<table>
<tr><th>Plan Type</th><th>EIP</th><th>Loan Plan</th></tr>
<tr><td>FY2015 grant</td><td>Rights awarded in respect of FY2015 have grant dates of 26 November 2014 (for Mark Storey) and 16 December 2015 (for Justin Stone).

Participants were each granted 400,000 performance rights with a face value of $1 per Right.</td><td>Loan Shares awarded under the FY2015 Loan Plan have a grant date of 26 November 2014.

Participants were each granted a target loan amount of $380,000 to acquire 400,000 Loan Shares.</td></tr>
<tr><td>Performance period</td><td colspan="2">The performance condition detailed below will be measured over the period from 16 December 2014 to 30 June 2017.

Each grant of Performance Rights/Loan Shares consists of three tranches, with different service periods (summarised below).</td></tr>
<tr><td>Gateway condition</td><td colspan="2">In order for any of the instruments to vest, the Group needed to be admitted to the Official List of the ASX within two years of the date of grant.</td></tr>
<tr><td>Performance Measure</td><td colspan="2">Relative total shareholder return (TSR) compared to the companies in the S&P/ASX Small Ordinaries Index 300 with a GICS Industry Group classification of retailing, consumer durables & apparels or software & services as at the date of grant, as well as Specialty Fashion Group Ltd. (ASX: SFH), OrotonGroup Limited (ASX: ORL) and The PAS Group Limited (ASX: PGR)

In addition, a service condition applies so that even if the TSR hurdle is satisfied, no Performance Rights or Loan Shares will vest unless this condition is also met.

The Board believes that Relative TSR will appropriately incentivise Executives in achieving the LTI Plan objectives and the service condition will encourage retention of key Executives.</td></tr>
<tr><td>Performance Assessment</td><td colspan="2">The FY2015 LTI will vest in line with the below vesting schedule, provided that the service condition is also satisfied. The following table also shows the percentage of the loan that will be forgiven on the relevant vesting date if these conditions are met.

<table>
<tr><th>TSR Ranking</th><th>% of Rights that will vest under the Rights Plan / % Loan Shares that will vest and % of outstanding loan that will be forgiven</th></tr>
<tr><td>Less than 50th percentile</td><td>Nil</td></tr>
<tr><td>At 50th percentile</td><td>50%</td></tr>
<tr><td>Between 50th and 75th percentile</td><td>Straight line pro rata vesting between 50% and 100%</td></tr>
<tr><td>At or above 75th percentile</td><td>100%</td></tr>
</table></td></tr>
<tr><td>Performance assessment and service conditions</td><td colspan="2">The Board will determine the extent to which the relative TSR condition has been achieved at the end of the performance period and the number of Rights or Loan Shares that could vest if the service condition is satisfied on the relevant vesting date.

To the extent that the TSR performance condition has been met, vesting will occur as follows, provided that the participant remains employed by the Group at the relevant vesting date:

• 31 December 2017 vesting date – up to 60% of the Rights vest / up to 60% of Loan Shares vest / outstanding loan forgiven;

• 31 December 2018 vesting date – a further 20% of the Rights / a further 20% of the Loan Shares vest / outstanding loan forgiven; and

• 31 December 2019 vesting date – the final 20% of the Rights vest / the final 20% of the Loan Shares vest / outstanding loan forgiven.

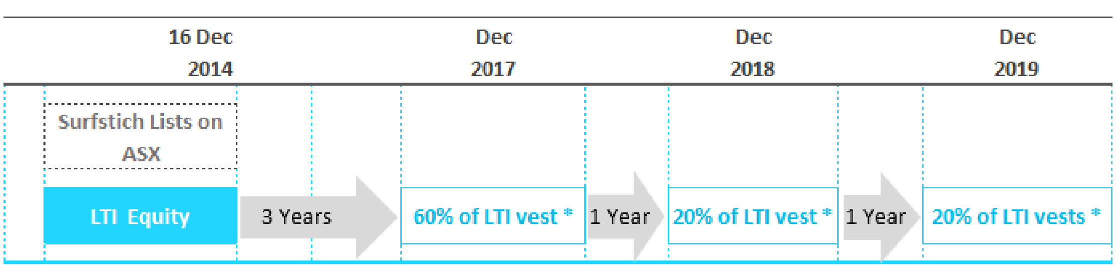
Any Rights in a particular tranche that remain unvested following a relevant test date will lapse immediately. Any Loan Shares that do not vest will be forfeited in full satisfaction of the associated portion of the outstanding loan.</td></tr>
</table>

Plan Type	EIP	Loan Plan
Service Conditions	Participants must be employed and not under notice of resignation or termination at the completion of the performance period to be eligible for an LTI award. If the participant resigns or ceases employment for cause, all unvested Performance Rights will be forfeited / all unvested Loan Shares will be forfeited in satisfaction of the outstanding loan balance, unless the Board determines otherwise. In all other circumstances, unless the Board determines otherwise, Loan Shares / Performance Rights remain on foot and subject to the original conditions (except that the service condition is waived).	
Entitlements	Performance Rights do not carry dividends or voting rights prior to vesting.	Loan Shares have the same rights as ordinary shares. Dividends or distributions paid while the loan remains outstanding will be applied to repayment of the loan.
Clawback and preventing inappropriate benefits	The Board retains the discretion to clawback remuneration where it is established that the participant's entitlements have vested as a result of the fraud, dishonesty or breach of obligations and the Board believe the incentives would not have otherwise vested.	
Restrictions on dealing	Participants must not sell, transfer, encumber, hedge or otherwise deal with unvested equity. Each share allocated on vesting of Performance Rights is subject to a holding lock for a period of 12 months.	Loan Shares must not be sold, transferred, encumbered, hedged or otherwise dealt with until they vest and the loan is repaid or forgiven.
Change of control	Where there is a change of control event, unvested Performance Rights will vest and unvested Loan Shares will vest and the outstanding loan balance will be forgiven, unless the Board determines otherwise.	

Other LTI Arrangement

As noted on page 35, Karen Birner was also awarded Performance Rights under a pre-IPO incentive plan, for which one fully paid ordinary share in SurfStitch will be allocated in respect of each Performance Right that vests. One-third of the Performance Rights vested upon successful Listing and Karen Birner was allocated shares on vesting of these Performance Rights. The remaining two thirds will vest in December 2017, subject to Karen Birner's continued employment.

LTI Plan Vesting Horizon



* subject to achieving performance measures and meeting service condition

GROUP PERFORMANCE IN FY2015

The table below provides a summary of the Group's performance since Listing. The information below is taken into account by the RNC when setting and determining short-term and long-term remuneration for KMP.

Share Performance				Earnings Performance (unaudited)	
Closing Share Price	**Dividends Per Share**	**TSR**	**EPS**	**Revenue**	**EBITDA**
$1.83[1]	NIL	83%	($0.09) [2]	$199.4 million	$7.7 million

[1] The share price on Listing was **$1.00**

[2] EPS disclosed in the table above represents SurfStitch Group Limited's basic earnings per share from continuing operations for the period 13 October 2014 to 30 June 2015.

REMUNERATION REVIEW

SurfStitch's listing, and the various acquisitions made during FY2015, have led to a significant increase in the roles and responsibilities associated with Justin Cameron's position as Chief Executive Officer and Managing Director.

Justin is responsible for strategic development, financial initiatives, and delivery, across all aspects of the business, in all jurisdictions. All members of the KMP report directly to Justin.

The RNC identified that the remuneration provided to Justin in FY2015 is not consistent with the increased scope and responsibilities of his role, and have conducted a review of his arrangements and the arrangements of other KMP.

In undertaking the review, the RNC has considered a comparator group that comprises a number of ASX300 companies with specific regard for companies in the retail sector and companies with a large on-line sales presence. The market capitalisation, geographies and revenue of companies was also considered.

The key outcomes of this review are:

- The FAR was considered appropriate for a majority of the KMP roles with no significant changes made;
- The introduction of STI stretch opportunity was considered appropriate to incentivise outperformance against annual objectives. The STI stretch opportunity will differ between positions but will be up to a maximum of 50% of FAR.
- The FAR for Justin Cameron was considered to be below the positioning that the RNC considered appropriate. Therefore, an increase in the TFR was made for FY2016. Justin Cameron's remuneration package for FY2016 is outlined below:

Justin Cameron – Remuneration FY2015 and FY2016				
	FAR	**STI Target [1]**	**STI Stretch [1]**	**LTI [1]**
FY2015	448,000	25%	NA	100%
FY2016	650,000	25%	50%	100%

[1] the STI is calculated on base pay excluding superannuation

The RNC considers the FY2016 remuneration package for Justin Cameron is appropriate and aligns with the remuneration policy whilst maintaining a strong focus on the link between pay outcomes and performance over the long-term.

The RNC will disclose additional details in respect of the STI performance measures that will apply to the FY2016 STI (including outcomes) in the FY2016 Remuneration Report although it is intended that a similar weighting of hurdles will apply as in FY2015.

OTHER TRANSACTIONS AND TRANSACTIONS WITH RELATED PARTIES

Provision of Information Technology Services

Justin Cameron and Lex Pedersen each hold an interest in Streamline Retail Pty Limited (Streamline). Streamline is party to contracts with SurfStitch Australia Pty Limited (SSA) and SurfStitch US, Inc. (wholly owned subsidiaries of SurfStitch Group Limited), under which it provides information technology services to both entities. The amount paid or payable to Streamline in respect of these services for the period was $476,598.

Other Transactions with Related Parties

On 16 December 2014, SGL acquired SHPL as part of an internal restructure. Refer to note 5a of the Financial Statements for further information. Key management personnel were previous shareholders of SHPL, and received the following consideration for their respective share of SHPL, consistent with the consideration received by all shareholders of SHPL.

Each share in SHPL was transferred for either one share in SGL on a scrip for scrip basis, or $1.00 cash consideration. Shares in SGL were valued at $1.00 on the date of the transaction.

Related party	Shares in SHPL before transaction	Scrip for scrip issuance	Net cash received
Justin Cameron	6,000,000	6,000,000	-
Lex Pederson	5,000,000	5,000,000	-
Mark Storey	1,000,000	1,000,000	-
Stephen Goddard	200,000	200,000	-
Online Brands Pty Ltd	33,615,000	10,197,223	5,476,837
Online Brands 2 Pty Ltd	6,885,000	-	6,885,000
Pacific Custodian	3,400,000	3,400,000	-

Online Brands Pty Ltd ("OB") is a company jointly owned by two members of key management personnel (Justin Cameron 33.33% and Lex Pedersen 33.33%). Online Brands 2 Limited ("OB2") is a company jointly owned by three members of key management personnel (Justin Cameron 26%, Lex Pedersen 25% and Mark Storey 20%). The cash receipted by OB reflects the proceeds from the transaction, net of all obligations between SHPL and OB.

Pacific Custodians Pty Limited held shares in trust during the period for Justin Cameron, Lex Pedersen, Justin Stone and Mark Storey.

EXECUTIVE REMUNERATION DISCLOSURES

Statutory Remuneration Table

The following table of executive remuneration has been prepared in accordance with accounting standards and the Corporations Act 2001 (Cth) requirements, for the period 16 December 2014 to 30 June 2015.

	Short Term			Post Employment	Share Based Payments (vi)		Total	
KMP	Base Salary & Benefits	Cash Bonus (iv)	Non-Cash Benefits (viii)	Super-annuation	Loan Shares (v)	Performance Rights	Total	Performance Related %
Justin Cameron	220,000	730,195	4,523	11,291	41,545	-	1,007,554	77%
Lex Pedersen (i)	280,000	730,195	133,085	4,696	41,545	-	1,189,521	65%
Justin Stone (ii)	183,077	-	-	-	-	38,310 (ix)	221,387	17%
Karen Birner	110,385	-	-	9,360	-	23,118 (x)	142,863	16%
Mark Storey (iii)	194,923	-	-	-	-	41,545 (ix)	236,468	18%

(i) Base salary paid in USD; conversion rate of AUD: 1.3: USD 1.0 applied. Mr Pedersen's non-cash benefits include housing, relocation, travel, motor vehicles, stock allowance and other minor benefits provided as a result of his international assignment.

(ii) Base salary paid in GBP; conversion rate of AUD: 2.0: GBP: 1.0 applied.

(iii) 23% of base salary paid in EUR; conversion rate of AUD 1.7: EUR 1.0 applied.

(iv) No STI was paid during the period. The $730,195 amount refers to the IPO bonus outlined on page 35.

(v) Participants were granted 400,000 loan shares each, at a weighted average fair value of $0.6233 per loan share. The amount recognised in profit or loss represents the accounting expense for the period from grant date to 30 June 2015.

(vi) Share based remuneration is equal to the accounting expense recognised in Group financial statements in respect of the LTI grants, and does not include the STI shares vested in relation to the one-time listing bonus and one-time sign-on bonus as these expenses were incurred prior to Listing.

(vii) There were no termination benefits paid to KMP in FY2015.

(viii) Non-cash benefits also include discounts provided on the purchase of goods from the Group.

(ix) Mr. Storey and Mr. Stone were awarded 400,000 performance rights each at a weighted average fair value of $0.6233 per performance right. The amount recognised in profit or loss represent the accounting expense for the period from grant date to 30 June 2015.

(x) Mrs. Birner was granted 50,000 performance rights at a weighted average fair value of $1.00 per performance right. The amount recognised in profit or loss represents the accounting expense for the period from grant date to 30 June 2015.

MOVEMENTS IN SHAREHOLDINGS OF KMP

Executive

	Held at 13 -Oct 2014	Acquired upon Listing	Granted as remuneration	Received on vesting of rights	Net change other	Held at 30-Jun 2015	Vested and held in escrow	Release from escrow
Justin Cameron	1	11,731,089	800,000[3]	-	-	12,531,090	12,531,090	-
Lex Pedersen	1	9,466,134	800,000[3]	-	-	10,266,135	10,266,135	-
Justin Stone	-	11,225,983	200,000[3]	-	-	11,425,983	200,000	-
Karen Birner	-	40,000	-	16,667[3]	-	56,667	-	-
Mark Storey	-	-	800,000[3]	-	(500,000)[1]	300,000	-	-

Non-executive

	Held at 13 -Oct 2014	Acquired upon Listing	Granted as remuneration	Received on vesting of rights	Net change other	Held at 30-Jun 2015	Vested and held in escrow	Release from escrow
Howard McDonald	-	1,500,000	-		10,000[2]	1,510,000	750,000	750,000
Stephen Goddard	-	200,000	-		10,000[2]	210,000	100,000	100,000
Jane Huxley	-	-	-		-	-	-	-

[1] Sale of shares on open market
[2] Purchase of shares under the May 2015 Share Purchase Plan
[3] Performance Rights vested on Listing

MOVEMENTS IN PERFORMANCE RIGHTS HOLDINGS OF KMP

The following table sets out the movement during the reporting period in the number of performance rights over ordinary shares in SurfStitch Group held directly, indirectly, or beneficially by KMP including their related parties.

Executive							
	Held at 13 October 2014	Granted	Value of Rights Granted	Vested	Cancelled	Forfeited	Held at 30 June 2015
Justin Stone	-	400,000	249,312	-	-	-	400,000
Karen Birner	-	50,000	249,312	(16,667)	-	-	33,333
Mark Storey	-	400,000	249,312	-	-	-	400,000

MOVEMENTS IN LOAN SHARE HOLDINGS OF KMP

The following table sets out the movement during the reporting period in the number of performance rights over ordinary shares in SurfStitch Group held directly, indirectly, or beneficially by KMP including their related parties.

Executive						
	Grant Date	Granted during FY2015	Vested	Outstanding at year end	Value of Loan Shares at grant date ($)	Value of Loan Shares included in compensation for the year
Justin Cameron	26 November 2014	400,000	-	400,000	249,312	41,545
Lex Pedersen	26 November 2014	400,000	-	400,000	249,312	41,545

Note: Accounting Standards require that shares issued under the Loan Plan are accounted for as options.

MOVEMENTS IN LOANS HELD BY KMP

Under the Loan Plan, Justin Cameron and Lex Pedersen were provided with an interest free, non-recourse loan from the Group for the sole purpose of acquiring shares in the Group.

The following table sets out the current balances of the loans from the Group during FY15.

	Opening balance	Advances during FY15 [1]	Other repayments during FY15	Cash repayments during FY15	Closing balance	Highest indebtedness
Justin Cameron	-	$380,000	-	-	$380,000	$380,000
Lex Pedersen	-	$380,000	-	-	$380,000	$380,000

1 Under the Loan Plan, participants are provided with an interest free, non-recourse loan from the Group for the sole purpose of acquiring shares in the Group. Participants must apply net cash dividends to the repayment of the loan balance, and participants may not deal with the shares while the loan remains outstanding. Accounting Standards require that shares issued under employee incentive share plans in conjunction with non-recourse loans are to be accounted for as options. As a result, the amounts receivable from employees in relation to these loans have not been recognised in the financial statements.

KEY TERMS OF EXECUTIVE CONTRACTS

(AUD)	Fixed Annual Remuneration (i)	Term	Executive notice period	Company notice period (ii)	Termination payment
Managing Directors					
Justin Cameron	$448,000 (iii)	Initial term of 2 years, ending Dec-16	No termination during initial term; 3 months in subsequent periods	No termination during initial term; 3 months in subsequent periods if performance-based	Subject to the termination benefits cap under Corporations Act.
Lex Pedersen	USD400,000 (iv)	Initial term of 2 years, ending Dec-16	3 months	3 months	Base salary to end of initial period
Justin Stone	GBP175,000	Initial term of 2 years, ending Dec-16	No termination during initial term; 3 months in subsequent periods	No termination during initial term; 3 months in subsequent periods if performance-based	Subject to the termination benefits cap under Corporations Act.
Group Executives					
Karen Birner	$242,000 (v)	Ongoing	3 months	3 months	Notice period
Mark Storey	$362,000 (vi)	Expired 30 June 2015	N/A	N/A	N/A

(i) Fixed Annual Remuneration includes base salary and superannuation (if applicable).

(ii) For Managing Directors, the employing entity may terminate employment immediately and without notice in certain circumstances, including where the executive has committed a serious or persistent breach of their employment agreement or where the executive has been dishonest or fraudulent in the course of preforming their duties.

(iii) Includes AUD400,000 base salary, AUD40,000 superannuation, and AUD8,000 other benefits.

(iv) In addition to the USD400,000 base salary, Mr Pedersen is also entitled to receive other benefits as a result of his international assignment, including housing, relocation, travel, motor vehicles, stock allowance and other minor benefits; (total value USD 245,000). The Board believe the provision of these benefits is appropriate for an employee undertaking an international assignment.

(v) Includes AUD220,000 base salary and AUD22,000 superannuation.

(vi) Includes EUR60,000 and AUD260,000. A conversion rate of 1.7 has been applied.

NON-EXECUTIVE DIRECTOR REMUNERATION

Overview of Policy

The Board seeks to set fees for the non-executive Directors at a level which provides the Group with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

To preserve independence and impartiality, Non-Executive Directors are not entitled to participate in any incentive plans. In addition Board fees are not set with reference to measures of Group performance.

Fee Pool

The current aggregate fee pool for Non-Executive Directors is $500,000 per year. Board and committee fees, together with statutory superannuation contributions, are included in the aggregate fee pool.

Remuneration Reviews

The Chairman and non-executive Director fees are reviewed annually and approved by the Board based on independent advice received from external remuneration consultants.

Non-Executive Directors can choose how to receive their total fees i.e. as a contribution of cash, superannuation contributions or charitable donations. Board fees are set by reference to a number of relevant considerations including responsibilities and time commitment required; the Group's existing remuneration policies; survey data sourced from external specialists; fees paid by comparable companies; and the level of remuneration required to attract and retain directors of an appropriate calibre.

2015 Non-Executive Director Fees

The table below sets out the elements of Non-executive Director fees and other benefits provided during 2015.

Fee applicable for 2015	Chair	Member
Board	$100,000	$75,000
Audit, Risk and Compliance Committee	Nil	Nil
Remuneration and Nomination Committee	Nil	Nil
Superannuation	Included in above amounts	
Other	Reimbursement of travel and other expenses necessarily incurred in exercising their duties.	

STATUTORY REMUNERATION TABLE

	Short Term		Post Employment	Total	
	Base Salary & Benefits	Non-Cash Benefits	Superannuation	Total	Performance Related %
Howard McDonald	65,708	-	6,242	71,950	0%
Stephen Goddard	42,564	-	4,044	46,608	0%
Jane Huxley	3,003	-	285	3,288	0%

This Directors' report is made in accordance with a resolution of the Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

Signed on behalf of the Directors.

Howard McDonald
Chairman

Sydney

26 August 2015

Directors' Declaration

1. In the opinion of the Directors of SurfStitch Group ("the Group"):

   (a) the consolidated financial statements and notes that are set out on pages 55 to 113 and the Remuneration report on pages in the Directors' report, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance, for the financial period ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

2. There are reasonable grounds to believe that the Group and the Group entities identified in note 30 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Group and those Group entities pursuant to ASIC Class Order 98/1418.

3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial period ended 30 June 2015.

4. The directors draw attention to note 2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed on behalf of the Directors.

Howard McDonald
Chairman

Sydney

26 August 2015

Independent auditor's report to the members of SurfStitch Group Limited

Report on the financial report

We have audited the accompanying financial report of SurfStitch Group Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2015, and consolidated statement of profit and loss and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company e responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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*.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the period ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 34 to 50 of the directors' report for the period ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of SurfStitch Group Limited for the period ended 30 June 2015, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Julie Cleary
Partner

Sydney

26 August 2015

Lead Auditor’s Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of SurfStitch Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the period ended 30 June 2015 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Julie Cleary
Partner

Sydney

26 August 2015

Consolidated statement of profit or loss

For the period from 13 October 2014 to 30 June 2015

In thousands of dollars	***Note***	**2015**
Continuing operations		
Revenue	*7*	97,857
Cost of sales		(60,531)
Gross profit		**37,326**
Other income		20
Selling and distribution expenses	*8*	(41,313)
Administrative expenses	*8*	(7,424)
Other expenses	*8*	(6,571)
Result from operating activities		**(17,962)**
Finance income		138
Finance costs		(7)
Net finance income		**131**
Loss before tax		**(17,831)**
Income tax benefit	*13*	3,583
Loss from continuing operations		**(14,248)**
Discontinued operation		
Loss from discontinued operation, net of tax	*6*	(33,029)
Net loss attributable to the owners of SurfStitch Group Limited		**(47,277)**
Loss per share for the period attributable to the ordinary equity holders of the Company:		
Basic earnings per share (in dollars)	*9*	(0.29)
Diluted earnings per share (in dollars)	*9*	(0.29)
Loss per share for the period attributable to the ordinary equity holders of the Company from continuing operations		
Basic earnings per share (in dollars)	*9*	(0.09)
Diluted earnings per share (in dollars)	*9*	(0.09)

The above consolidated statement of profit or loss is to be read in conjunction with the accompanying notes to the consolidated financial statements

Consolidated statement of comprehensive income

For the period from 13 October 2014 to 30 June 2015

In thousands of dollars	***Note***	**2015**
Net loss for the period		**(47,277)**
Other comprehensive income (OCI)		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations		2,587
Other comprehensive income for the period, net of tax		**2,587**
Total comprehensive loss for the period attributable to the owners of Surfstitch Group Limited		**(44,690)**

The above consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes to the consolidated financial statements

Consolidated statement of financial position

As at 30 June 2015

In thousands of dollars	*Note*	2015
Current assets		
Cash and cash equivalents	*14*	40,837
Trade and other receivables	*15*	1,980
Inventories	*16*	43,290
Current tax assets		3
Other assets		2,467
Total current assets		**88,577**
Non-current assets		
Deferred tax assets	*13*	5,809
Property, plant and equipment	*17*	3,304
Intangible assets	*18*	7,891
Goodwill	*18*	73,832
Total non-current assets		**90,836**
Total assets		**179,413**
Current liabilities		
Trade and other payables	*20*	36,131
Employee benefits	*11*	1,525
Income tax provision		1,138
Provisions	*21*	2,191
Deferred income		648
Total current liabilities		**41,633**
Non-current liabilities		
Employee benefits	*11*	180
Provisions	*21*	85
Total non-current liabilities		**265**
Total liabilities		**41,898**
Net assets		**137,515**
Equity		
Share capital	*19(a)*	248,325
Reserves		(63,533)
Retained earnings		(47,277)
Total equity		**137,515**

The above consolidated statement of financial position is to be read in conjunction with the accompanying notes to the consolidated financial statements

Consolidated statement of changes in equity

For the period from 13 October 2014 to 30 June 2015

	Attributable to owners of the Company						
In thousands of dollars	Share capital	Cost of share capital	Share-based payments reserve	Foreign currency translation reserve	Other equity reserve	Retained earnings	Total equity
Balance at 13 October 2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive loss for the period							
Loss for the period	-	-	-	-	-	(47,277)	(47,277)
Total other comprehensive income for the period	-	-	-	2,587	-	-	2,587
Total comprehensive loss for the period	**-**	**-**	**-**	**2,587**	**-**	**(47,277)**	**(44,690)**
Transactions with owners recorded directly in equity							
Issue of ordinary shares, net of transaction costs	252,724	(4,399)	-	-	-	-	248,325
Common control acquisition	-	-	-	-	(67,510)	-	(67,510)
Share based payments	-	-	1,390	-	-	-	1,390
Total transactions with owners recorded directly in equity	**252,724**	**(4,399)**	**1,390**	**-**	**(67,510)**	**-**	**182,205**
Balance at 30 June 2015	**252,724**	**(4,399)**	**1,390**	**2,587**	**(67,510)**	**(47,277)**	**137,515**

The above consolidated statement of changes in equity is to be read in conjunction with the accompanying notes to the consolidated financial statements

Consolidated statement of cash flows

For the period from 13 October 2014 to 30 June 2015

In thousands of dollars	*Note*	2015
Cash flows from operating activities		
Cash receipts from customers		118,646
Cash paid to suppliers and employees		(136,485)
Cash generated from/(used in) operating activities		(17,839)
Interest paid		(7)
Net cash used in operating activities	*28*	**(17,846)**
Cash flows from investing activities		
Interest received		138
Acquisition of subsidiaries, net of cash acquired		(58,633)
Acquisition of property, plant and equipment		(626)
Acquisition of intangible assets		(2,693)
Net cash used in investing activities		**(61,814)**
Cash flows from financing activities		
Proceeds from issue of share capital		125,693
Transaction costs related to issue of share capital		(5,186)
Net cash from financing activities		**120,507**
Net increase in cash and cash equivalents		**40,847**
Cash and cash equivalents at 13 October 2014		-
Effect of movements in exchange rates on cash held		(10)
Cash and cash equivalents at 30 June 2015	*14*	**40,837**

The above consolidated statement of cash flows is to be read in conjunction with the accompanying notes to the consolidated financial statements

1. Reporting entity

SurfStitch Group Limited (the "Company", or "SGL") is a company domiciled in Australia. The address of the Company's registered office and principal place of business is 225 Burleigh Connection Road, Burleigh Heads, Queensland.

The Company was incorporated on 13 October 2014. These consolidated financial statements ("financial statements") as at 30 June 2015 and for the period from 13 October 2014 to 30 June 2015 comprise the Company and its subsidiaries (together referred to as the "Group"). These are the Group's first set of consolidated financial statements and no comparative information has therefore been included.

The Group is a for profit entity that primarily operates as an online retailer of action sports and fashion clothing and accessories.

2. Basis of accounting

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements cover the period from 13 October 2014 (date of incorporation) to 30 June 2015.

These consolidated financial statements were authorised for issue by the Board of Directors on 26 August 2015.

3. Significant accounting policies

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the fair value of the replacement awards compared with the fair value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Australian dollars (AUD) at the exchange rate at the reporting date. The income and expenses of foreign operations are translated into AUD at the exchange rates at the dates of the transaction.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest.

(c) Share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non–market performance conditions at the vesting date. For share-based payment awards with market performance conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and rebates.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the business's activities as described below.

The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

3. Significant accounting policies (continued)

(d) Revenue recognition (continued)

Revenue is recognised as follows:

(i) Sale of goods – retail

The Group operates a number of retail website stores selling action sports and fashion clothing and accessories. Revenue from the sale of goods is recognised when the Group dispatches the product to the customer. Retail sales are usually by credit card, PayPal or direct debit.

The Group's policy grants a right of return to the customer within 100 days. Historical return levels are used to estimate and provide for such returns at the time of sale.

(ii) Advertising revenue

The Group operates a number of online platforms which provide surf industry related content such as online surf forecasting, user generated surf content and online surf publishing. Advertising revenue from these platforms is recognised when the Group displays the advertised material.

(e) Income tax

The income tax expense or benefit 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.

3. Significant accounting policies (continued)

(e) Income tax (continued)

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.

(i) Tax consolidation

The Group formed a tax-consolidated group on 16 December 2015. All Group subsidiaries taxable in Australia are members of the tax-consolidated group. The Company is the head entity of the tax-consolidated group.

As a consequence of forming the tax-consolidated group, all members of the tax-consolidated group are taxed as a single entity.

Current tax expense/(benefit), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer with group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each member of the tax-consolidated group and the tax values applying under the tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from the unused tax losses of members of the tax-consolidated group are assumed by the head entity of the tax-consolidated group and are recognised by the head entity of the tax-consolidated group as amounts payable to/(receivable from) the applicable member of the tax-consolidated group.

The head entity of the tax consolidated group recognised deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probably that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

(f) Leases

Leases of property, plant and equipment where the business, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the business will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the business as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

3. Significant accounting policies (continued)

(g) 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 unit (CGU).

(h) 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 statement of financial position.

(i) 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 Group 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.

(j) Inventories

(i) 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 selling costs.

3. Significant accounting policies (continued)

(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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the business and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is de-recognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Leasehold improvements - 20 years
- Owned and leased plant and equipment - 3 to 20 years
- Furniture, fittings and equipment - 3 to 20 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(l) Intangible assets and goodwill

(i) Goodwill

Goodwill arising on acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is included in intangible assets and tested for impairment annually or more frequently if events or changes in circumstances indicate that it may be impaired.

(ii) Trademarks and licenses

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, which vary from three to five years.

(iii) Information technology (IT) development and software

Costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from three to five years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the business has an intention and ability to use the asset.

3. Significant accounting policies (continued)

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the business prior to the end of financial period 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) Provisions

Provisions for legal claims 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 at 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.

(o) Employee benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual 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 is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Long-term 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.

Consideration is given to the expected future wage and salary levels, experience of employee departures and years of service.

Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

3. Significant accounting policies (continued)

(o) Employee benefits (continued)

(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.

(iv) Defined contribution plans

Obligations for contributing to defined contribution plans are expensed as the related service is provided.

(p) Contributed equity and other equity reserve

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.

The other equity reserve represents the difference between the capital of SurfStitch Holdings Pty Limited and SurfStitch Group Limited on 16 December 2014, being the date SurfStitch Group Limited acquired SurfStitch Holdings Pty Limited. Refer to note 5 for further details.

(q) Goods and Services Tax (GST) and Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of respective GST or VAT, except where the amount of GST or VAT incurred is not recoverable from the relevant taxation authority. In these circumstances the GST or VAT 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 or VAT receivable or payable. The net amount of GST or VAT recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST or VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the relevant taxation authority, are presented as operating cash flows in the consolidated statement of cash flows.

(r) Functional and presentation currency and rounding

These consolidated financial statements are presented in Australian dollars, which is the Company’s functional currency.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

3. Significant accounting policies (continued)

(s) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

(t) Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

(i) Judgements

Significant judgement has been made in respect to the election of common control accounting as opposed to business combination at fair value at acquisition date. Refer to note 5 (a) for further information.

(ii) Estimates

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements, including information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the period ending 30 June 2015 are included in the following notes:

- Note 13 – recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used;
- Note 18 – impairment test: key assumptions underlying recoverable amounts, including the recoverability of development costs;
- Notes 21 and 26 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and
- Note 5 – acquisition of subsidiaries: fair value measured on a provisional basis.

3. Significant accounting policies (continued)

(t) Use of judgements and estimates (continued)

(iii) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values.

The financial reporting team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group Audit Risk and Compliance Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(u) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis. There are no material items carried at fair value.

3. Significant accounting policies (continued)

(v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2015, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

(i) AASB 9 Financial instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, as well as general hedge accounting requirements. AASB 9 is effective for annual periods beginning on or after 1 January 2018. The Group does not plan to adopt this standard early and the extent of the impact has not yet been determined.

(ii) AASB 15 Revenue from contracts with customers

AASB 15 introduces a new single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time, or over time. AASB 15 is effective for annual periods beginning on or after 1 January 2017. The IASB has agreed to defer the mandatory application of IFRS 15 to annual periods beginning on or after 1 January 2018. The AASB is yet to confirm this deferral. The Group does not plan to adopt this standard early and the extent of impact has not yet been determined.

4. Operating segments

(a) Basis for segmentation

As at 30 June 2015, the Group has 3 reportable segments being Asia-Pacific, Europe and North America. The operations of the Group are managed by geographic area and brand. Each area has individual management teams and marketing strategies with information reported to the chief operating decision maker (Justin Cameron, Managing Director and Chief Executive Officer) on this basis. The following summary describes the operations of each reportable segment.

- Asia-Pacific – Action sports and youth culture apparel content network and online retailer in Australia and New Zealand, represented by SurfStitch
- Europe – Action sports and youth culture apparel content network and online retailer in Europe, represented by Surfdome and SurfStitch
- North America – Action sports and youth culture apparel content network and online retailer in the U.S.A., represented by Swell

(b) Information about reportable segments

Information related to each reportable segment is set out below.

Gross profit as included in internal managements reports reviewed by the chief operating decision maker, is used to measure performance because management believes that such information is the most relevant in evaluating the results of the respective segments relative to other entities that operate within the same industry.

While the Group manages its gross margin at a segment level, overheads are managed at a Group level due to shared IT platform management structures, the costs of which are not allocated across segments.

4. Operating segments (continued)

(b) Information about reportable segments (continued)

	2015			
In thousands of dollars	Asia-Pacific	Europe [1]	North America	Total
External revenue	42,602	43,795	15,625	102,022
Intersegment revenue	-	449	-	449
Total segment revenue	**42,602**	**44,244**	**15,625**	**102,471**
Segment gross profit	**16,462**	**12,100**	**5,951**	**34,513**
Depreciation & amortisation	(1,047)	(2,186)	(309)	(3,542)
Impairment expense [2]	-	(19,702)	-	(19,702)
Segment assets	50,215	71,774	24,669	146,658
Segment liabilities	(13,253)	(35,309)	(25,833)	(74,395)
Segment net assets	**36,962**	**36,465**	**(1,164)**	**72,263**

[1] This reportable segment includes the operating results of SurfStitch (Europe) Limited ("SurfStitch Europe") which was discontinued during the period. Refer to note 6 for further details.

[2] Impairment expense relates to the write-off of goodwill in SurfStitch Europe which is classified as a discontinued operation. Refer to note 18 for further detail.

The Asia-Pacific segment incurred employee entitlements of $5,598,000, distribution costs of $4,584,000, transaction fees of $890,000 and advertising and promotion costs of $3,064,000.

The Europe segment incurred employee entitlements of $7,589,000 (including SurfStitch Europe of $2,451,000), distribution costs of $4,568,000 (including SurfStitch Europe of $782,000), transaction fees of $1,954,000 (including SurfStitch Europe of $68,000) and advertising and promotion costs of $5,951,000 (including SurfStitch Europe of $1,632,000).

The North America segment incurred employee entitlements of $3,226,000, distribution costs of $1,700,000, transaction fees of $408,000 and advertising and promotion costs of $1,498,000.

Corporate activities are not allocated to operating segments.

4. Operating segments (continued)

(c) Reconciliations of information on reportable segments to IFRS measures

In thousands of dollars	*Note*	2015
(i) Revenues		
Total revenue for reportable segments		102,022
Revenue from discontinued operation	*6*	(4,165)
Consolidated revenue from continuing operations		**97,857**
(ii) Gross profit		
Total gross profit for reportable segments		34,513
Gross loss from discontinued operation		2,813
Consolidated gross profit from continuing operations		**37,326**
(iii) Assets		
Total assets for reportable segments		146,658
Corporate cash assets		30,520
Other unallocated amounts		2,235
Consolidated total assets		**179,413**
(iv) Liabilities		
Total liabilities for reportable segments		74,395
Other unallocated amounts [1]		(32,497)
Consolidated total liabilities		**41,898**

[1] Predominantly represents related party loans with corporate entities.

4. Operating segments (continued)

(d) Geographical information

In presenting the following geographical information, segment revenue has been based on the geographic location of the distribution point and segment assets were based on the geographic location of the assets.

	2015		
In thousands of dollars	Revenue	Non-current assets	Capital additions
Australia	42,603	73,021	6,812
All foreign countries			
United States of America	15,625	12,397	1,464
United Kingdom	39,629	5,372	5,202
France (discontinued)	4,165	46	2,812
Total	**102,022**	**90,836**	**16,290**

(e) Major customers

The Group did not earn more than 10% of its revenue from any one customer in any segment during the period.

5. Internal restructure and acquisition of subsidiaries

(a) Internal restructure

During the period, an internal restructure was executed in preparation for the listing of the Company on the Australian Stock Exchange. This resulted in a newly incorporated entity, SurfStitch Group Limited (SGL), becoming the legal parent of the SurfStitch Holdings Pty Limited Group (SHPL).

The directors elected to account for the restructure as a capital re-organisation rather than a business combination. In the directors' judgment, the continuation of the existing accounting values is consistent with the accounting treatment that would have occurred if the assets and liabilities had already been in a structure suitable to initial public offering (IPO) and most appropriately reflects the substance of the internal restructure.

As such, the consolidated financial statements of SGL have been presented as a continuation of the pre-existing accounting values of assets and liabilities in SHPL financial statements.

In adopting this approach, the directors note that there is an alternate view that such a restructure conditional on the IPO completing should be accounted for as a business combination that follows the legal structure of SGL being the acquirer.

If this view had been taken, the net assets of the Group would have been uplifted to fair value by $80,952,000 based on market capitalisation at IPO of $214,102,000, with consequential impacts on the statement of profit or loss and statement of financial position.

An IASB project on accounting for common control transactions is likely to address such restructures in the future. However, the precise nature of any new requirements and the timing of these are uncertain. In any event, history indicates that any potential changes are unlikely to require retrospective amendments to the financial statements.

(i) Consideration transferred

The following table summarises the acquisition-date fair value of each major class of consideration transferred.

In thousands of dollars	***Note***	**2015**
Cash		37,492
Equity instruments		112,717
Replacement share-based payment awards		3,505
Total consideration transferred		**153,714**

The fair value of the ordinary shares issued was based on the listed share price of the Company at 16 December 2014 of $1 per share.

In accordance with the terms of the acquisition agreement, the Group exchanged equity-settled share-based payment awards held by employees of SurfStitch Holdings Pty Ltd (the acquiree's awards) for equity-settled share-based payment awards of the Company (the replacement awards). The details of the acquiree's awards and replacement awards are as disclosed in note 10.