
Other receivables	147	80
Prepayments	<u>489</u>	<u>400</u>
	3,609	1,855

**Note 6 Current assets – Inventories**

Finished goods	<u>11,500</u>	<u>9,163</u>
	11,500	9,163

**Note 7 Non-current assets – Receivables**

Loans to related parties - Online Brands Pty Ltd	242	242
Loans to related parties - SurfStitch Europe Pty Ltd	1,515	-
Prepayments	<u>-</u>	<u>158</u>
	1,757	400

SurfStitch Pty Limited  
Notes to the financial statements  
30 June 2014

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

	Plant and Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
<b>At 30 June 2013</b>			
Cost or fair value	1,519	120	1,639
Accumulated depreciation	(405)	(10)	(415)
Net book amount	<u>1,114</u>	<u>110</u>	<u>1,224</u>
<b>At 30 June 2014</b>			
Cost or fair value	1,964	130	2,094
Accumulated depreciation	(650)	(16)	(666)
Net book amount	<u>1,314</u>	<u>114</u>	<u>1,428</u>

**Note 9 Non-current assets – Intangible assets**

	Patents and Trademarks \$ 000	Software \$ 000	Total \$ 000
<b>At 30 June 2013</b>			
Cost or fair value	13	3,611	3,624
Accumulated amortisation and impairment	-	(1,316)	(1,316)
Net book amount	<u>13</u>	<u>2,295</u>	<u>2,308</u>
<b>At 30 June 2014</b>			
Cost or fair value	15	5,479	5,494
Accumulated amortisation and impairment	-	(2,252)	(2,252)
Net book amount	<u>15</u>	<u>3,227</u>	<u>3,242</u>

SurfStitch Pty Limited  
Notes to the financial statements  
30 June 2014

	2014 \$'000	2013 \$'000
<b>Note 10 Non-current assets – Deferred tax assets</b>		
Deferred tax assets expected to be recovered within 12 months	235	148
Deferred tax assets expected to be recovered after more than 12 months	455	336
	<u>690</u>	<u>484</u>
<b>Note 11 Current liabilities – Trade and other payables</b>		
Trade payables	14,198	8,985
Other payables	1,951	1,760
	<u>16,149</u>	<u>10,745</u>
<b>Note 12 Current liabilities – Borrowings</b>		
<b>Secured</b>		
Credit Card Facilities	24	35
	<u>24</u>	<u>35</u>
<b>Note 13 Current liabilities – Provisions</b>		
Employee benefits	685	556
	<u>685</u>	<u>556</u>
<b>Note 14 Non-current liabilities – Borrowings</b>		
<b>Unsecured</b>		
Loans to related parties - Online Brands Pty Ltd	-	1,477
Loans to related parties - GSM Operations Pty Ltd	7,241	5,157
	<u>7,241</u>	<u>6,634</u>
<b>Note 15 Non-current liabilities – Other liabilities</b>		
Finance Leases	-	449
	<u>-</u>	<u>449</u>
<b>Note 16 Non-current liabilities – Deferred tax liabilities</b>		
Deferred tax liabilities expected to be recovered within 12 months	4	-
Deferred tax liabilities expected to be recovered after more than 12 months	222	187
	<u>226</u>	<u>187</u>

SurfStitch Pty Limited  
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	Notes	2014 Shares	2013 Shares	2014 \$'000	2013 \$'000
<b>Note 17 Contributed equity</b>					
<b>(a) Share capital</b>					
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:**

2013		Number of Shares	\$ 000
Date	Details		
1 Jul 2012	Opening Balance	100	832
30 Jun 2013	Balance	<u>100</u>	<u>832</u>

2014		Number of Shares	\$ 000
Date	Details		
1 Jul 2013	Opening Balance	100	832
30 Jun 2014	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  
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2014	2013
\$'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	63	35
Tax compliance services	27	16
Total remuneration of PwC Australia	<u>90</u>	<u>51</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	1,477	2,388
Loans advanced	-	-
Loan repayments received	(1,250)	(1,000)
Interest charged	62	132
Interest received	(289)	(44)
End of year	<u>-</u>	<u>1,476</u>

Loans from GSM (Operations) Pty Ltd		
Beginning of the year	5,156	336
Loans advanced	1,463	5,000
Loan repayments received	-	(313)
Interest charged	622	169
Interest received	-	(36)
End of year	<u>7,241</u>	<u>5,156</u>

Loans to Online Brands Pty Ltd		
Beginning of the year	242	242
Loans advanced	-	-
Loan repayments received	-	-
Interest charged	-	-
Interest received	-	-
End of year	<u>242</u>	<u>242</u>

Loans to SurfStitch Europe Pty Ltd		
Beginning of the year	-	-
Loans advanced	1,462	-
Loan repayments received	-	-
Interest charged	53	-
Interest received	-	-
End of year	<u>1,515</u>	<u>-</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 Correction of error in accounting for employee share scheme**

The company offers select employees the opportunity to participate in a Phantom Share Scheme. During a detailed review of this scheme it became apparent that a liability for cash bonuses payable should have been recognised in the financial statements for the 2012 and 2013 financial years.

The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

	30-Jun 2013 \$'000	Increase/ (Decrease) \$'000	2013 (Restated) \$'000	30-Jun 2012 \$'000	Increase/ (Decrease) \$'000	2012 (Restated) \$'000
<b>Balance sheet (extract)</b>						
Trade and other receivables	1,762	94	1,855	1,741	16	1,757
Deferred tax assets	424	60	484	702	35	737
Trade and other payables	11,128	292	11,420	10,965	132	11,097
Net assets	1,404	(138)	1,265	8	(81)	(73)
Retained earnings	(428)	(138)	(566)	(1,824)	(81)	(1,905)
Total equity	1,404	(138)	1,265	8	(81)	(73)

	2013 \$'000	Profit Increase/ (Decrease) \$'000	2013 (Restated) \$'000	2012 \$'000	Profit Increase/ (Decrease) \$'000	2012 (Restated) \$'000
<b>Income Statement (extract)</b>						
Selling, general and administrative expenses	(14,904)	(199)	(15,103)	(9,741)	(116)	(9,857)
<b>Profit before income tax</b>	<b>1,715</b>	<b>(199)</b>	<b>1,516</b>	<b>962</b>	<b>(116)</b>	<b>846</b>
Income tax expense	(319)	60	(259)	(459)	35	(424)
Profit for the year attributable to owners of SurfStitch Pty Ltd	1,396	(139)	1,257	503	(81)	422

**Statement of Comprehensive Income (extract)**

Profit for the year	1,396	(139)	1,257	503	(81)	422
Total comprehensive income for the year attributable to the owners of SurfStitch Pty Ltd	1,396	(139)	1,257	503	(81)	422



SurfStitch Pty Limited  
Notes to the financial statements  
30 June 2014

2014	2013
\$'000	\$'000

**Note 21 Cash flow information**

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

Profit after income tax for the year	(387)	1,257
Depreciation & amortisation	1,186	774
Changes in assets and liabilities		
Decrease / (increase) in trade and other receivables	(186)	66
Decrease / (increase) in inventories	(2,338)	(1,343)
Decrease / (increase) in deferred tax assets	(206)	278
Increase / (decrease) in trade and other payables	5,559	302
Increase / (decrease) in deferred tax liabilities	39	42
Increase / (decrease) in employee benefits	129	81
Increase / (decrease) in other borrowings	(11)	(3)
Net cash provided by operating activities	3,785	1,453

**Note 22 Events occurring after balance date**

On 5 September, SurfStitch Australia and SurfStitch Europe, a related party of SurfStitch Australia were sold to a group of investors. No impairment of SurfStitch Australia's assets was deemed necessary as a result of the transaction and the company expects to recover its debtors at the amounts recorded in the financial statements.

Other than the item mentioned above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature that would be likely, in the opinion of the Directors of the Company, to significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

## 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.

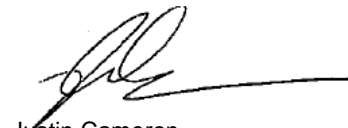
In the Directors' opinion:

(a) the financial statements and notes set out on pages 4 to 23 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 2014 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  
5 September 2014



## **Independent auditor's report to the members of Surfstitch Pty Ltd**

### ***Report on the financial report***

We have audited the accompanying financial report, being a special purpose financial report, of Surfstitch Pty Ltd (the company), which comprises the statement of financial position as at 30 June 2014, 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 that gives a true and fair view 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*.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Auditor's opinion*

In our opinion, the financial report of Surfstitch Pty Ltd 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 2014 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note 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 for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the members of Surfstitch Pty Ltd.

The PricewaterhouseCoopers logo, written in a stylized, cursive script.

PricewaterhouseCoopers

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

Steven Bosiljevac  
Partner

Brisbane  
5 September 2014